

Media coverage of offshoring and outsourcing: trends and key issues

An IBM white paper

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Introduction

Since the late 1990s, information technology and business process offshoring have become common among large public and private Australian corporations. However, despite the obvious business benefits of having work completed in international locations – not least the cost savings – boards continue to express concern over the impact of negative media coverage on their companies.

The biggest fear they have is damage to the company's reputation in the eyes of internal and external stakeholders as a result of transferring jobs offshore, even where this is done indirectly through another organisation. The purpose of this whitepaper is to investigate whether such fears are warranted, by studying trends in the way local and international media have covered the offshoring issue over the past five years.

Most of the evidence in this whitepaper was obtained through a comprehensive study of mainstream and business (predominately print) media coverage and other public commentary on offshoring since 2003. By distilling the significant findings and emerging trends, the paper offers insights into the challenges that face corporations in managing their reputations when contemplating or implementing an offshoring strategy.

Drawing on a range of media excerpts and a mounting body of national and international research on the subject, the whitepaper analyses the media's treatment of some of major corporate announcements on offshoring. It also draws attention to significant shifts in the tone of the coverage in recent years. It also provides a case study of a large Australian corporation, TruEnergy, which has faced media scrutiny over its offshoring plans.

The examples in this discussion paper have been selected to illustrate how media coverage and public perceptions of offshoring – and globalisation in general – has evolved and is evolving. Over the past five years, IBM has not only watched the offshoring story play out, but at times been the focal point of media coverage.

Back in 2004, for instance, IBM was the subject of intense media coverage over its contract with Telstra, which involved 450 jobs being moved to India. And earlier this year, the media reported on TRUenergy's agreement with IBM to have its IT services and back-office functions managed from Bangalore. In 2007, the international media reported on IBM's own plans to cut almost 1,600 jobs from its global workforce, primarily in its US strategic outsourcing services business.

Should IBM, or any other organisation, draw back from the benefits of an international resourcing strategy due to concern about such scrutiny? That is a question that each company or government body must answer for itself and according to its own unique set of circumstances. This paper is designed to assist in the assessment process.

Offshoring and outsourcing in context

Offshoring is where a company transfers ownership of a business process to a third party. It is different from contracting, where the company ultimately retains control over the process. Information technology (IT) and business process (BP) offshoring also typically involves organisations moving part of their operations overseas in order to save money or increase capacity.

In Australia, offshoring has typically been associated with the larger financial organisations, which have already outsourced certain IT and other back-office business processes to service providers in Asia and the Indian subcontinent. When it comes to 'services offshoring', the prime focus tends to be jobs in computer programming, back-office functions such as billing and processing and customer service, including call centre operations.

As the main destination for this work, India boasts a burgeoning IT and business-process outsourcing sector and an abundance of cheaper and qualified English-speaking labour. A September 2005 IDC survey, *Behind The Hype: Offshore outsourcing*¹, revealed that some 200 organisations from the BRW 1,000 list were planning to procure services from offshore locations within the following 36 months.

Offshoring has increased at a rapid pace due to advances in modern satellite and Internet technologies, better connectivity and the constant search for less expensive labour to drive profitability. The transfer of IT and other business processes to foreign countries is forecast to grow steadily over the next 20 years, and countries providing offshore IT capability through their leading suppliers are expected to capture a significant chunk of that market. Especially well placed are Indian companies, which according to Gartner netted more than half the world's outsourced IT work in 2004.

By outsourcing their back-office business processes to countries with lower labour costs or greater skilled capacity, such as India, China, the Philippines and Malaysia, companies hope to deliver better customer service and improve profitability from being able to deliver savings and focusing on their core strengths. A recent report suggests US firms have saved nearly US\$8 billion by outsourcing to offshore locations². Closer to home, the Australian lender with the most advanced offshoring strategy, ANZ Bank, is believed to be saving as much as \$50 million a year through its own facility in Bangalore, where it has more than 1,400 people handling its IT and account management.

The role of the media

A company's reputation among stakeholders is subject to many influences, but perhaps none as powerful as media coverage. The media is usually at the forefront of framing the debate on national issues which means it can often play a key role in building or damaging a company's reputation.

