ASIAN EMERGENCE: THE WORLD'S BACK OFFICE?

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Asian Emergence:
The World's Back Office?

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EMERGENCE

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5. Moving East: Relocations of eWork From Europe to Asia

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This chapter draws on the work both of the European and Asian EMERGENCE projects, focusing exclusively on cases studies involving relocation between Europe and Asia. Both projects involved in-depth case studies concerned with relocations of eWork between European and Asian countries. Each case study consisted of semi-standardised interviews with several participants from a 'source' and a 'destination' company. This chapter aims to pull together and compare insights from the EMERGENCE case studies carried out in 2000 and 2001 with the Asian EMERGENCE case studies conducted two years later. Two years is only a short time span, but in a highly dynamic IT and IT-enabled services (ITES) sector several aspects of the international relocations have changed significantly. Besides describing these recent developments, the report will also study some of the issues that have remained relevant across the EMERGENCE and the more recent Asian EMERGENCE cases in more detail.

In the EMERGENCE project, five European-Asian case studies were carried out. Most of them were related to the relocation of software development from European to Asian companies (the *Secure*, *BioBelindus*, *Invest-Usindia*, and *Globecom* cases). The only exception regarding the function was the case of *Flighty*, a European airline which transferred its ticket data processing to India. All European-Asian cases had India as a destination country; no other Asian nations were involved.

In the Asian EMERGENCE project, 19 case studies of European-Asian relocations were carried out. In contrast to the EMERGENCE project, India was not the only destination country — although India is still a major location for IT and ITES. Nevertheless, European companies are also looking for alternative locations in other Asian countries. The Asian EMERGENCE project studied companies which had shifted parts of their activities to Vietnam, Thailand, Malaysia and Sri Lanka. The European 'sources' for these cases included the UK, Germany, France, Belgium, Austria, Norway, Sweden, Luxembourg and the Netherlands. The largest group of cases was concerned with software development. Other relocations involved creative

Table 5.1: Overview of cases involving a relocation of employment from Europe to Asia

Internal Relocation/affiliate		Outsourcing	
Reduction	*Expansion*	*Replacement*	*Expansion*
Shore-Offshore: Finance Sector Function: HR	*Data-Worldcentre*: IT Sector, Function: software development	*Flighty-Coup-Mum:* Travel Sector Function: data processing (plus Partner as IM)	*ABC-Softec:* IT Sector Function: software development (plus IM)
	Globecom: IT Sector Function: software development	*Maps -Consultant* Geographical Information Sector. Function: digital map conversion	*EDL-MSC:* Media Sector Function: software design
	Excel — E- Net: Healthcare Sector Function: software development	*IMSecure:* Finance Sector Function: software development.	*Travel Mode-Cody:* Travel Sector Function: software development (plus IM)
	Space — East Star: IT Sector Function: software development	*Townsetter-SIR:* Publishing Sector Function: data processing, editorial	*Cordial — E-Save:* IT Sector Function: IT-services
	Smarties — Smarties SL: Finance Sector Function: R&D		*Verbatim -Ranch* Telecom Sector Function: software development
Ivy-Ivy SL: IT sector. Function: software development		*Architect-Globe:* Construction Sector. Function: drawing (plus IM)	
		Belgie — Smoothy: Telecom Sector Function: software development	
		Bio Belindus: IT Sector Function: software development(plus IM)	
		May-Astral-Enclave: Service sector. Function: data entry & customer service	
		Invest: IT Sector, Function: software development	
		Maximus-Sawdust: Multimedia Sector, Function: 3 D modelling	
		Mego — Momo: IT Sector, Function: software development	
		Mogul-Solid: Finance Sector, Function: software testing	

Source: Asian EMERGENCE Project, 2003

business functions (such as architectural drawing), editorial work and back office processing. As in the EMERGENCE project, the cases show different patterns of formal ownership or contractual relationships — some European source companies moved work to Asia by outsourcing, with contracts ranging from four weeks to five years. Others established their own affiliates in an Asian country.

Table 5.1 gives an overview of the EMERGENCE and Asian EMERGENCE project cases, which will be analysed in detail in this chapter. The case study companies have been nicknamed in order to ensure confidentiality. 'IM' signifies the involvement of an intermediary organisation.

Since software development is the most frequent function involved in the case studies, special attention will be paid to this activity.

The Asian EMERGENCE cases — for which the interviews were carried out in 2002 and 2003 — offer a good view of the longitudinal aspects of relocations since many of them started in the mid to late 1990s and went through several phases — often leading to an extension of the collaboration. Since this analysis is looking at the long-term development of the dynamics of relocation, a more detailed picture can be established than just considering one-off snapshots. In addition, a small follow-up to the EMERGENCE cases was undertaken: where possible, the original EMERGENCE case studies were updated in order to achieve a process-related view.

The 'longitudinal perspective' is of special interest because from 2000 to 2003 the economic background of relocations and outsourcing changed drastically. The original EMERGENCE case studies mostly highlighted the beginning and the first years of relocations to Asia, starting in the mid or late 1990s. For most source companies, these relocations were their first experience of collaborating with foreign vendors and also served as an experiment for the viability of offshore relationships.

Between the end of the 1990s and the beginning of the new millennium, the European IT industry experienced a much-discussed shortage of IT skills. Many companies had difficulties in finding sufficient personnel to permit them to realise their planned projects and to expand their businesses. Especially in the cases of software development, internal bottlenecks caused by the Western 'IT skills gap' were the paramount motive for the relocation of IT work to Asia. Relocation was therefore regarded as a means of realising planned projects that were perceived as not being possible with in-house capacity.

Starting around 2001, the scenario changed. There was an economic crisis in most Western countries. Many companies cut IT investment budgets, and the massive growth orientation of IT companies turned into downsizing efforts and more cost oriented management. Still, the public proclamation of the 'end of the new economy' seems to have been exaggerated as well; the IT sector continues to be an economic growth area on a global scale — only the hype has gone.

These changes are mirrored in the labour market conditions for IT professionals. In 2003, many European and US American IT professionals experienced proportionally high unemployment — white-collar workers who some years ago had been a seemingly 'invulnerable' group of employees were particularly affected. The 'IT skills shortage' in Europe is no longer a significant problem — highly qualified IT workers are now looking for jobs;. Furthermore, wages stagnated or decreased during the last two

years, making local IT workers cheaper for companies to employ. With these changes, the major reasons that companies gave some years ago for the 'push' to relocate work to Asia have become outdated. How does this affect the decision of companies to shift work to Asia — or back to Europe?

Market data on international global outsourcing suggest that the trend of western companies to outsource IT and IT-enabled services to other countries will probably continue and grow further (Rohde 2003:610). In spite of the worldwide economic slowdown, the outsourcing industry in countries such as India and Sri Lanka is still growing (figures for India: www.nasscom.org). The qualitative in-depth case studies of the Asian EMERGENCE project support this view at a micro level. Despite the fact that the former European 'push factor', the labour market shortage, generally no longer applies, most companies have not stopped outsourcing and reverted to creating jobs in their own regions. The relocation of IT activities is still a deepening process - in most of the cases there is no significant recruitment of IT workers on the European labour markets. Accordingly, the motives of relocation have changed. In the course of some relocations the primary motive has shifted from labour-market related motives to cost considerations. Once outsourcing has started, evidence from some of the Asian EMERGENCE cases suggests that there often seems to be no simple 'way back'.

Related to the continuity of relocations, there are some indicators of an increasing maturity of the international outsourcing market — at least in India, which plays a leading role in this business. Compared to the mid 90s, more knowledge about relocations is available. Outsourcing no longer seems to be an exotic decision — the risks have been reduced since the experiences of other companies or contact persons have become accessible. As one marketing manager of an Indian IT services company put it, 'the India story by now is well sold'. The case studies show that the IT & ITES industries in India have undergone a process of increasing maturity and professionalism. Aspects of this are an improved ICT infrastructure, legal framework, and organisation-related learning effects. One example of this is Asian companies' establishment of marketing offices or intermediary organisations in western countries in order to facilitate marketing and interface co-ordination. As a result, there is a better basis for the smooth organisation of offshore relationships. From the clients' point of view, more options regarding potential vendors are available: in most cases, there is a variety of different potential partners and also different possible locations. India has a pioneering role in the 'eWork relocation market', but other countries such as Sri Lanka, Vietnam, and China are catching up successively.

