
2004: Offshore at the crossroads

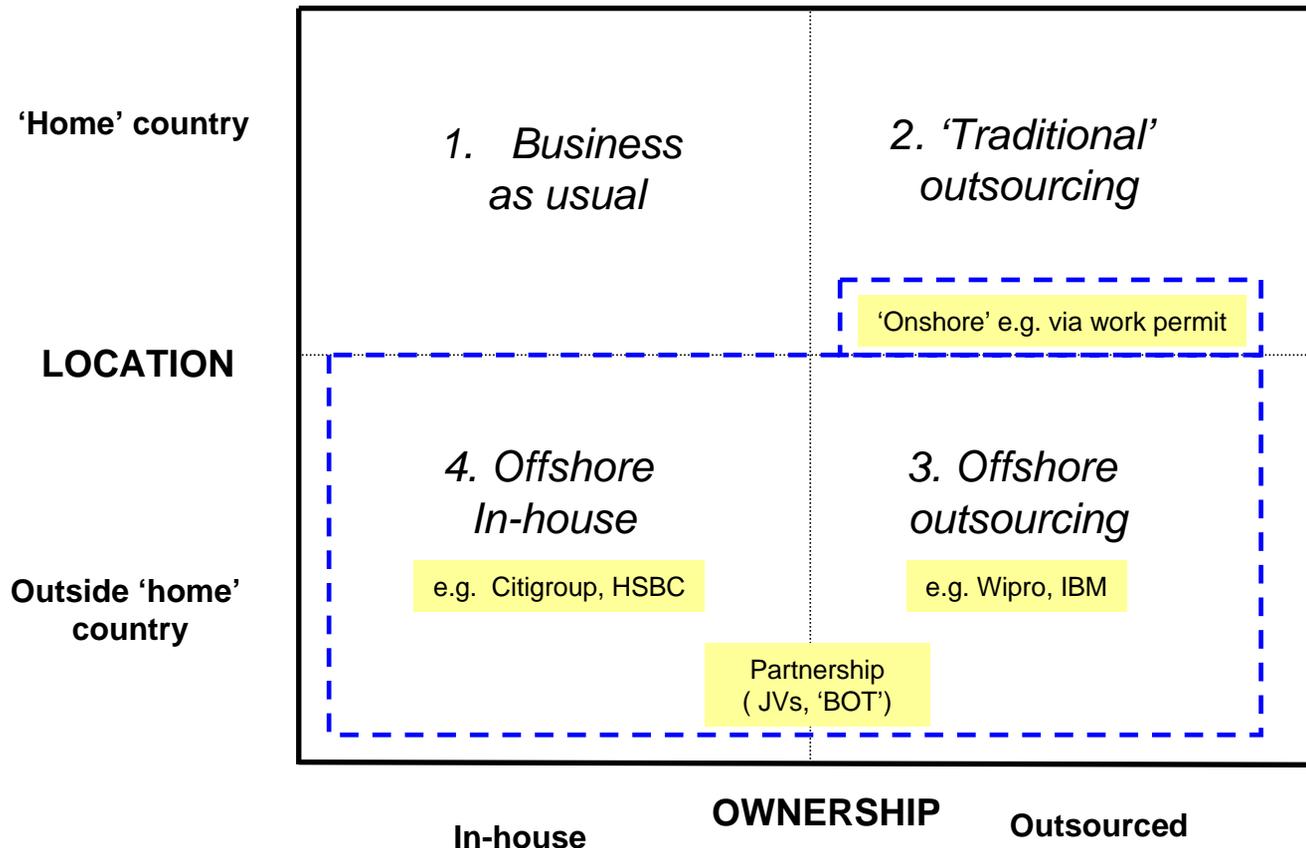
FPC-Percept Roundtable, March 2004

Objectives

- What is offshoring?
- Trends – business and political
- Scenarios
- Recommendations

What is offshoring?

The cross-border provision of services can be both in-house and outsourced to a third party:



In order to understand where offshore is heading, we need to answer two broad questions

- **To what extent could offshoring grow? ('Business trends')**

'The likely disruption to patterns of employment is surely being exaggerated. The actual and prospective migration of service sector jobs is small'

v.