The issue of offshoring is no exception. The decision by companies to transfer part of their operations overseas can frequently set off a range of emotions at home, where the issue of globalisation has become a political 'hot potato' and offshoring still tends to generate fear and uncertainty over the future of onshore jobs.

Whether media coverage delivers a net positive, negative or neutral outcome for a company mainly depends on the angle developed in a news report – which is usually reflected in the headline, the opening paragraph and the 'share of voice' attributed to the company being covered.

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According to a February 2007 article in the *Harvard Business Review* called 'Reputation and its Risks'³, a company needs to secure at least a 50 percent 'share of voice' to ensure that the voice of its critics – for example trade unions – does not prevail.

How the media covers IT and BP offshoring is normally dictated by the particular media institution's core target market. Mainstream media has typically adopted a 'good cop, bad cop' approach to offshoring – pitting the greater good and national economic gains against the downside of ruthless profit-seeking businesses and job losses at home. The business-to-business (B2B) media, meanwhile, tends to be preoccupied with functional outcomes, such as whether offshore solutions actually work in terms of delivering the promised cost savings or information security outcomes.

It is surprising how few mainstream or B2B media channels have covered IT and BP offshoring issues over the past five years. The regional dailies tend to concentrate on local company issues, leaving broader coverage of globalisation and offshoring developments to the major metropolitan dailies: *The Age*, *The Sydney Morning Herald* and *The Australian*. Online and B2B publications such as *Computerworld*, *CIO* magazine and *The Economist* typically try to get beneath the headlines with more comprehensive coverage of the issues and more of a focus on industry research.

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Analysis of recent media coverage

A comparison of media coverage of offshoring between 2003 and 2007 illustrates a growing recognition of local and international research demonstrating that offshoring isn't the evil it is often made out to be. There is now sufficient research available to be able to temper union fears, for instance, about the magnitude of job losses directly attributable to offshoring. The media has begun to appreciate this, as well as the potential economic advantages of offshoring, and shifted away from highlighting the 'fear factor' towards portraying offshoring as a potential source of competitive advantage for individual companies.

An article that set the tone in Australia for coverage and debate on offshoring was Deirdre Macken's July 2003 piece in *The Australian Financial Review* entitled: 'What will the future leave at home?'⁴. In the article, Macken notes: "Offshoring is an expression creeping into conversations downtown, and while it sounds like nautical ambitions on a lazy Saturday afternoon, no one is feeling light and breezy about this term."

Interestingly, however, offshoring didn't make it into the mainstream national debate at the last federal election. Parliamentary library research under the heading, *Offshoring jobs: US and Australian perspectives*⁵, for instance, reveals that offshoring was mentioned in only 22 articles in major Australian newspapers during the 2004 election campaign (29 August to 9 October).

Media coverage of the offshoring debate in Australia started to gather momentum in 2003 after ABC television aired a documentary called 'Diverted to Delhi'⁵. According to the Australian Services Union (ASU), the documentary was responsible for retailer Coles Myer's decision to reverse its 1999 move to transfer its credit-card-processing operations to New Delhi from Melbourne. In the same year as the documentary, however, Hewlett Packard and Hutchison Communications both announced plans to shift some work to India.

Later in 2003, *The Australian* covered AXA Asia Pacific's decision to outsource work to the Bangalore-based software firm Wipro; an AXA spokesperson claimed that local Australian suppliers had not responded to the contract opportunity. Then in 2004, Telstra announced that offshoring moves by two of its multinational contractors, IBM and EDS, would see as many as 850 jobs transferred to India. In the meantime, Optus announced plans to shift 150 call centre positions, also to India, while Qantas said it would transfer 400 flight-crew jobs to London by June 2005. A *Sydney Morning Herald* editorial commenting on the Qantas decision took a basically positive line: "Moving more jobs offshore is inevitable and is to be embraced as long as it does not compromise safety, because it ensures the company's long-term viability."⁶

Since those announcements, at least five studies have examined the economic impact and broader implications of Australian offshoring. They show that while the practice has become *de rigueur* among cost-conscious businesses, experience demonstrates that it does not always deliver on those ambitious savings targets. On the other hand, initial fears over net job losses to a country have proven grossly exaggerated, helping to dispel the myth that offshoring necessarily means jobs flowing from richer to poorer countries.