As a methodological remark it should be noted that the case studies do not show a representative picture: in the selection of

case studies, there may be a systematic bias toward more successful (therefore continuing or expanding) relocations. Firstly, it is not easy to find cases that have already been terminated. Secondly, most people prefer talking about 'success stories', making the availability of interviews about unsuccessful cases more difficult. The results reported here should be seen in this light; they can provide an insight into some dynamics, but they cannot make statements about the *quantitative* importance of different development patterns.

The dynamics described here show that in the research of international relocations the longitudinal perspective should be the preferred methodological approach. The research design of EMERGENCE and the Asian EMERGENCE projects permits a first glance at the process-related aspects of outsourcing. For a more thorough analysis, a more robust longitudinal design would be required.

5.1 Background and objectives of relocation

A look at the background and motives of decisions to relocate work reveals the changing conditions which apply in relocations between Europe and Asia. The EMERGENCE report *Jobs on the Move* (Flecker and Kirschenhofer 2002) analysed a range of different backgrounds and concluded that the cases could be distinguished along the following core dimensions:

- isolated measures versus more comprehensive company reorganisations; and

- reduction versus expansion strategies.

Some cases involved 'isolated rationalisation measures', implying that jobs were moved from a source to a destination company. One of these cases was the outsourcing of software development from *Secure*, a Dutch finance company, to an Indian software house. The relocation did not result in internal job losses — but the number of local IT consultants, who constituted about 50% of the local workforce of *Secure*, was reduced. Another pattern, quite common especially in the IT sector, was the expansion of activities by outsourcing: 'We could not carry out all projects with our internal resources', was the reason given by *Invest*, an insurance company, for the outsourcing to a US-Indian software company. The lack of internal skills, which was sharpened by a local labour shortage, threatened to slow down important developments and thus triggered the decision to look for expertise externally. Such cases did not involve any local job loss at the source. A case of a more all-encompassing company reorganisation was *Globecom*. The software-oriented division of this IT company collaborated extensively with an Indian affiliate whose IT experts constituted about 75% of the whole division's workforce. The relocation was not even perceived as a relocation but as a necessary expansion in

order to carry out projects: 'We want to let our business grow', was the main rationale behind the relocation of projects to the Indian unit — another expansive strategy.

Related to the different backgrounds of relocations, the EMERGENCE report *Jobs on the Move* identified a range of different motives for relocating eWork. The availability of labour and expertise was a motive frequently cited by companies relocating software development. Another important factor was the opportunity to cut costs, based on wage differences between regions. Most cases were characterised by a mixture of skills-related and cost considerations. But in contrast to the public discussion, the pure cost argument was in many cases less important than is often suggested — at least in the area of software development, much more emphasis was put on the availability of labour and expertise.

In some of the Asian EMERGENCE cases, there was a combination of cost and other advantages. For example, *Mego* a digital design company in the UK, outsourced software development and digital design aspects to *Momo* in Sri Lanka. Here the initial key motives were cost savings and the need to counter in-house bottleneck situations, but an interesting secondary benefit also emerged: a factor which *Mego*'s Managing Director named the 'Eastern imaginary' - the Sri Lankan way of designing products in higher colour resolution - which produced an unexpected aesthetic effect which their clients were very happy with.

Further rationales underlying relocations were cost savings through economies of scale and rationalisation processes — not so important an argument for relocating software development but frequently used in relation to call centres or back-office operations. The *Flighty* case, involving a European airline carrier that outsourced its ticket processing first to an Indian and then to a CEE location, was one example of this. Sixty Jobs at Flighty were lost due to the relocation (but this was internally solved without dismissals; employees were offered other jobs at *Flighty*). Reported motives for relocations were also linked to the desire to expand business into new markets. *Belie,* a Belgian company that outsourced software development to Vietnam, stated that alongside savings in development costs, the opportunity to create the preconditions to expand into the Asian market was also a crucial factor.

The Asian EMERGENCE cases also show a diversity of backgrounds and motives, which is similar to the original EMERGENCE cases. A highly complex pattern can be observed in the case of *Shore-Offshore*. Here, relocation is part of a company-wide reorganisation on a global scale.

S*hore-Offshore* is an international financial services company with about 28,000 employees worldwide and a strong market presence in Asian countries. In 2000, the top management decided on the global re-engineering of the HR function (described as 'resourcing, rewarding, learning'). the national HR departments' activities were to be centralised, national diversity reduced and duplications of effort diminished (*eg* the number of retirement schemes). Once standardised, the processes were digitised and centralised in *Offshore's* shared service centre in India to an Indian affiliate of *Shore*. Part of this two-year programme also involved the automation of many processes, allowing online self-service for *Shore* employees. In *Offshore*, 140 Indian employees are now working in the HR function. A great deal has been invested in the ICT infrastructure and the training of the workforce. Their activities are transaction processing, a call centre and analyses. There is a second Asian back office in Kuala Lumpur. To address risk considerations, the Malaysian centre may become a back-up-facility for the Indian shared service centre: 'The decision to go to India was relatively easy; the biggest decision was the risk issue: what does it mean if we are all in one place, for example if the system crashes or other things go wrong?' a *Shore* manager asks. *Shore's* remaining national HR departments have become smaller; their tasks are now mainly consulting and support for the Indian Shared Service Centre (resulting in an up-grading of the remaining jobs). A hundred HR employees of the national departments have lost their jobs. Those who could not adapt to the new circumstances had to leave.

Other relocations start as less complex projects — but some of them develop over time from 'simple' uni-functional moves into broader relocations. *Verbatim* a UK-based developer for mobile phone messaging systems initially intended to outsource only some aspects of software development work to *Ranch* in Thailand as a temporary measure. After successful completion of the work and a positive experience of collaboration with the Thai offshore vendor, *Verbatim* has not only decided to relocate further software projects there but is also considering entering a joint venture with *Ranch* in order to broaden their mutual services and expertise.

The publishing company *Townsetter* started the relocation of typesetting as an isolated measure which in the beginning did not lead to redundancies in the source company. After the first experiences with the outsourcing of typesetting, the arrangement evolved into a more encompassing mode of reorganisation — additional functions are now being relocated and staff members at the source have been made redundant:

Townsetter, a traditional publishing house in an old European university city, underwent a thorough transformation process in the late 90s. After years of being subsidised by the university that owned *Townsetter*, the publisher was internally evaluated and subsequently forced to act in a more price- and market-oriented way. Under the new competitive pressures the management regarded global outsourcing as a 'nearly unavoidable' option to reduce labour and production costs, especially as they were aware that their main competitors followed the same strategy. In 1998, *Townsetter* started the relocation of typesetting to *SIR*, a small Indian company as an outsourcing partner.

In parallel, *Townsetter* undertook the digitisation and standardisation of the production process. The outsourcing started as an experiment but has five years later become a permanent solution which is being extended to other, higher value-added functions as well. In the initial phase, only a few jobs were affected. People were retrained for other activities. In 2001, the management decided to cut 60 jobs. Only a third of the employees accepted the offer of re-deployment in a different position at *Townsetter's* new Digital Services Department. Subsequently, work from the internal reading department was also moved to India; *Townsetter's* European reading department will be closed. Being sceptical regarding the limited competencies of its Indian partner *SIR*, *Townsetter* shifted parts of the work to a second outsourcing supplier, *PC Journals*, located in a different Indian State.

In some other cases, relocations were planned as 'isolated complementary measures' without any negative effects on the jobs at the source company. These cases were mainly related to the IT function and triggered by the IT skills shortage in the late 90s. The German IT company *ABC* outsourced the software development of a specific product to the Indian based software vendor *Softec*. The background was the lack of internal skills for the development of web applications. In 1999, the recruitment of IT experts on the local labour market was difficult. As well as the opportunity to overcome the IT skills shortage by outsourcing work, a secondary objective was the expected cost saving resulting from the German-Indian wage differentials. The contract was restricted to this particular project, and after some product enhancements and maintenance activities the outsourcing was terminated. Similarly, in the case of *Architect-Globe* the relocation involved access to additional resources in Asia which were not available in the source region:

Architect is an architectural company which is mainly active in the area of public buildings. The company mainly employs architects on a contract basis who are recruited through an agency. Partly because *Architect* is situated in a rural region, the recruitment of architects became increasingly difficult at the beginning of the new millennium — a condition which has not changed. In 2001, *Architect* was successful with some tenders, leading to the need to recruit additional personnel quickly. On the recommendation of a business partner, *Architect* decided to outsource the production of working drawings to the Vietnamese company *Globe*. Since the success of the first project, the outsourcing relationship has been expanded to three major projects and to additional activities such as 3D animation (enabling *Architect* to create quality-enhanced presentations). No jobs have been lost directly at the European source — but no new job vacancies have arisen there either; there is now a limited need for agency-based recruitment. In the view of some architects, in the long run the trend to relocate could have grave consequences for the profession, especially for new, inexperienced graduates.

