

## The reputational impact of outsourcing overseas

The global financial crisis has resulted in extra pressure on Australian businesses to tighten their belts. The Inside Story has noticed a greater proportion of companies choosing to outsource parts of their businesses overseas.

We interviewed Australia's senior business journalists to understand their perceptions of the brand reputation risk factors in outsourcing as well as how businesses can minimise negative impacts.

Journalists believe two key challenges are influencing overseas outsourcing:

Financial pressures are pushing companies to cut costs

→ The current financial environment is putting even more pressure on companies' bottom lines, pushing them to assess their needs and ensure they give maximum returns to shareholders while remaining competitive.

The increasingly volatile cost of fuel is pressuring airlines (for example) and has pushed Qantas to move significant parts of its engineering operations offshore.

→ Skills shortage – the lack of expertise in the Australian labour market (for example in IT and chemicals) has led companies to seek these skills where they are more readily available.

White collar outsourcing is the area of key concern among business journalists, particularly in the information technology sector – an area which may become more of an issue now the economy is less buoyant.

They are worried about the potential impact of these lost skills on Australia.

At a glance summary:

- Journalists understand companies are under pressure to cut costs and seek skills overseas
- While there are clear benefits, there are potential reputation risks
- Corporate reputations can be impacted negatively
- Strategies can be applied to minimise reputational damage
- The trend to outsource is set to continue

Journalists suggest the benefits of overseas outsourcing are clear and include:

→ Cost savings – a direct return to the bottom line achieved through lower wages and removal of overheads such as recruitment and training:

*" Most of the work seems to be going to India at the moment, the current hotspot for it. There's no shortage of highly qualified Indian workers with university degrees, who can speak English very well who can work and will work for a much smaller wage than Australians will."*

They believe, in some cases such as manufacturing, there are also reduced input costs through locally produced parts and technology

- Increased flexibility – can pick and choose the best in the market, seek expertise if it is not found locally and take advantage of new offshore products
- Companies can concentrate on their core strengths and work more efficiently

***" You can be much more flexible in terms of who you deal with. People choose the best in the market rather than having to have that expertise housed internally..."***

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- It allows companies to be more competitive

Outsourcing is felt to be particularly beneficial when it is not evident to the end customer – for example in back office solution management or manufacturing, rather than customer services.

### Where do the risks lie?

While business journalists understand the commercial imperatives driving overseas outsourcing, they still believe it can damage reputation with end customers. Risks include:

- Lack of quality control - overseas suppliers may under deliver on quality. Journalists suggest it is difficult to ascertain the track record of overseas suppliers and obtain evidence of due diligence :

*"You're very much dependent on the quality of the service given by the contractor. There is always a risk...and that has always been viewed as a negative."*

- Any issues or problems may take time to rise to the surface due to lack of management oversight on a day to day basis at the outsourced location
- Reduction of influence – companies have less authority to impact decisions such as recruitment and management, and supervising quality of output is a challenge
- Industrial relations issues may be difficult to monitor and manage, risking disruption to services
- Higher potential for corruption – perceived lower pay and cultural differences mean there is thought to be a greater risk of misuse of information or finances. Privacy laws overseas may not be adequate to overcome issues:

*"...there is an aversion in the community to the notion that you're dealing with someone on the other side of the world...if you're worried about your brand you don't want people being uncomfortable dealing with it."*

*"...(In some) countries, corruption is almost second nature. In fact if you don't do it there's something wrong with you, if you know what I mean, in some quarters that is. It's almost like a cultural right or something."*

- Customer confusion – occasionally it is felt language differences can make complex issues difficult to comprehend:

*"I think it is a resistance generally anyway to the call centres being outsourced to people who...don't know your suburb and can't pronounce your name."*

*"When you have a complex problem to explain to them it's like you're whistling in the wind...because you know in the end it's just going to be handed to another operator who you're going to have to explain it to again and hopefully you'll get someone who can fully understand what you're talking about."*

### What is the potential impact on reputation?

Journalists suggest there is highest potential for a negative impact among:

- Companies in the public eye:

*"...A small business can do it quite easily without attracting the same sort of publicity."*

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→ Organisations which are very profitable:

*"The bigger public companies that are doing it, people think well hang on, you just announced a \$4.8 billion profit and you are telling us that just to survive you need to cut 400 jobs here and employ 400 Filipinos, it doesn't sort of stack up."*

→ Large employers of Australians - any time Australian jobs are lost to overseas workers there is negative media coverage and journalists believe this instantly impacts how a company is perceived:

*"Australians are starting to get concerned that their jobs and their kids' jobs are disappearing to other parts of the world."*

*"I've got a friend who's probably about to lose his department to a centre in India, either a call centre or an IT centre, but loss of jobs, which does concern workers here, of course, and customers."*

Organisations such as Telstra, Qantas and the major banks evoke a lot of publicity and emotion when jobs are impacted. It is felt the general public is sceptical of companies which move areas of their business offshore.