The trade union perspective

The most critical and vocal opponent to offshoring by Australian companies has been the trade union movement, which tends to be portrayed in such coverage as angry, ready for battle and inherently confrontational. Unions have repeatedly relied on preemptive announcements as a way of increasing their 'share of voice' within any media coverage of offshoring. Their view, generally, has been that domestic job losses as a result of offshoring are necessarily bad for the country.

Whenever a media headline on the topic highlights the union or political angle, the company concerned invariably suffers from bad press. Moreover, rarely is reconciliation between employers and unions over time ever mentioned.

While general media coverage of offshoring has typically reflected a growing tolerance of the practice, the position of unions has tended to remain static, and they continue to deploy preemptive tactics. However, media coverage and public commentary has gradually shifted towards a more balanced approach. This may in part reflect the decline in the number of Australian workers with direct union links. Australian Bureau of Statistics (ABS) figures show, trade union membership has declined from 24.7 percent of all employees in 2000 to 20.3 percent in August 2006.

Beyond the headlines

Given the intense competitiveness of newspaper publishing, journalists, especially those on the dailies, tend to gravitate towards angles that support the best headlines. It is perhaps for this reason that mainstream media coverage of offshoring has traditionally portrayed workers as the victims – losing unskilled jobs to workforces in countries such as India.

However, a growing body of research has shown that offshoring is no longer an exclusively working-class issue, since today educated IT and professional back-office workers are also affected. Unsurprisingly, unions, industry associations and free-trade sceptics are drawing on this data to argue the case that white-collar jobs are now no longer immune from low-wage competition from abroad.

However, even quite early on in this particular debate media commentary began talking up the net economic upside. This is from the *Australian Financial Review* of 15 January 2004⁸: “The critics all misconceive the way the global economy works and exaggerate the threat to white-collar workers. Individuals do lose jobs when production or services are sent to low-wage countries. But the economy benefits by acquiring those products and services more cheaply; people and firms previously unable to afford them can now do so; and the savings are spent or invested in more jobs and production.”

Fear of job losses

A number of offshoring stories more recently have continued to emphasise the negative local job impact. A headline in *The Australian* on 25 October 2005, for instance, read: “Offshoring and layoffs spook students out of tech careers”⁹. The story, focusing on a new report, went on: “According to the report, the NSW University Admissions Centre shows first-preference applications to study IT in 2006 are down 17.3 per cent. ‘IT is just no longer sexy,’ University of Technology Sydney information systems associate dean David Wilson said.”

This sentiment was reflected a provocative article in America’s *Washington Post* newspaper on 22 March, 2006, which evoked similar fears over job losses. The headline asked: “Will Your Job Survive?”¹⁰. The writer, Harold Meyerson, argued that a good education was no longer the best defence against the ravages of globalisation. “If America is to survive American capitalism in the age of globalization, we need to alter the composition of our corporate boards so that employee and public representatives can limit the offshoring of our economy,” Meyerson wrote.

But according to Westpac chairman Ted Evans, this is not the way to look at it. *The Australian* on 22 May 2007¹¹ quoted him as saying that hiring more workers in cheaper offshore locations such as India was inevitable for Westpac and other large Australian financial institutions.

Australia – a net beneficiary

The business section of the 4–5 August 2007 issue of *The Weekend Australian* illustrates clearly, on the other hand, the media's growing willingness to balance the union stance when given substantive research supporting the view that Australia is a net beneficiary of offshoring. The most notable thing about the headline and opening paragraph of the following story, by Richard Gluyas, is that the union view is sidelined.

The headline reads: "Benefits from outsourcing belie 'alarmist' warnings of Australian job losses"¹². And the opening line is: "Warnings about massive job losses from offshoring are 'alarmist' with the nation a net beneficiary of international trade in the services industry." Gluyas draws on research by the Federal Parliamentary Library that suggests Australia has been a net beneficiary of the offshoring activities of other countries that have sent work to Australia. "In particular, the exports of computer and information services and other business services from 2001 to 2006 have grown at an average annual rate of 6.5 percent, or twice the rate of total service exports." Guy Woods from the Parliamentary Library concurs in the same story that this strong growth should have led to more employment within those industries.