The expansion of activities has been a main objective in some of the Asian EMERGENCE cases — at least in the initial phase of some software-related relocations. The main triggers in these cases were local labour-market shortages or the need for expertise in a

particular field. Whereas this starting point is similar to the findings of the EMERGENCE project, in the long run a shift of motives and relocation strategies can be observed.

Some cases that were originally intended to be 'expansion relocations' developed into 'replacement relocations' after the initial stage. Relocations that were originally described as necessary for the growth of business (therefore indirectly creating or maintaining jobs in Europe) meanwhile broadened. Availability of labour no longer seems to be the main motive for relocation; cost considerations have become more important and combine with the effects of an increased maturity of the Asian market. Whereas some years ago, the offshore model was in some cases the 'last resort' for companies in order to get their projects done, they now seem to rely more on the quality of Asian vendors, therefore enabling them to save costs without taking major risks. Even in cases where labour market shortages originally triggered the relocation of activities, the present availability of skilled workers in the local labour markets is not necessarily leading to a change of strategy. In many of the source companies, the number of jobs is reduced or stagnating – even when the business is growing. Relocation in this sense seems to be 'path dependent': Based on 'sunk costs' (investment in infrastructure and organisation), learning effects and increased cost efficiency, the original decision patterns have changed.

Cordial, a small company specialising in the sale of hardware and software in the Benelux States, started with the intention of outsourcing database management. The relocation has meanwhile been extended to software design and accountancy. All three business areas are carried out by the same Asian vendor, whose staff are being continuously trained to cope with new responsibilities, or new staff with the required skills sets are being employed. Originally the relocation was caused by lack of suitable IT staff and currently, despite an improved IT labour market situation, *Cordial* management thinks it would be pointless to change the existing relocation set up. The Sri Lankan operation, *E-Save*, has grown in terms of number of jobs and skills; in contrast, no major changes have occurred at *Cordial*, which still employs the same number of people. *Cordial's* director was very clear that, based on the allocated resources, commitment, planning and personal contacts that have been established between *Cordial* and *E-Save*, it would be a very complex process to reversibly change anything in the current set up. Thus, as the director put it 'I can't see any reason why we should stop using them'.

The original option of local recruitment is often not taken into consideration anymore. Relocation to other countries has become a first – not a second – choice for many companies, cost savings being an important motive. *Space's* managers were very clear that they needed to save costs but were also interested in gaining access to semi-skilled staff that could be 'trained up how we wanted' as the company director put it.

A sentence uttered by many interviewees was, 'Growth only takes place in Asia.' A clear shift from expansionary to reduction-oriented relocations can also be observed in the case of *Ivy*, an international IT company.

Ivy is a Swedish software company offering business software products. The R&D division employs 650 staff members, 300 of whom are located in Sri Lanka. The Sri Lankan affiliate, *Ivy SL*, was established in 1997. The main reason was the explosive growth of *Ivy* during this time. The company wanted to develop new products and badly needed IT professionals. 'We actually recruited any person with some sort of programming background.' This high demand for IT personnel could not be satisfied on the local labour market. The strategy of developing software in Asia was taken at top management level. China, India and Sri Lanka were considered as alternative locations but it was eventually decided to establish an affiliate in Sri Lanka: 'Many companies went to India. We wanted to be different', explains the HR director of *Ivy*. The actual software development in Sri Lanka started with 20 employees — a figure that had grown to 300 employees by 2003. *Ivy's* activities expanded continuously until 2000. When the economic crisis started, cost pressures grew. A hundred IT professionals in the Scandinavian units have been made redundant while the Asian unit is still growing.

5.2 The relocation process

5.2.1 Choosing a partner

The EMERGENCE case studies showed that the selection of partners and locations does not always follow the pattern of a systematic rational choice including a thorough evaluation of alternatives. The selection processes described ranged from a global call for tenders, including the comparison of potential partners, to the 'selection' of a known partner without systematic analysis. One observation — in contrast to the often location-focused public attention — was that the geographical location is sometimes not a paramount factor. In some cases the regional aspect is just a side-effect of a company-focused choice. In these cases, location advantages only play an indirect role. The Asian EMERGENCE case studies similarly show a great variety of selection procedures:

In the Asian-European cases, partner selection via personal relationships or recommendations was of great importance. The systematic search for partners on the open market was less frequent. In the case of *Architect-Globe*, one of *Architect's* business partners recommended the Vietnamese company *Globe* as an outsourcing partner. 'Rather than shopping around, checking if they are competitive or seeing whether there were other companies doing something similar, we decided we'd try this company as it was recommended by word of mouth,' explained the chairman of the source company. Similarly, the possibility of a relocation can be sparked coincidentally as shown in the case of

Maximus, where the director of the German source company was introduced to a representative of a Thai multimedia offshore vendor at an international film festival. As a result of their chance meeting, 3D modelling was outsourced to Thailand soon afterwards.

Sometimes, decisions are influenced by the views of managers of a source company who bring in former collaboration experiences with a particular Asian company. This was the case with *Mogul*, a financial services company, where the Indian outsourcing partner was already known to some managers. In the case of *EDL-MSC*, the personal contacts with an offshore company were even a basis for the decision to outsource at all. 'We would have been very reluctant to outsource so far away if we did not know somebody at the other end. It would have felt like a much higher risk,' explained the general manager of *EDL*. There did not seem to be any other option than the known company. 'We could not have outsourced to any other company or country because we did not know them,' said the strategic director. In some cases, personal experience of source managers with a country and also the nationality of management members play a crucial role in partner or location decisions.

Personal relationships and knowledge of a region are considered to be a factor that can reduce the risks connected with outsourcing. The logic of personal contacts is systematically brought into play by some Indian companies who establish intermediary organisations in Europe. The objective of these European affiliates is to create relationships and trust on the side of potential customers — or, as a *Softec* manager describes it, 'customer intimacy'. The background for this strategy is the knowledge that many European managers hesitate to outsource work because they fear going into a completely unknown field. Regional representatives can help to reduce these risk perceptions, guaranteeing that there is a person on hand who can ensure personal contacts and knows the source country's culture. In the outsourcing relationship between the German IT company *ABC* and the Indian *Softec*, the marketing activities of the German *Softec* affiliate were decisive for the partner selection: after personal meetings with *Softec* representatives, the *ABC* management did not look at other software suppliers more closely.

Trusted expatriate employees often play a key role in setting up and maintaining remote working relationships. For instance *Smoothy,* the Vietnamese subsidiary of Belgium-based *Belgie* was set up by a *Belgie* manager of Vietnamese origin who wanted to return to his homeland for personal reasons. His knowledge of the language and local environment played a crucial role in the success of the operation and was seen by senior management at *Belgie* as a way of minimising the risk.

In the Asian EMERGENCE cases, a factor for the selection of specific locations shows up that was not so apparent in the EMERGENCE cases: related to the extensive growth of the Indian outsourcing market, there is some hesitation on the part of potential source companies regarding their own weight as client. Since many western companies have been relocating work to India, small clients in particular are afraid of being just a 'small fish' for Indian destination companies. The Norwegian IT company *Worldcentre* felt that they could be a very insignificant partner for Indian companies, owing to their small size, and that they would be competing with much bigger international software development companies. *Worldcentre* management therefore decided to establish *Data* as its own affiliate in Sri Lanka. Similarly, the management of the publishing company *Townsetter* decided to outsource the typesetting to *SIR*, a small and quite inexperienced Indian company: 'Looking at bigger places you felt you were a very small fish in a big pond and we wanted to learn with someone else and change things,' as the production director put it. The efforts of western source companies to be an 'important client' of Asian vendors sheds some light on the changing distribution of power between Western and Eastern companies. Some of the relocations to Sri Lanka and Vietnam have been due to conscious reactions to the scale of the Indian 'big pond' of outsourcing.

5.2.2 Decision process: involved actors

In some cases, the decision to relocate was taken at top management level — especially if the relocation was a major, long-term project. In the case of the finance company *Shore-Offshore*, the top management met the strategic decision to centralise and standardise the HR processes on a global scale. The relocation was planned and implemented carefully with eight project team members working on it. The process took about two years and was still not complete at the time of writing. In other cases, especially where only a small project was outsourced, the relocation started without a long and formal preparation phase. The decision process is influenced by the nature of the relocated tasks, their complexity and training requirements and the need for organisational adaptations. The *EDL* case involved the outsourcing of a clearly delineated project not requiring intensive collaborative efforts.