→ Outsourced business areas where customers have frequent contact – eg banking and telecommunications

*"I think the companies that are most affected by or most in danger of having a reputational problem are companies like particularly Optus, I think of, with the late night calls from India wanting to talk to you about your telephone. I think that's a real danger for those sorts of companies. I think that's a real turn-off for most Australian consumers."*

***"... it never looks good when the headline talks about job losses and mentions the company's name...people want job security and they don't like the idea of jobs going away..."***

Potential ramifications for reputation include perceptions that the company:

→ Is unpatriotic – journalists suggest customers may look elsewhere if disappointed by a company's outsourcing choices:

*"You risk undermining your retail market by making it seem as if you don't care about the things that they care about."*

*"Companies get consistently criticised for looking offshore and using foreign workers rather than employing Australians... If customers see their Australian jobs being exported offshore then they may choose to back somebody else or change to a competitor or something like that, if they feel that strongly about it."*

→ Has reduced quality – it is suggested sending jobs overseas can be seen as cheapening the service at the customer's expense and the public generally sees it as negative

In the manufacturing area there can be questions concerning quality control procedures and output. The outsourcing of the product is not always evident however, until something goes wrong such as in the recent Chinese milk scandal which has resulted in the withdrawal of a number of products from Australian shelves.

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- Does not take its corporate responsibility seriously – Nike has famously suffered for its use of cheap labour in Asia when it was publicly criticised for exploiting its employees, paying minimum wages and not looking out for workers' rights
- Is more economically productive – which is positive for investors and leads to a company increasing profits and share price, however this may be at the cost of customer perceptions

### How can impact on reputation be minimised?

Business journalists admit they report in emotional terms – these stories get picked up and covered by tabloids, talk back radio and television – and not all sources cover the whole story, which can result in damage to companies' reputations:

*"It's always quite a dramatic and emotional term – 'offshore outsourcing', and that leads to perceptions that jobs that could be in the hands of Australians are going to people who aren't from here. So it's a very difficult emotional thing to deal with."*

Companies outsourcing overseas know they will come under a lot of media scrutiny. Journalists expect them to have made the decision based on the knowledge it will ultimately deliver value to the company financially and to their reputation.

Journalists recognise it is a challenge to outsource overseas and minimise any backlash, but do offer some tips on how it can be done:

#### **Communication** – explain:

- The reasons behind the decision
- Its benefits
- The proportion of jobs it applies to

*"You'll just have to wear it for a while and hope people forget about it in time."*

They suggest companies should be open and transparent – provide briefings to investors and the media – especially when it will directly impact consumers:

*"If you can explain the message properly and try to avoid the generalisations that happen... It's genuinely accepted that outsourcing is not a bad thing if you can get the expertise and deliver a better, bottom line return from it, provided it's managed properly and it's explained that this is a part of the business and it's done for a certain reason."*

*"[Be honest and say] 'We know that we will cut costs by doing this' and then they probably get out of it easier in the long run (by being open), even though it seems a harder thing to do."*

**No communication** – in certain situations journalists believe it is not necessary to publicise the outsourcing, particularly if consumers are not directly impacted. However, journalists believe it will be necessary to have answers on hand if questioned by investors or the media

Generally journalists believe companies will need to ride the storm or any backlash as best they can, standing by the decision and its payback to the organisation.

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### Which companies have done it well?

ANZ, Telstra and Commonwealth Bank are thought to have handled their outsourcing queries well – thoroughly explaining the reasons behind decisions and managing the process carefully.

Journalists recall that ANZ bank was one institution which felt the brunt of negative customer sentiments when the media incorrectly reported two years ago that it was sending its customer call centre offshore. The bank threatened legal action against News Limited for misrepresentation and the story was withdrawn.