Recent international media coverage also supports this conclusion. In its 26 July 2007 commentary, titled, "Outsourcing External affairs"¹³, *The Economist* had this to say about globalisation of offshoring: "Few providers expect the topic of offshoring to lose its political sting – despite plenty of evidence, including a recent OECD report on the subject, showing that it is not a big cause of job losses and has an overall positive effect. But the maturing of the outsourcing industry ought to mean that scaremongering about jobs flowing from rich countries to poor ones will sound less and less convincing." The same article backed up its case with the revelation that Wipro, one of the big three Indian providers (along with Infosys and Tata Consultancy Services), was close to reaching a deal with authorities in Atlanta, Georgia, to set up its first software-development centre in America.

Meanwhile, an article in *The Australian Financial Review* last July with the headline, "Global job migration myth, shares similar views"¹⁴, concludes that despite claims the explosion in Indian call centres would lead to massive job losses at home, figures show an increase in UK-based employment in the sector. This also seems to be the consensus view among economists. Findings published by *The Wall Street Journal* in March 2004 revealed that only 16 percent of 55 economists polled felt offshore outsourcing was a significant factor in the lack of jobs growth.

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Changing expectations

PricewaterhouseCoopers (PwC) research found its way into an *Australian Associated Press Financial News Wire* (AAP) piece on 13 April 2006 that had the headline: "Offshoring not all it's made out to be"¹⁵. It highlights how fast-rising salaries in some offshore countries, high staff turnover and cultural friction are making offshoring problematic. The article suggests there is a growing view that institutions have been overenthusiastic in their rush to send operations offshore.

The article continues: “A recent global PwC survey of 150 senior executives of financial institutions found half were dissatisfied with their offshore operations in low-cost locations, while nearly a third said costs had jumped in the first year.”

Those conclusions are consistent with findings in the 2004 Whitehorse Report by the Australian Computer Society (ACS). The report expected the offshoring component of Australian IT outsourcing to grow, but did not expect it to reach the high compound annual growth rates predicted by many industry analysts. Notably, the media’s coverage of The Whitehorse Report focused more on the conclusion that offshoring doesn’t necessarily lead to overall economic gains than on the report’s worst-case scenario projections of net job losses.

The *AAP* article illustrates growing media scrutiny of the potential economic gains of offshoring. It reads: “Financial institutions will be most reluctant to offshore key contact points with high-value customers to low-cost countries,’ PwC spokesman Codling said. He said while labour arbitrage delivers substantial savings, long-term gains can be realised by knitting a number of offshore centres into single, cohesive units. Those who get the most out of offshoring are likely to be those who put the most into planning at the outset and who look beyond the initial cost savings and towards leveraging a global talent base, Mr Codling said.”

An article in *The Australian* on 3 July 2007 headlined, “Offshoring results often disappoint”¹⁶, highlights results from the AT Kearney report showing that 60 percent of companies that offshore part of their operations have fallen short of performance expectations, while 34 percent have failed to meet cost-saving targets. It also found that savings from offshoring activities, such as call-centre work or transaction processing, were significantly lower than those from offshoring of more complex IT work or advanced business processes. “Companies that achieve the highest average savings have sent medium-complexity IT functions and advanced business process functions offshore,” says the article. “Companies generate greater savings if they own their own offshore service centre, as opposed to relying on a contracted provider.”

Competitive advantage

Shareholders of Australian companies will continue looking to offshoring to reduce their cost bases and maximise returns. However, while cost savings remain a prime motivation for offshoring, recent media coverage suggests that finding skilled workers is increasingly a close second. After a recent series of roundtables with local IT executives, *CIO Australia* columnist Peter Hind questions whether offshoring was ever really about cost saving. In a 6 March 2007 comment entitled, “A Shore Thing”¹⁷, Hind points out that many Indian offshore vendors have abandoned their cost-savings sales pitches and now embellish their service capabilities and availability of certain skillsets.