The British media agency *EDL* wanted to develop a website for a new product category. Christmas 2001 (a good selling opportunity) was approaching, but there was not enough capacity for an in-house development. 'We felt we were overloaded with work and thought if we outsource the mundane tasks our designers would have more space and time to do more important things,' states the technical director. On the basis of personal recommendations, the Vietnamese company *MSC* was chosen as an outsourcing partner for a project of a few weeks duration. The idea of outsourcing started off very informally. The possibility to outsource was discussed with the small

> design team that was to be relieved by the relocation of work. 'We talked about it and it was worth a try. No one seemed opposed to outsourcing, so it seemed a good idea to try' (technical director). The outsourcing was not intended to be permanent.

In most cases, the relocation of tasks was perceived as an important — or even a drastic — decision. Since for many companies this was their first experience of collaboration with an Asian partner, the initial project was often designed as an experiment which could be extended after a successful start. One exceptional case where outsourcing has become a routine process was represented by *Mogul*. In this company no special reasons have to be given in order to decide on outsourcing. In *Mogul*, the relocation of work is a day-to-day-issue. The top management does not have to be involved in specific outsourcing decisions.

> *Mogul* is a financial services company with worldwide locations and headquarters in the USA. Since 1999, the company has been following a comprehensive outsourcing strategy. The core activities — all management aspects, marketing and sales — are kept in-house, but for all other operational activities offshore relocations are preferred. As one respondent put it, 'What we are doing is extreme outsourcing.' The management gives wage differentials, greater flexibility (quick availability of expertise) and the saving on management and overhead costs as the general background for this broad outsourcing concept. One outsourced function examined in the case study is the testing of software developed for a new credit-card system by *Solid*, an Indian company. *Mogul* regards itself as a pioneer here, since testing activities are commonly kept in-house: 'This is very unusual. Most companies keep quality assurance aspects like testing in-house but we think it is something that can be outsourced — and we have proven that it is possible.... Our model is not to own any system ourselves but to get specialists hired.' Not only is the software testing outsourced, but so also is the software development itself. This creates complex patterns of collaboration between *Mogul*, the software developing and the testing company. The top management did not have to be involved in the outsourcing decision and, given the common character of outsourcing, there was no official initiative.

5.2.3 Employee participation: almost absent

There are no unions in most of the source companies studied. But even in companies with employee representation, trade unions rarely played an important role regarding the relocation.

> In the case of the publishing house *Townsetter*, where the outsourcing of the typesetting and additional functions caused the loss of 60 jobs, the management informed the union (representing 95% of the workforce) at an early stage. But, as in other cases, the unions were unable to exert any influence on the core decisions. 'We were not able to change their minds very much in terms of the actual redundancy plans, only the redundancy packages,' one union representative explained. The union negotiated the conditions of internal job changes and redundancy packages. After it had become clear that the decision to relocate additional work to India was firm, the workforce accepted

> this as a given fact and the initial resistance gave way to the attitude 'We might as well get the best deal out of this,' as an interviewee said.

Similarly, in other cases the relocation was a 'hard fact' already decided upon by the management, and the unions just accepted it as a business-driven development, their only remaining task being the negotiation of redundancy packages.

5.3 Organisational, technological and employment aspects of relocation

5.3.1 Facilitators & Barriers of Relocation

The original EMERGENCE case studies revealed a broad range of conditions facilitating the collaboration with offshore suppliers or affiliates doing eWork. Among the most important factors were pre-existing contacts between the partners and a clear delineation of tasks, including a high degree of formalisation and standardisation. The EMERGENCE report (Flecker and Kirschenhofer, 2002) described the involvement of workers in the preparation of the relocation and a learning oriented approach at the source company. Organisational changes and adaptations to the new division of labour were important process-related facilitators. Carefully prepared and well-managed knowledge transfer and training were also important factors.

These findings are supported by the Asian EMERGENCE case studies. A significant precondition for an efficient collaboration is a clear-cut division of labour between the partners and a high degree of formalisation. In the case of the financial services company *Shore-Offshore*, the relocation of the global HR Shared Services Centre to India could not have taken place at all without the worldwide standardisation and digitisation of HR activities. Similarly, the publishing house *Townsetter* started the digitisation of its production processes as a measure accompanying the outsourcing of typesetting to an Indian company. The case of *ABC-Softec* shows how the lack of formalisation efforts can impede an effective collaboration.

> *ABC* is a German software company focused on products and solutions for businesses in the area of monitoring, quality and maintenance. In 1999, the shortage of IT workers on the local labour market during a phase of business expansion triggered the outsourcing of a software development project to the Indian company *Softec*. The work organisation at *ABC's* software development is quite informal. Planning requirements and documentation efforts are low — the company follows the 'idiosyncratic' or craft style of software development as opposed to a more formalised model. Additionally, the workload in *ABC's* IT department was quite high during the outsourcing relationship with *Softec*, leading to even less capacity for systematic project planning and structured implementation. 'There is too much work and too few people. Everyone is overloaded. And for everyone

work is not properly defined,' explained a software developer. From the Indian perspective this posed some challenges to the working relationships. The working style of the Germans was described as chaotic and unstructured. This affects how requests for changes are dealt with, for example. 'Usually, if something changes, you write down the impact of the changes. On the *ABC* side, it was like, you receive a request and start coding it immediately, start changes. Whereas we invest some time in thinking about the request, how it can be done? Is it OK? What time is required to do this change?' an Indian software developer explained. 'Our contact person at the customer's gets new ideas almost every day,' complained the account manager. *Softec* is a CMM level-five certified company and therefore forced to work in a very structured way. *Softec*, while strictly adhering to the CMM standard processes, could not demand that the clients should adapt their procedures to the CMM standard. To solve this problem, the *Softec* project manager prepared documents for each request from the *ABC* contact person (including a preview of the possible consequences) and asked him for confirmation. With these additional efforts, the outsourcing partner compensated for the lack of structure of the client. The customer felt comfortable: 'Everything is going in a very structured and well organised way at *Softec*,' as an interviewee of *ABC* put it.

Language barriers & intercultural differences are still a significant barrier in some of the relationships. Regarding intercultural aspects, interviewees describe the politeness of Asian partners, in particular, as sometimes leading to misunderstandings. Especially in cases where Europeans expect a clear answer — possibly a 'no' — the Asian colleagues would sometimes give answers that were difficult for a European to interpret. 'When someone at our Indian supplier *Solid* says 'yes', it does not mean 'yes, 100 %', but 'I will try',' one respondent explained. Some people at source organisations complained that they often get ambiguous answers — or no reply at all. At *Travel Code*, a British travel agency outsourcing software development to Sri Lanka, a British website tester explains that the answers she gets tend to be '. . . a bit vague. Sometimes we ask for something and they say "okay", but never seem to indicate a clear "when". So we are never too sure what to expect.' Similarly, the role of hierarchy in Europe and Asia is perceived to be quite different. Some Europeans perceive people from Asian countries as more oriented towards hierarchical positions and superior-subordinate-relationships. A manager at the Swedish IT house *Ivy* perceives this submission to hierarchical authority as an advantage: 'in Scandinavian companies every staff member can have their say and this even on a very junior level — and perhaps things are discussed more than you want. But in Sri Lanka once you have decided what to do, it goes very, very quickly. They don't question everything as much as we do here.' In contrast, other interviewees said that they find that the hierarchical orientation makes efficient 'horizontal collaboration' between members at different hierarchical levels more difficult, impeding open discussion and the clarification of problems.

Some of the European partners are very aware of these differences and try to analyse their own behaviour. In the collaboration between Norwegian IT company *Worldcentre* and its Sri Lankan affiliate, the Norwegian way of saying things was sometimes perceived as 'harsh' by the Asian partners, leading to unintended offence. The Scandinavians therefore try to be very careful about the way they express themselves verbally or in emails. One possibility to make things easier is personal knowledge: face-to-face meetings often increase mutual understanding and reduce intercultural differences.