'Jobs are pouring out of western economies and being displaced around the world. The USA experience has shown that flood will turn into a deluge'

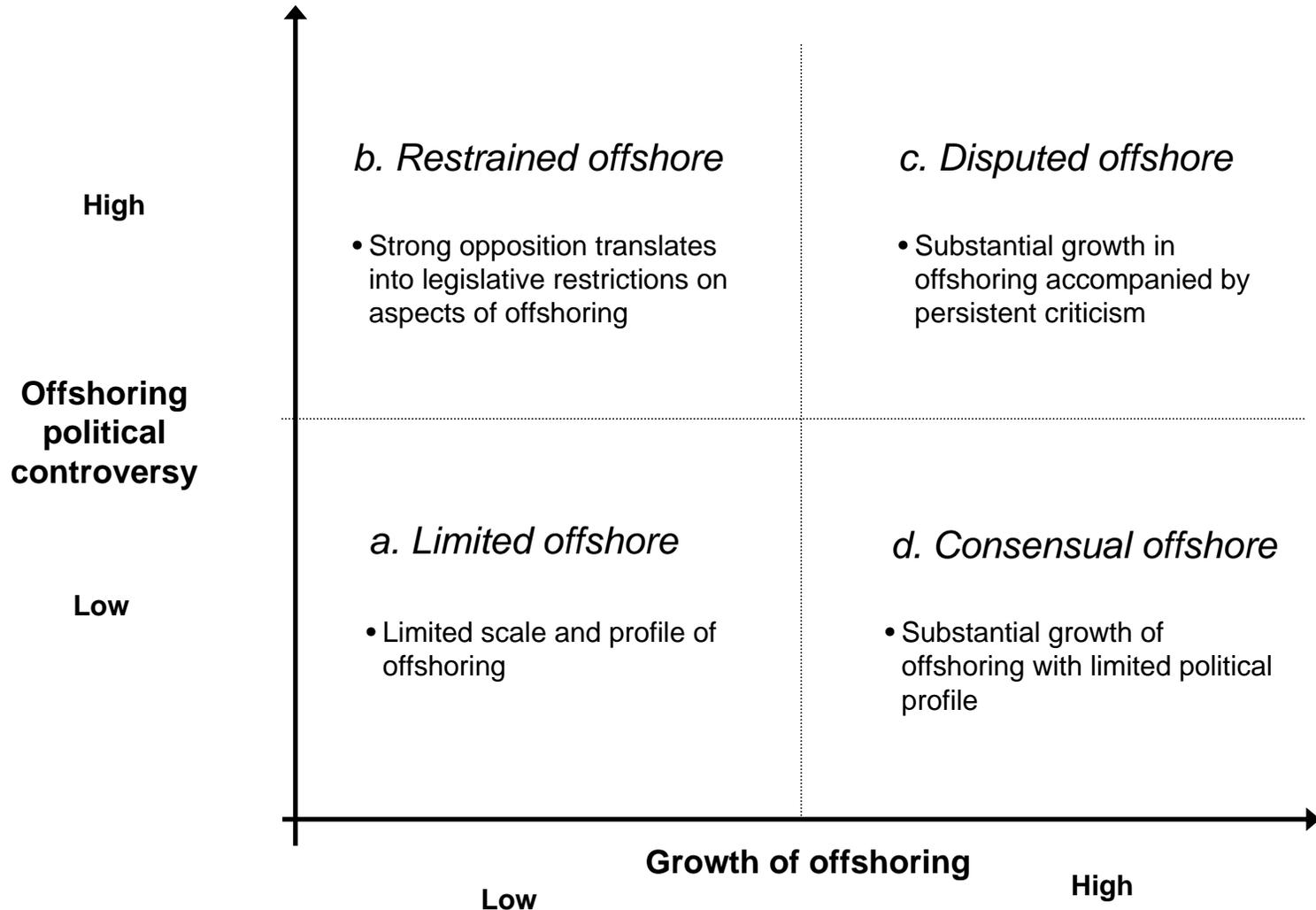
- **To what extent will offshoring be controversial? ('Political trends')**

'The anti-outsourcing demands will recede when people understand that it is not just about moving jobs offshore, but about saving jobs through increased productivity... the trend of outsourcing is irreversible'

v.

'Like it or not offshore outsourcing has a political dimension... whatever the numbers tell you'

4 offshore scenarios



Most 'business' trends appear to be driving growth in offshore

1. Range of services

- Offshoring is becoming applicable to an increasingly sophisticated range of service activities

2. 'Customer profile'

- The range of organisations using offshoring is becoming broader

3. Geography

- The geographic distribution of offshoring is becoming more broadly based

4. Substitutes

- Substitutes (such as automation or 'onshore') could erode some offshore growth

'Political' variables are to a large extent unresolved

1. Consumer values

- Consumer concerns about offshoring could grow

2. Labour relations

- Labour issues about offshoring remain hotly debated

3. Public policy

- Public policy dialogues are just beginning on national, regional and international levels

A few core issues will shape these political trends

The economic impact

- Positive cases for offshore have been articulated
- But questions remain unanswered - e.g.
 - *Where are the replacement jobs?*
 - *What retraining should be emphasised?*
 - *What about heavily impacted communities?*

Quality of service

- Offshore providers often use quality of service as a selling point (e.g. 'CMM Level 5')
- But perceptions of 'sub-standard' quality could mobilise consumer backlash