The article reads: “In this regard there was strong concurrence with the offshoring rationale of St. George Bank CEO Gail Kelly, who described her motivation as ‘competitive advantage’. To the delegates this did not mean doing it cheaper. Instead, this was about agility of response. In a turbulent and uncertain market they understood how offshoring gave the bank the ability to resource up or scale down depending on the circumstances.”

An article published in *The Australian* back in May 2005 featuring Egde Zarrella, KPMG’s lead expert on offshoring, titled: “SHHH! Offshoring – the CIO’s dirty little secret” highlighted similar conclusions. “Zarrella warns the boards he advises that offshoring is about more than cost. He worries that Australia will not have enough young workers in the long-term to sustain the sort of development work its larger corporations need.”

From fear to balance: how media coverage of offshoring has evolved

Early headlines

10 February 2004, *MATP*

Unions to battle offshoring

Australian Computer Society president Edward Mandla calls offshoring "the mother of all IT issues", and it is certainly driving change, as lobby groups and major union's band together to make it an election issue...

27 July 2004, *The Australian*

Union hits out over offshoring

The Community & Public Sector Union (CPSU) has outlined concerns regarding Australian telco Telstra's redeployment plans...

22 July 2005, *The Age*

Outsourcing carries unrealistic hopes, Deloitte research

Many companies are overestimating the savings from outsourcing - which can involve shifting jobs offshore - while underestimating the task of managing outsourced contracts...

28 November 2005, *The Age*

Union slams ANZ on job exports

The Financial Services Union has begun meeting employees of ANZ Bank throughout Melbourne in expectation that the bank will send as many as 1100 jobs to Bangalore in the near future...

More recent headlines

3 March 2007, *Hobart Mercury*

ANZ looks at more 'offshoring'

ANZ chief executive John McFarlane says the bank has experienced its strongest revenue growth in its history...

13 March 2007, *AAP Bulletins*

NAB may ship hundreds of jobs overseas

The National Australia Bank says hundreds of bank jobs in Melbourne could be shipped overseas if a review reveals that it will provide the best value for money...

12 May 2007, *The Courier-Mail*

Banking on Asia to grow

Australia's top banks may need to look to Asia for revenue growth and to cut labour costs through offshoring, a leading analyst said yesterday...

12 June 2007, *Australian Financial Review*

It's CBA's turn to go offshore

The trend for offshoring back-office functions looks set to continue, with the CBA expected to join National Australia Bank, Australia and New Zealand Banking Group, Qantas and Telstra in shifting their tech operations to India...

10 July 2007, *Australian Financial Review*

Global job migration myth

Claims of white collar job losses due to outsourcing to low wage countries such as India have been debunked, according to research by Britain's Work Foundation...

4 August 2007, *The Australian*

Australia has 'benefited' from offshoring

Warnings about massive job losses from offshoring are "alarmist", with the nation a net beneficiary of international trade...

TruEnergy – a case study

The extent to which Australian media coverage of offshoring has shifted is illustrated by the recent treatment of gas and electricity supplier TRUenergy's offshoring plans. The plans, which involved TRUenergy possibly moving its Melbourne-based back-office operations to India or Bangladesh, were leaked earlier this year by the Australian Services Union (ASU). On 26 March 2007, the day after the leak, the local media carried articles confirming that TruEnergy was indeed contemplating offshoring.

There was a stark difference in the tone of the media coverage this story generated, compared with how it might have been covered a few years ago. Most importantly, it lacked the inflammatory sentiment that back in 2004 would have earned unions ownership of the headlines and a much bigger share of voice. This suggests that while unions will undoubtedly continue to try and preempt company announcements on offshoring, the strategy is likely to prove far less effective than five years ago.

TRUenergy certainly helped matters by its transparent response, which was to swiftly and frankly admit that offshoring was likely – despite not having all that much to disclose. *The Herald Sun* covered the announcement in an article on page 24 with the sober headline: "Energy jobs to move". It started: "Accused by a union of planning to send hundreds of Victorians' jobs offshore, TRUenergy has confirmed that it's reviewing it operations in the state."

The article continues: "TRUenergy did not rule out the move as a spokeswoman said a review of its Australian operations was under way and would not be completed until the latter half of next month. 'In the event that we do go down this path, everyone would be paid their full entitlements and we have been very clear about that with our employees,' said TRUenergy spokeswoman Kate Shea."