An important basis for a good collaboration is the existence of tacit knowledge — a condition that does not always exist owing to the geographical distance and differing business cultures. As opposed to explicit knowledge, the creation of tacit and experiential knowledge takes much more time and effort. 'We definitely underestimated the knowledge transfer effort. Before the shared service centre, each transaction was done in each country, each city, each branch. This means there is a lot of intelligence that sits in people's heads and has never been documented,' is how a *Shore* manager described the need to put some effort into knowledge building. Most companies try to facilitate the development of tacit knowledge by means of training visits — ranging from weeks to one year — at the partner's site. The British company *Architect* invites to Europe staff members of the Vietnamese outsourcing company *Globe* who are doing the drawing for *Architect's* projects: by visiting the construction sites, the Vietnamese project members gain a better knowledge of the building. On the basis of this 'real' experience, it is expected that the Vietnamese team will be able to make the theoretical drawings much more realistic. In the case of the Swedish IT company *Ivy* and its Sri Lankan affiliate *Ivy SL*, more and more tasks — including complex projects — are being shifted to Sri Lanka. But in some cases this exceeds the capabilities of the Asian staff members: interviewees estimate that it can take years to learn *Ivy*'s applications and 'to understand the components underneath the surface'.

Tacit knowledge is connected to people. In many cases, its continuous creation is impeded by the lack of personnel continuity in India and Sri Lanka. As in the EMERGENCE project, where a manager of the IT company *Globecom* said, 'as soon as we have developed a person, he will leave,' some companies are confronted with a continuing problem of attrition. At the Indian typesetting company *SIR*, supplying the publishing house *Townsetter*, training effects last only a short time, since the retention of personnel is low. In some other cases rapid growth makes the creation of a stable knowledge base difficult. At the Swedish IT company *Ivy*, the rapid extension of the destination company causes problems. Because new Sri Lankan programmers are continuously joining the Asian affiliate, the Swedish colleagues frequently have to deal with new people and have to

explain many things over and over again. The new Asian staff members' lack of experience means that the Swedish are confronted with poor quality of work and, especially when combined with the job cuts in Sweden, this contributes to a lot of resentment and frustration. The financial services company *Shore* faces a similar situation: young people are moving into managerial positions without having much experience. 'These are stressors of an organisation growing too fast; people move into jobs they cannot actually do,' an HR consultant explains. This lack of tacit knowledge turns the relocation of high value-added activities to Asian partners into a risky measure.

An increased professionalism and learning effects are observable not only on the side of Asian service suppliers, but also on the client's side. Compared to the beginnings of some relocations, over time some actors have developed more realistic expectations about outsourcing. 'In the beginning we thought that all Indians were software gurus;' one German engineer describes his naive perception in the starting phase, which subsequently evolved into a more qualified picture. Most of the destination companies are prepared to adapt to the needs of collaboration and to establish internal rules and procedures in order to collaborate with the remote suppliers effectively. This includes the setting up of co-ordinating roles, of additional specification activities and a changing division of labour and responsibility between source and destination. In the case of the IT company *Ivy* and its Asian affiliate *Ivy SL,* the division of labour in the initial phase of the relocation was reviewed and changed: in order to achieve more realistic estimates during the specification phase of software projects, the Sri Lankan staff members are now involved right from the beginning, whereas previously their activities started only in the implementation phase.

Despite all these efforts at organisational improvements and training, the relocation of work is in many cases connected to some decrease in control: actors at the source company do not always know who is working on the other side, whether the destination company is doing other things in parallel or why communication is sometimes slow. Some ambiguity and unexplainable 'communication breakdowns' seem to be an unavoidable part of many relocations. *Excel* a Belgian software developer has permanently relocated some aspects of development work to a Sri Lankan offshore vendor, *E-Net. Excel's* director reported that it took them two years to facilitate effective communication between source and destination companies and there is now great relief that the continuous efforts to increase the flow of communication ' are finally paying off'.

5.3.2 Trust-building and bridging: the role of intermediaries

In the original EMERGENCE cases, there was relatively little involvement of intermediaries, though they did play an important role in a minority of cases. In the Asian EMERGENCE cases, the role of intermediaries seemed more important. Indeed, a pivotal role is often played by intermediary organisations and individuals acting as facilitators for offshore relocations. In many cases, these intermediaries supported the decision to relocate and also the collaboration itself.

In most of the case studies, bridging people, often expatriates, played a central role in the development and co-ordination of relocations. A context of international migration therefore provides a competitive advantage for companies involved in the relocation of eWork. Most expatriates develop dual orientations — an understanding of both the cultures and national business environments they are dealing with. This makes them important facilitators, problem solvers and 'points of reassurance'.

In the UK office of the Sri Lankan software house *Cody*, a Sri Lankan data administrator contacts the Asian software location on the client's behalf if any problems arise in a project. The Sri Lankan founder of *Cody* spends his life commuting between his home country and the UK. He manages *Cody's* European office while his brother manages the Sri Lankan office. In the case of the British financial services company *Mogul*, a manager of Indian origin gave intercultural training lessons to his staff members at the source company, explaining potential cultural differences and ways to overcome them. In the international IT company *Data-Worldcentre*, a Norwegian manager works as a permanent consultant in Sri Lanka. 'It is more convenient. If there are problems, he will be the person for whom it is easiest to identify the cause of the problem and solve it,' says a project manager. Another function of European bridging people in Asian companies is to create trust that the expected quality standards will be maintained. *Globe* employs two expatriates from the UK who are regarded as indispensable to ensuring high standards and *Smoothy* is managed by a Vietnamese former employee of the parent company, *Belgie.*

At an organisational level, an increasing number of Asian companies have established European affiliates (in one case, the ownership structure is the other way around: a European company — serving as marketing office — has established an Asian affiliate). These units serve as marketing and sales offices and also as intermediary organisations, connecting western clients with Asian suppliers and bridging intercultural and communication gaps. A basic effect of European units being close to the customer's location is the creation of trust. In the EMERGENCE case of *Bio*, a Benelux IT company outsourcing

software projects to the Indian company *Belindus*, the relocation would not have taken place without the existence of a European unit. *Bio* and *Belindus* are situated in the same rural region in Belgium. The CEO of *Bio* even knew the co-founder of *Belindus* personally: they came from the same small city in Flanders. 'After all, outsourcing work to India is a very drastic decision. There is a big distance between Flanders and India, in the literal and figurative sense, and in this respect, it is very important to have the necessary ties, to understand each other, to have the same business mentality. Without the already existing connections, *Bio* would not have engaged in its Indian adventure that rapidly.' Similarly, the German software manufacturer *ABC* only outsourced a project to the Indian *Softec* after having met the German managing director of the German *Softec* office. Even when remote sales from Asia might theoretically be possible, some European clients still regard outsourcing to Asian companies as an adventure. The establishment of an intermediary unit in the customer's region is therefore an important competitive advantage. But for some small Asian companies this strategy is too expensive and therefore not feasible. The marketing manager of *Solid* therefore relies on the growing reputation of the Indian service industry: 'Since the India story by now is well sold, it is now really a question of letting the people know that our service exists.' His company does its marketing via a website.

The *Architect-Globe* case shows that besides the initialising and trust-building function of the intermediaries, they play a key role in facilitating the co-ordination and the flow of information between the European source and the Asian destination.

Globe, the Vietnamese supplier of architectural services, started its operations from Vietnam. After the first projects, *Globe* found that the direct collaboration between western clients and Vietnamese staff members did not work well. The direct communication between source and destination involved a lot of phone calls, and large numbers of emails that were sent back and forth, resulting in many problems, delays and communication breakdowns. By establishing offices in the UK and employing two architects there, the clients were relieved of communication efforts, since they could communicate their needs to the UK representatives. In the long run, when the relationships between a particular client and *Globe* intensify, an increase in direct communication between European source and Vietnamese destination is expected, as the actors become accustomed to the different culture and can build mutual trust.

Most intermediary organisations are quite small units — employing from about five to ten people: marketing and sales staff, administration and sometimes technical experts:

The German affiliate of the Indian software house *Softec* employs about ten people. Most of them are responsible for marketing and sales and for the co-ordination of projects (account manager). Besides customer relationships, the members of the German *Softec* unit also take care of Indian onsite programmers who work on the client's

premises for a limited period of time. This involves a lot of extra effort since there is no HR position at the German *Softec*. The assistant, the managing director, the account managers — many of the staff are involved in the on-site developer's affairs, ranging from airport pick-ups to insurance issues, from housing matters to appointments with a dentist. The HR manager of *Softec's* headquarters in Mumbai, who is not able to arrange these things from India, explains: 'Searching [for] an apartment is an extra job for them to do because they are expected to perform. They are supposed to work on sales, marketing, whatever. And this is something in addition to that. But I think this is part of the reality, if you have a very small set-up there.' Part of the concept is that there is always one Indian account manager working in the German unit.