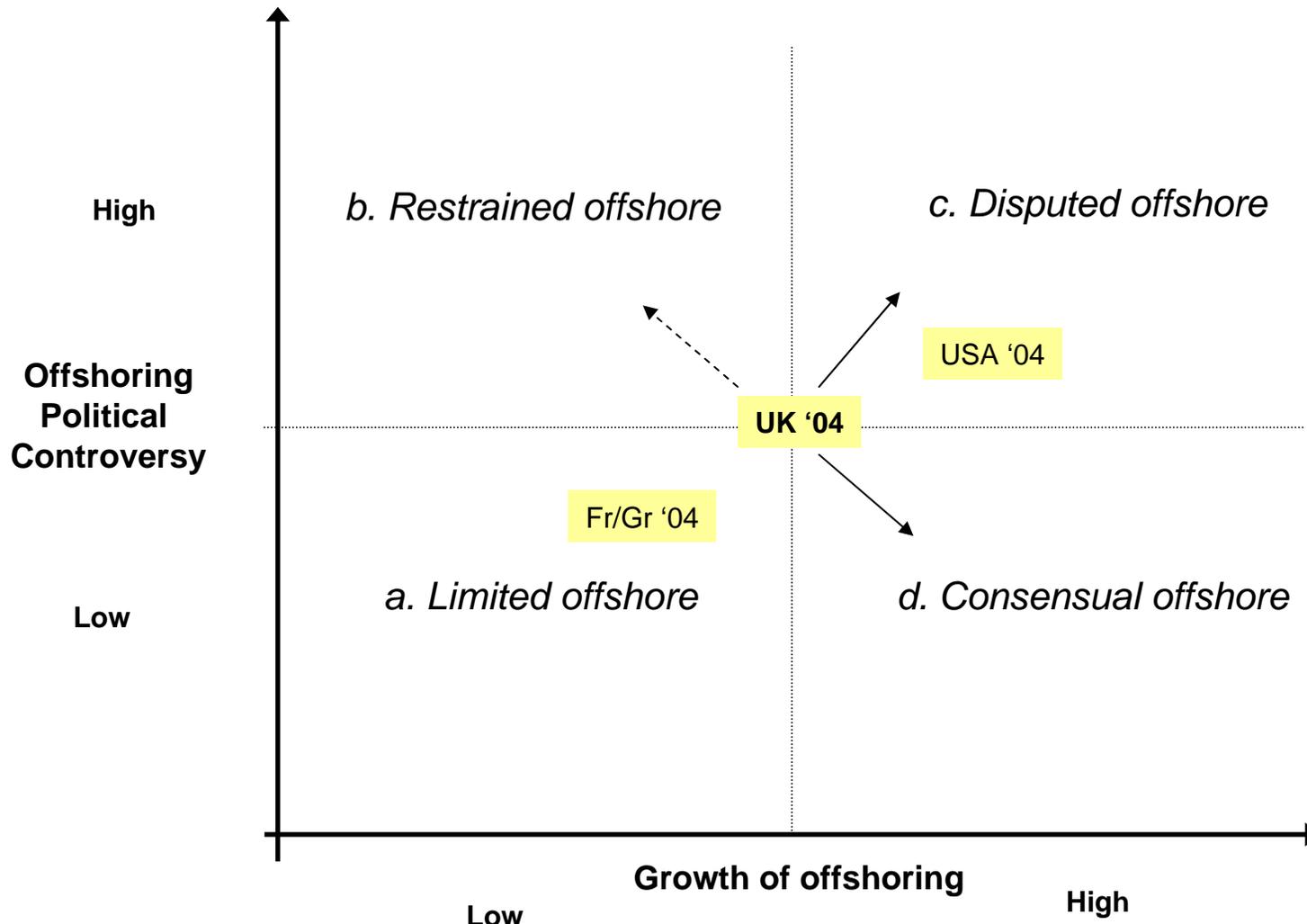
Operational integrity

- Offshore providers aspire to the highest standards (e.g. European Data Protection)
- But concerns about risks to data protection and security could promote legislation

Labour standards

- Offshore sourcing often relies on state of the art facilities
- But wage differentials or isolated cases of exploitation could fuel controversy

The future of offshore is not pre-determined



Moving towards consensual offshoring?

- **Business trends => Offshore is increasingly broad and complex**
 - Invest in detailed information gathering
 - Adopt a long-term perspective
- **Political trends => Controversy will persist until concerns are addressed**
 - Take stakeholder concerns seriously
 - Address the underlying issues
 - Provide clear articulation of offshore strategy
 - Ensure compliance of offshore activities

Appendices

Contact

- Please contact paul.morrison@perceptrs.com if you would like more information about Percept's insights or capabilities

Introducing Percept:

'Helping leading organisations to understand and manage emerging political, social and ethical issues'

- Major organisations are today confronted by a complex set of dangers and issues in the fields of politics, ethics and reputation.
- Corporate leaders need to be able to anticipate such issues and to develop practical strategies that also show integrity. Percept is a specialist advisory firm established precisely to assist in these tasks.
- Percept's core team and network brings together decades of high-level experience in business, government and international affairs.
- Percept provides clients with a combination of analytical **rigour**, **objectivity** and blue-chip **experience**.