It actively bolstered its reputation by talking publicly about its policy to keep customer contact in Australia – in spite of being one of the first companies in Australia to outsource its IT function overseas some years ago:

*"You get companies like ANZ actually deliberately telling people they are not doing that (outsourcing call centres overseas), which in their view obviously will lift people's estimation of the company – it has decided to support Australian jobs and the economy here."*

However, American Express is one organisation which is felt to have dealt with media backlash the wrong way:

*"They were the ones who used the excuse that they couldn't find the labour here, and then the next thing you have all these people coming up and saying; 'I could do the job' and 'I wanted the job' and then it leads into more and more negative backlash..."*

### What is the future of outsourcing?

Journalists believe outsourcing will continue to be the way of the future, and it will become more commonplace to outsource as companies look to cut costs and remain competitive:

*"Top businesses have to continually look at ways to save money. They've got to investigate these things and it might mean in the end that a saving of \$10 million is not worth the negative publicity, but a saving of \$50 million or \$100 million might be worth some negative publicity. You can only weigh that up on a case by case situation, but there'll be more of it in the future for sure."*

*"I think the globalisation of the workforce is an ongoing phenomenon...it will continue and there'll be more of it. We'll have a more globalised workforce within and without the country."*

Some journalists suggest we will see the development of outsourcing supplier brokers who will specialise in finding skills and suppliers overseas, pushing to increase the quality of outsourcing skill sets.

For white-collar work in particular, the development of a local Australian workforce is desired to help satisfy demand and help stem the use of offshore skills:

*"They're struggling to get enough of the right sort of people to do those jobs in this country."*

Journalists believe the Federal Government has a responsibility to help partially stem the trend by:

- Up skilling and encouraging young Australians to remain in Australia
- Encouraging company training policies through grants
- Investing in the education system

# INSIDE REPUTATION BULLETIN



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→ Incentivising companies to house their call centres regionally:

*"State governments used to offer incentives for companies to place call centres in their state. I don't know if they still do that, but I know in South Australia and Tasmania they've previously offered companies to pay for call centres, they remain in Australia but they're at a cheaper rate than you'd probably be paying in Sydney or Melbourne."*

→ Encouraging more skilled workers into Australia through a skilled migration policy

In certain industry areas such as manufacturing, it is thought there is no way to reverse the trend which has been progressing for many years, and it is believed this will continue.

Some journalists suggest the general public will get used to dealing with people from other countries and the negative perception of outsourcing customer facing functions overseas will lessen over time.

Journalists recommend companies be careful to evaluate beyond the bottom line – assessing reputation cost and savings versus the quality of products or services before making the decision to house business areas offshore.

### About the Inside Story

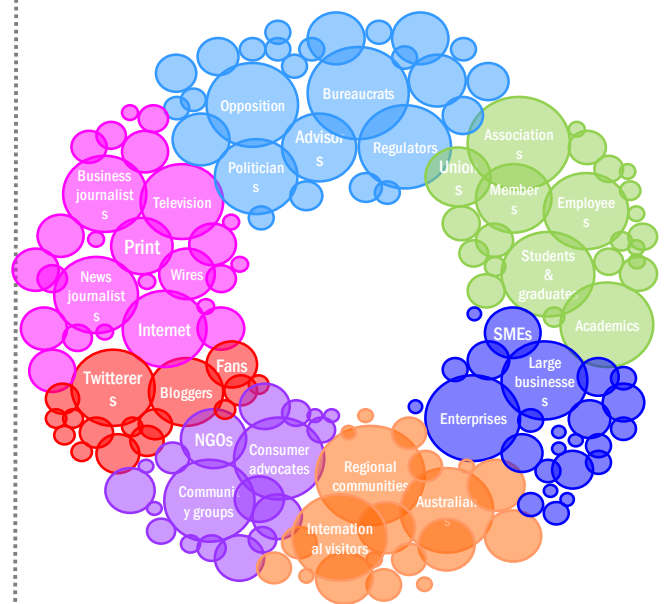
The Inside Story has been a key player in the Australian research environment for more than 25 years. With a reputation for being innovative and at the forefront of insight techniques we launched our first Inside Reputation research study with journalists in November 1999. Since then we have conducted more than 30 studies with Australia's senior business media.

In addition, we have spoken to many other stakeholder groups for our clients, including government, business influencers, financial analysts, key bloggers and of course the general public.

If you are interested in hearing more about our studies, would like to brief us on your research needs or just want a chat, please get in touch!

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