Intermediary organisations and people are expected to bridge existing communication and intercultural gaps between the locations involved. The establishment of intermediary organisations in Europe and the international mobility of expatriates are not completely new — it was already possible to observe this in some of the EMERGENCE cases. But there seems to be an increase in 'intermediaries', based on learning effects and experiences with former collaborations and leading to a higher degree of professionalism in offshore collaborations. The offshore business has also generated new opportunities for consulting companies and service providers working as brokers between Asian and European companies. No independent brokers were found in the cases studied here; all intermediary organisations were affiliated to the Asian companies.

It seems likely that in the future intermediaries will play a particularly important role in enabling SMEs to access global sources of eService supply. Whilst large companies can afford to experiment on a project-by-project basis until they find a good supplier, SMEs often have 'all their eggs in one basket' and cannot afford such risks. Intermediaries help to reduce the risk and develop relationships of trust.

5.3.3 Technical Aspects: Facilitators and Barriers

ICTs are the core working instrument in many of the European-Asian relocations — especially because most of relocations concerned software development or related activities.

In nearly all cases the importance of email as the main communication instrument was emphasised, combined with phone calls (rarely: video-conferences) and also personal mobility (travelling to the partner's site). Some interviewees stated that often the combination of written and oral communication is important. Informants at *ABC* and *Softec* told us that they generally discuss complex matters over the phone. After this, the *Softec* personnel always send the client a documentation of the discussion by email for confirmation. 'Our clients just tell us

whether what we understood is right or not.'. This is considered to be very important in order to confirm the results of discussions and to make sure that no misunderstandings arise. In some cases, especially those involving transfer of very large amounts of data, data is stored on CDs and delivered via mail. *Maps,* specialising in digital map conversions, considers this as the most useful way of ensuring effective communication between the Indian destination and the French source organisation.

Companies using a common ICT infrastructure or the same systems describe this as an important facilitator. In some cases, the use of a particular software application can have far-reaching consequences:

> In the initial phase of relocating the typesetting to India, the publisher *Townsetter* used its own proprietary typesetting software. This implied that the outsourcing supplier had to train his people in this particular software, creating a tight or nearly exclusive relationship between *Townsetter* and *SIR*. Some years afterwards, *Townsetter* replaced this in-house software with a standard off-the-shelf application, enabling the source company to outsource the typesetting to other companies as well. *SIR* has now become replaceable and already has lost part of its business to another Indian company.

Security considerations mean that some companies have started using secure lines instead of the internet for the exchange of information.

As was found in the original EMERGENCE project, infrastructure problems are still a common problem. This was especially the case in newcomer countries such as Vietnam and Sri Lanka where some interviewees complained about 'bad lines', problems with bandwidth and breakdowns, leading to delays and interruptions in the working process. The people collaborating in *Worldcentre* between Norway and Sri Lanka therefore use mobile phones in urgent situations. Most Asian companies studied here buy their own power generator in order to guarantee a stable electricity supply. Following public reports, Indian infrastructure capacities have improved — but based on this limited number of case studies it is not possible to judge to what extent.

The EMERGENCE project finding that mobility is not entirely replaced through eWork is still valid: relocations of eWork often lead to an increasing 'movement of people', given the necessity to meet face to face, to train each other and to establish 'bridging personnel' abroad.

5.3.4 Job effects of relocations

Job effects in source companies: moving targets

Relocations of eWork are not necessarily connected with job losses or redundancies in the source organisation. As the original EMERGENCE report noted, relocations of the expansionary type often lead to additional jobs in destination countries without negative job effects at the source organisation, especially if they were triggered by the need for expertise in a particular area or by local labour shortages. This was the case at the international IT company *Globecom*, which established an IT workforce (about 1100 people) in Bangalore in order to be able to carry out all its planned projects. Similarly, outsourcing enabled the Belgian IT company *Bio* to realise a growth of business. Many of the Asian EMERGENCE relocations started from the same background: they were driven by the opportunity to expand the business activities and by a lack of in-house resources. At the end of the 1990s, the German IT company *ABC* was able to realise new web applications more quickly with the aid of a *Softec* Indian software development team. Similarly, the availability of IT skills underlay *Data Worldcentre's* decision to establish its own affiliate in Sri Lanka. An expansionary type of relocation can also occur when companies in the 'traditional' sectors need special IT expertise for a particular project. The case of *Travel Mode*, a British travel agency, is one example of this:

> *Travel Mode* saw itself confronted with growing competition in the travel market during the 1990s. The importance of face-to-face contacts with clients decreased, while more and more people preferred the online booking of travel services. *Travel Mode* decided to redesign its front and back office operations, ensuring that flights, hotels, package tours and other travel products could be booked via the Internet. The company wanted to develop unique travel software that would suit *Travel Mode's* business better than the standardised software on offer. The in-house development of this software was not an option; the development of unique software in the UK would have been too expensive. The only alternative to outsourcing would have been the purchase of off-the-shelf software. Supported by the existence of an office of the Sri Lankan software house *Cody* close to *Travel Mode's* office, the decision was made to outsource the software development. It is planned to terminate the relocation after the completion of the project — except for some maintenance and enhancement activities. The relocation itself will not have any job effects at *Travel Mode*, but the implementation of the online booking system will lead to job-related changes that have not yet been systematically estimated.

However this is by no means the universal story. Contrasting with the expansionary types of relocations, in some companies the reduction of jobs at the source companies is officially planned right from the beginning. This concentration strategy was followed by the financial services company *Shore-Offshore* where the centralisation of the global human-resources management was

a major top-down project, including the downsizing of national HR departments, the automation and relocation of activities to an Indian shared services centre in Chennai. About 100 jobs in the national HR departments were lost, while in Chennai 140 jobs were created. In contrast to such open reduction-oriented policies, in some other cases job losses were a gradual effect which was not intended at the beginning. Some of the cases that started as expansionary relocations developed over time to become replacement relocations. The Asian units, in the beginning an addition to the western workforce, became competitors in the long run. The IT company *Ivy* is an example of changing external conditions leading to subsequent job losses at the source organisation.

During the 90s, the Swedish software manufacturer *Ivy* wanted to develop some new products but was not able to recruit sufficient new IT experts on the local labour market. In order to be able to realise the business plans, an affiliate in Sri Lanka was established in 1997. In the initial phase, up to 2000, all R&D staff members were needed to implement projects in a phase of excessive growth. After this phase, *Ivy* was affected by the market crisis and sharp cost pressures. As a consequence, 100 IT professionals had to leave. Most of them had difficulty finding another job on the local labour market. The Sri Lankan unit is supposed to become more important in terms both of quantity and quality: growth only takes place in Sri Lanka (at present already doing 50% of R&D in *Ivy*). 'We can employ more people in Sri Lanka and still cut costs,' says the senior R&D vice president. The Sri Lankan unit is also assuming more responsibility for complex projects. Internally, the job reduction has led to tensions between Swedish/European and Asian employees. There is much resentment among the Nordic staff members towards their Asian colleagues owing to the continuing job uncertainty. 'Sri Lanka will take over,' is a comment uttered in this context.

In line with Swedish labour law, during lay-offs the rule of 'last in, first out' is applied in redundancy situations. Under this regulation, some key personnel had to leave the company, leading to a loss of important knowledge at the source. The *Ivy* management has now been forced to relocate some 'really difficult tasks to Sri Lanka, which they really cannot cope with,' as a senior designer points out. The relocation-triggered redundancies therefore had some unintended consequences, relocation 'by force' leading to even more relocation.

The loss of jobs is not always connected with redundancies. In some cases, companies offer new jobs or internal re-training to the employees who lose their former positions. 'We expect them to take their share of the changes or go somewhere else,' explains an IT manager of *Invest*, where after the start of the outsourcing the original software development tasks decreased while business analysis and project co-ordination was required from former software developers. In the case of *Invest*, about half of a team left the company after the relocation because they wanted to continue developing software. Similarly, in the other cases, it is mostly only some of the employees who are willing and able to adapt to the new circumstances.

In *Townsetter* where typesetting and also reading have been relocated to Indian companies, employees were asked either to accept a voluntary redundancy package or accept redeployment in the new Digital Services department. This department now mainly carried out administrative and support functions for the relocated work. Only about 20 people accepted this offer; 40 employees left. The employees affected were mainly about 40 years old and had been with the same company for many years. A union representative criticises the fact that these employees were not given a real chance to adapt to the new conditions. 'There was a clear message from the management to the workforce saying: if you do not change you will lose your job. But they were not given the opportunity. It would have been fairer to have us called in earlier so that we could have helped with making the workforce more flexible.'