Percept Biographies

Daniel Litvin is the Managing Director of Percept and author of “Empires of Profit: Commerce, Conquest and Corporate Responsibility”. He was formerly policy advisor to Rio Tinto plc, where he developed the company’s guidelines on human rights. Before joining Rio Tinto, Daniel was the environment and resources correspondent for *The Economist*. He was joint winner of Young Financial Journalist of the Year 1998 and short-listed for the World Bank award for the ethics of international business and also for the Greenpeace award for best business coverage. Daniel has an MSc with distinction in anthropology and development from London School of Economics (LSE).

Paul Morrison is Director at Percept Risk and Strategy, where he leads Percept’s Offshore Programme. Formerly a strategy consultant at Accenture, he has worked with blue-chip clients in the financial services, telecoms and high tech sectors on various aspects of business strategy. As part of the Policy and Corporate Affairs team, Paul Morrison worked on research on emerging business issues, such as the impact of technology, the anti-globalisation movement and terrorism on corporate strategy. He has a first class degree in history from King’s College, University of London, and a master’s degree in international relations from Cambridge University. Paul’s post-graduate research focused on globalisation and regionalization in the European IT sector.

Michelle Denton spent ten years in Washington, D.C. acting as senior staff to then Speaker of the House Thomas Foley. She then moved to the Clinton White House joining the Council on Environmental Quality where she worked on a variety of environmental issues and managed external relations with Congress. In 2000, Michelle joined the State of California’s London office and has directed the office’s business development programme. Michelle has an MSc in international political economy from LSE.

Thomas E. McCarthy was senior advisor to the UN High Commissioner for Human Rights between 1994 and 2000. Among his numerous areas of work and expertise during a total of 25 years working for the UN, he developed country-level fact finding procedures on human rights and carried out investigations in Africa, Asia, Europe and Latin America, most recently in East Timor. Tom has a long-standing interest in CSR and currently sits on the Global Diversity Council of the Volvo Car Corporation and on the International Bar Association’s CSR panel. Before joining the UN, Tom was director of studies at the International Institute of Human Rights in Strasbourg. He has a doctorate in law (JD) from the University of California, Berkeley and is a member of the California Bar.

Victoria Preston is a senior advisor to Percept (and also works as an independent consultant on resources-sector projects). She has been an advisor to BP for over 12 years, recently advising the oil company on complex reputational issues and corporate social investment in a number of high-risk developing countries. Her work for BP has included establishing and managing its cultural sponsorship programmes. Victoria has worked on projects in over 25 countries, and has an MSc in development studies from LSE.

Percept has a range of services to strengthen client's ability to *predict* and *pre-empt* emerging issues

1. Predict

Reputation health check	A rapid, rigorous appraisal of potential future reputational threats faced by a client company as a whole or by a particular business unit. Components: stakeholder analysis, media/web analysis, internal interviews, comparison with best practice, scenario development.
Issue spotlight	Provides insights into the likely future development of public and political pressures on a particular issue key to the health or reputation of the business. Components: stakeholder analysis, media/web analysis, scenario development.
Stakeholder monitoring service	Ongoing tracking of key activist groups/issues, providing clients with early warning of potential threats.
Non-financial due diligence	A review of issues involved in potential acquisitions which can help clients reduce the risk they are buying assets which are politically or reputationally compromised in some way.
Social impact analyses	Collaborating with local experts, Percept can produce SIAs for clients which - as well as signalling their general commitment to corporate responsibility - are genuinely useful in pinpointing potential future social pressures on the business.

2. Pre-empt

Strategic input	How should an understanding of likely future reputational and political pressures shape overall business strategy? Should exposure to particular markets/sectors/suppliers be reduced, while investment in others increased?
Policy development & implementation	Percept's advisors have experience developing policies – and tools to ensure they are implemented - in large, complex organisations and across a range of reputational issues.
CSR effectiveness	Percept can help clients focus their CSR efforts (such as the way they undertake sustainability reporting, for example, or partnerships, or stakeholder dialogue) so that these provide maximum protection for the corporate reputation, rather than just appeasing CSR activists.
Corporate positioning – and occupying the “issue space”	Percept can assist clients to develop positions, CEO-level communications, and also research in conjunction with credible third parties, in order to pre-empt criticisms and set the overall terms of the debate before activist groups do so themselves.