From a European labour market point of view, apart from direct job losses the cumulative effects of the lack of job-creation in Europe is important: 'Growth now only takes place in Asia' is an oft-repeated statement by interviewees in the source organisations. In most cases, when the Asian destination companies have reached a certain level of professionalism, additional activities are directed to the Asian location. The creation of new jobs at the source companies is generally not even considered. The German IT department of *Invest*, a financial services company, started to outsource software projects to Indian companies three years ago. What began as an experiment in the viability of the offshore model has now become a permanent solution. While the business of the IT department has been growing continuously, the workforce at the source has stagnated. Each extension of tasks is directed to one of *Invest's* two major outsourcing partners. 'The only boom in the IT industry is in outsourcing,' explains an *Invest* IT manager. An example, which at the same time shows the complexity of job related effects, is the Norwegian IT company *Data-Worldcentre* relocating work to its Sri Lankan affiliate.

During the 1990s, *Data-Worldcentre*, a small company with about 30 staff, was not able to recruit sufficient IT experts on the local labour market. The company could not employ enough developers to meet customer demand. After considering Russia and India as alternative locations, it finally established its own affiliate in Sri Lanka in 1999. After the first years of collaboration, the relocation was evaluated as being altogether positive — despite some difficulties and quality problems. The Asian affiliate started with three staff members and now employs 45 IT experts. In the Norwegian unit two additional people were employed in marketing and administration. The Norwegian staff were 'freed' from software development and are now mainly responsible for client consultation and quality monitoring of software coming from Sri Lanka. There will be no further recruitment of software developers in Norway, whereas the Asian software unit is intended to grow further. At the same time, this is perceived as a condition that allows more growth in Europe, since the easy expansion of the Sri Lankan work force allows *Data-Worldcentre* to take on more clients than before. This may lead to additional project management staff in Norway — but probably in very small numbers.

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There is a form of 'silent downsizing', especially in IT departments at source organisations, which is not visible at first glance: in some cases employees are not affected by job losses, but the number of external IT consultants working at the source's premises decreases. This was the case at the Dutch financial services company *Secure*, where external IT experts from the local labour market constituted about 50% of the local workforce. Similarly, at the German IT department of *Invest*, an international financial services company, the role of German IT experts working on a contract basis became less important.

Not all the cases studied developed into replacement relocations. There are also some relocations without long-term job effects. The German software company *ABC* terminated the outsourcing relationship to the Indian *Softec* after the completion of a project — leaving it an open question whether there may be further collaborations in the future. Similarly, the British multimedia company *EDL* regarded the outsourcing of a website design as a one-off project, not leading to major internal effects; likewise the case of the UK travel agency *Travel Mode*. There may be more comparable cases of relocations that do *not* develop into broader solutions, endangering jobs at the source — but the small number of case studies means that no statement on their quantitative relevance can be made here.

Qualitative job changes

Besides quantitative job effects, relocation of eWork often changes the nature of jobs. The case studies show different patterns of up-grading and down-grading, creating 'relocation winners' but also some 'relocation losers' who do not necessarily lose their jobs but their former responsibilities.

In many EMERGENCE and Asian EMERGENCE cases an up-grading of the remaining jobs was observable. Employees who had formerly been responsible for operational tasks are now managing, supporting or supervising the operational work that is now carried out remotely. The employees' reactions towards these changes differ. In many cases the up-skilling is welcomed by the remaining employees. In the Norwegian IT company *Data-Worldcentre* the former software developers are now called 'project managers'. The interviewees felt pleased about the fact that they are now less involved in development work but have more contact with clients and more co-ordinating tasks. The case of *Shore-Offshore* shows a clear picture of 'winners' and 'losers' of the relocation-induced job effects.

> At *Shore-Offshore*, where the company-wide HR processes were partly automated and partly centralised in India, the nature of the remaining HR jobs has changed drastically: the HR employees are now working in strategic teams and in 'centres of expertise' which have the task of designing and implementing new HR processes or online learning

initiaves and to support the shared services centre in India. The qualification requirements changed substantially. The skills needed to become a 'new HR person' are mainly soft skills such as communication skills, analytical thinking, and strategic planning. 'The image of a nice lady with a personal touch answering your query at your own branch is not there anymore,' an HR manager points out. Especially female employees aged over 40 lost their jobs. 'People were given the chance to change but I am afraid if a person does not possess the skills needed, we have to let this person go,' a manager explained. Another respondent criticises the 'change management', saying, 'I think administrative people were let go too soon. There needed to be a comfort zone to bridge the transition period and for the people to have more safety.'

The remaining jobs at the source organisations are often perceived as attractive progress on a career path. But in some cases, the employees do not like the 'upgrading' of their activities. In the German IT department of *Invest* some employees left the company voluntarily because they did not want to fit in with the new demand for 'business analysts'. These employees preferred to work as software developers, declining the new job description. 'There are developers who want to stay developers all their lives. Someone who wants to be a developer always wants to work on large-scale, innovative projects. Because of outsourcing this is no longer possible,' says the IT manager. Similarly, in the architectural company *Architect* some people do not like being 'freed' from the mundane tasks such as doing the working drawing. One project architect still prefers to do all the drawings himself rather than using the outsourcing to Vietnam.

The newly emerging jobs at the source organisation are not always attractive; some are characterised by a down-grading compared to the former tasks. At *Townsetter*, former typesetters and readers have been redeployed in the new digital service centre supporting the Indian unit. This is connected to a great deal of administrative and computer work, the handling of spreadsheets and so on. This work is 'less interesting and more standardised' than the original work, according to a union representative. The union negotiated a deal that these employees would at least not lose money as a result of the internal re-deployment and its accompanying downskilling.

Destination companies: desired jobs and rapid growth

Nearly all the Asian companies studied here have grown rapidly in recent years, predominantly creating new job opportunities for young IT experts or graduates. *Cody*, a Sri Lankan company developing an online booking software package for a UK travel agency, started in 1999 with two staff members and now employs about fifty people, twelve of them working for the UK travel agent. Mainly new graduates from the universities are recruited, since the company hopes that this makes the retention of personnel easier. The average age of the staff members is 24. The

wages are low by international comparison, but very high compared with local Sri Lankan rates. The findings of other cases are similar. The Sri Lankan affiliate of the IT company *Ivy* started in 1997 with 20 employees. Since then the workforce has grown to 300, a figure that is expected to grow further. The Indian software testing company *Solid* now has 240 staff members and plans to expand its workforce to 400. The project team working for the UK client *Mogul* started with two team members in 2001 and has now grown to ten. The Sri Lankan affiliate of the software house *Data-Worldcentre* started with a staff of three and now employs 45 graduates.

Most interviewees emphasise that the job opportunities in global projects are very attractive in the regional context — the companies are able to offer wages that are highly competitive by national standards. Some highly qualified IT experts are willing to do fairly routine work too. Most companies can select job candidates from a large pool of applicants, but competition between companies for experienced workers in this field means that in some cases it is difficult to retain staff, especially in IT 'hot spots' such as Bangalore.

5.4 Evaluation and time perspective

5.4.1 Cost-benefit Analysis: 'quality is not paramount anymore'

Most of the source companies evaluate their relocations regularly. Some assess the relocations quite informally, *eg* at quarterly review meetings. The managing director of the UK travel agency *Travel Mode* thinks that at present a general periodic overview of the outsourcing relationship is sufficient. 'There is no real, formal cost-benefit analysis. We can see the benefit the software will eventually bring to our group and also how much cheaper it is to have the work done in Sri Lanka.' Other companies such as the financial services company *Mogul*, which practises 'extreme outsourcing', apply more elaborate procedures, including balanced scorecards and a systematic comparison of different vendors. These comparisons have been professionalised by *Mogul* in a way that enables the offshore vendors to profit from the transparency and the performance-related feedback on offer. Additionally, *Mogul* uses these comparisons for a 'squeeze in billing', as a representative of the testing partner *Solid* points out.

In terms of benefits, the most common advantages of relocations are cost savings, flexible access to labour and specific skills, and in some cases higher quality too. Some source representatives estimate that the cost savings through relocation are about 30%. Others think that the cost advantages are lower, since relocation requires additional co-ordination and monitoring efforts. Some interviewees expect these efforts to diminish in the future as the

collaboration becomes progressively more efficient. The chairman of *Architect* explains that the outsourcing has produced cost savings, but that this was a secondary aspect compared to the increased flexibility. Since the recruitment of qualified workers on the UK labour market takes a long time, one main advantage for *Architect* is the opportunity to respond quickly when new projects come on stream. The collaboration with the Vietnamese outsourcing company *Globe*, which does the drawings for architectural projects, enables his company 'to turn the tap on when you need it and switch it off when you don't need it.' Some source representatives think that the cost savings through relocation have allowed them to do things they could not have afforded in Europe. The travel agency *Travel Mode* would have been forced to purchase off-the-shelf software if there had not been the possibility of having a custom-built system developed by the Sri Lankan company *Cody*. The UK company *Architect* has only been able to start giving 3D-presentations and animations since their Vietnamese offshore partner supplied them with these services. Some of the source companies consider the quality delivered by the Asian destination organisation to be superior. The financial services company *Mogul* is very satisfied with the output of the Indian company *Solid*. Since *Solid* specialises in the planning and execution of software tests, 'the quality of software that comes out at the end is far better,' says an interviewee at the source organisation. Similarly, in the *Secure* EMERGENCE case study — a Dutch financial services company relocating software development to India — the quality of the output is higher than before (more software releases and a sharp drop in the defect rate).

Still, in many of the cases quality problems are described as an important disadvantage of the relocation. In the collaboration between the Sri Lankan affiliate of the Swedish IT company *Ivy*, much work that has been carried out in the Sri Lankan unit needs to be redone since the outcome is unsatisfactory — a quite cost-intensive process. Sometimes these problems are regarded as transitory, especially when the gradual development of more tacit knowledge and the improvement of efficiency seems probable. At *Ivy*, a successive knowledge-building of the Sri Lankan unit is expected. This attitude also prevails at the financial services company *Shore*: 'The credibility of HR is decreasing right now, but I do not see this as a problem yet, but more as transition issues that will be ironed out soon,' a national HR representative — an internal customer of the new Indian shared services centre — explains. 'We are increasingly looking for more from India, we now need to look at an organisational structure that would support and optimise what they actually can deliver,' says another *Shore* manager. In other cases, quality problems seem to be of a more general nature — one reason for this is a high attrition in many Asian companies, leading to a continuous loss of experiential knowledge in the destination companies. Quality problems can also be caused by a primary orientation on costs.

> The publishing house *Townsetter* chose a cost-reducing organisation of the reading function in the knowledge that this would probably entail a loss of quality. For cost reasons, documents were to be copy-edited by the Indian destination companies without being checked internally anymore. *Townsetter* would rely completely on the output of their Indian outsourcing partners. 'We know that quality is going to slip. The crucial question is how far we are prepared to let it slip and how far our customers are prepared to let it slip.' Another interviewee stated: 'I am very worried about the future quality, the company's reputation and what customers think about us.' This strikes at the core of the company's image as a high-quality academic publishing house: 'There are quality manuals defining what we produce as up to the national standard — we have got a quality working sign up here that we are working to that level. Yet customers accept that standards are going down, and possibly the customer will support us because it is also cheaper for them,' another person points out.

Other 'costs' of relocation are communication problems, which sometimes lead to uncertainties and delays about progress of projects. At *Architect*, one staff member feels very frustrated about the way the collaboration is going. She explains that if she has to work on another project involving *Globe* she will refuse. Drawings sent back to her are of poor quality and are not in line with her requirements and specifications. There is a deadline, but half of the drawings are missing, and her Vietnamese contact persons are often not available. *Globe's* UK consultant has now been drawn in as a trouble-shooter. Many western companies relocating eWork to Asia initially underestimate the effort required for the monitoring and co-ordination of the tasks. The project leader of the German company *ABC*, which relocated a software project to India, explains, 'we had intended to do the specification once and then leave it completely in the hands of *Softec*, but it became clear right at the beginning that this was not possible. This is the reason why I am still involved in the project. Because someone from our side has to monitor it continuously and to decide on the direction.' Gradually, most of the source companies have developed more realistic expectations of the relocations — including the additional costs for monitoring, co-ordinating and communicating.

5.4.2 Moving up the value chain?

Different patterns of division of labour are evolving between European and Asian companies. Despite the often-mentioned willingness of Asian workers to carry out tasks that are not appreciated by western employees, Asian vendors do not just carry out mundane, routine tasks. Some source companies also give higher value-added tasks to Asia. One reason for this is the necessity of offering attractive jobs to the Asian employees in order to retain them and their knowledge for the company, given high attrition rates (often about 20%). Another factor is the experience that in some projects (especially software development) a 'hard' division of labour between specification and programming can be problematic. Against this background,

the Sri Lankan *Ivy* unit is ever more closely involved in earlier stages of software development projects. Similarly, at *Globecom*, an international IT company with 1100 IT experts working in Bangalore, Indian programmers increasingly participate in requirement specifications — often in Europe or the USA. Despite the intention to upgrade the role of the Asian destination, there are some restrictions, caused in particular by a high personnel turnover in most Asian countries. This hampers the development of stable relations and the continuous creation of a knowledge base that is crucial for the assumption of higher value-added tasks.

The Indian software-testing house *Solid* is aiming to become a specialised, high-segment niche player in the domain of financial applications software testing. It is not easy to find staff who combine domain knowledge (regarding the financial sector) and technical knowledge (software testing). *Solid* therefore hires fresh graduates and trains them internally. A problem for the development of a specialised workforce is the high attrition in the company: many Indian companies feel the need to recruit good testers and poach staff members from *Solid*. By moving to bigger firms, the employees can often increase their salary by 150 — 200%. Additionally, the *Solid* employees are trained on software tools that are rarely used in Indian companies. This makes them particularly attractive to other companies in the global market.

5.4.3 Fluttering or permanent — how long do butterflies stay?

Only in a few of the cases studied here was relocation a limited measure. After completion of the project, the outsourcing relationship between the German software house *ABC* and *Softec* was terminated (only a few maintenance tasks were carried out by the offshore supplier). The same applied to the project-related relocation of a project from the UK media agency *EDL* to *MSC* and from the British travel agent *Travel Mode* to *Cody* (all of these were outsourced software projects). But in all other cases, relocations continued or were expanded. Outsourcing or internal subcontracting of eWork often began as an experiment and developed into a permanent strategy. Sometimes, the company strategy has changed so that the in-house option is no longer even considered.

Relocation as a permanent strategy of source companies does not necessarily equal the continuity of a particular relationship. Most companies prefer stable co-operations within a 'partnership' model. But this does not exclude a change of partners. After four years of collaboration, the publishing house *Townsetter* decided to bring in another Asian supplier besides the existing partner *SIR*, because *SIR* seemed to have limited competencies. *SIR* did not lose *Townsetter* as a client altogether, but did lose part of its business. *Townsetter* is in a good bargaining position and has acquired additional flexibility. 'If one of them fails to achieve what

is required we will simply move the work to the other one', the production manager says. The fact that the quantity of work from *Townsetter* has been decreasing causes some nervousness and a feeling of insecurity at *SIR*. Employees are worried about their futures.

One factor that can trigger the re-relocation of work is technological change. In the EMERGENCE project, the European airline *Flighty* moved its ticket processing to Mumbai, creating 90 jobs at the destination company *Coup-Mum* (60 jobs were lost in Europe). When the technological opportunity of scanning tickets arose, part of the work was re-relocated from India to a CEE country, since priority was now given to other factors, including the geographical proximity of the destination company. Similarly, the partial shift of tasks from *SIR* doing work for *Townsetter* to another Indian company was facilitated by the fact that *Townsetter* switched from using special in-house typesetting software to an off-the-shelf software package. This made the change of outsourcing partner much easier and made it possible to loosen the previously exclusive relationship between *Townsetter* and *SIR*.

The possible emergence of new destination locations had already become apparent in the EMERGENCE case studies. In some cases, a future move to other countries has already been considered or decided upon, China being a location often named in this context. For instance an additional location in China is being considered by the international financial services company *Shore*, as it is by the IT company *Globecom*. 'In fact, they are thinking of opening a software centre in China,' an IT manager at *Globecom's* Indian software unit in Bangalore told us in 2001. 'In the beginning it would be an addition for us; in the long run it would be a competitor'. Two years later, these plans have taken shape. In China there is now a new small software location 'because India is considered too expensive', as a *Globecom* engineer ironically puts it. The Chinese software centre will be managed from India. Still, the Indian software unit is expected to grow further. 'In the future it is planned to do considerably more business out of India,' a *Globecom* manager points out.

The dynamics of relocation are continuously creating new patterns, generating complex relationships, of 'addition' and 'competition' between different locations. The observation of relocations over a longer period of time that was possible in the Asian EMERGENCE project will allow a better understanding of the dynamics of shifting strategies and operations within the context of globalised eWork. It is not probable that these dynamics will come to an end soon, reaching long-term stability — in many cases we can expect that the butterfly will be moving on again.