An AAP piece on the same day was headlined, "Energy Company TRUenergy confirms offshore move is on the table". Far from declaring a call to arms, the AAP story simply quoted the ASU's assistant secretary as saying: "They should reconsider this move which will leave hundreds of Victorian workers out of work and will lead to diminished services to customers." When *The Whittlesea Leader* picked up the story two weeks later in a piece headlined "Offshore job move outrages our MPs", the union's position was barely mentioned. In fact, the article revealed that contrary to union fears, only 200 jobs would be lost as the result of a 10-year agreement to outsource all billing, IT, credit and registration management to IBM.

Moreover, in a *Computerworld* article on 10 April on the same subject, TRUenergy's managing director Richard McIndoe was given the opportunity to explain the plans in detail. He was quoted as saying: "Outsourcing these functions will improve TRUenergy operating systems, enabling the business to maintain competitive prices for customers. This initiative will also provide TRUenergy with increased flexibility and efficiency in offering customers a wider range of choice in meeting their energy requirements."

Conclusion

A review of recent media coverage shows a shift in reporting of offshoring over the past five years. Most notable in the more recent coverage is a greater degree of balance between concern about domestic job losses and potential gains for companies and the wider economy. Another key development is that instead of embedding union sentiment in the headline, the media's coverage of the union position is frequently placed much further down in the story.

The media's treatment of offshoring issues will never be consistent. However, the more emotional and sensational headlines of the type chronicled above now appear less likely to dominate reporting of the topic in the future. This is especially so if corporations can learn to become more transparent with stakeholders when communicating their reasons for offshoring.

More balanced media coverage of offshoring also points to a mellowing in public perceptions regarding the practice. Much of the softening can be attributed to the growing data suggesting that Australia is a net beneficiary of outsourcing, with countries like India able to provide technology outsourcing at 30 percent of the cost in Australia.²⁴

Moreover, the growing realisation that jobs do not necessarily flow from richer to poorer countries has served to counterbalance fears that white collar workers, too, will inevitably become casualties of globalisation. The media is also beginning to deliver the message that offshoring is more than a 'cost-sum game'. Cost-cutting aside, it's generally recognised now that offshoring helps organisations remain competitive in a fierce global labour market.

Given many corporations plan to use offshoring either to contract or expand their organisations, media coverage of the topic is unlikely to disappear. At the same time, we can expect more media scrutiny of whether offshoring is actually delivering on its promise of lower charges to consumers.

Based on these observations, we expect to see the following trends in media coverage of the topic:

- The media will focus more on the economic justification for offshoring.
- The unions' 'share of voice' in offshoring media stories based on pre-emptive announcements will continue to diminish, although their opposition to the practice is likely to intensify, especially in the financial sector.
- The practice of offshoring is likely to be portrayed more favourably as the media becomes less interested in the domestic employment perspective.
- Offshoring will become less of an embarrassing term as its strategic role in cutting costs and increasing service capability is more widely appreciated.

Notes

¹ Behind the Hype: Offshore outsourcing, IDC, Sept 2005.

² FooBooOnline.com.

³ Reputation and Its Risks by Robert G. Eccles, Scott C. Newquist, and Roland Schatz, *Harvard Business Review* • hbr.org • February 2007.

⁴ What will the future leave at home?, *Australian Financial Review*, 12 July 2003.

⁵ Offshoring jobs: US and Australian perspectives, Research Brief no. 12 2004–2005, Parliamentary Library.

⁵ Diverted to Delhi, *ABC* television documentary, 2003.

⁶ Still calling Australia home, *Sydney Morning Herald*, 20 August 2004.

⁸ More gained than lost in offshore, *Australian Financial Review*, 15 January 2004.

⁹ Offshoring and layoffs spook students out of tech careers, *The Australian*, 25 October 2005.

¹⁰ Will Your Job Survive?, *Washington Post*, 22 March 2006.

¹¹ Westpac jobs to India Inevitable, *The Australian*, 22 May 2007

¹² Benefits from outsourcing belie 'alarmist' warnings of Australian job losses, *Weekend Australian*, 5 August 2007.

¹³ Outsourcing External affairs, *The Economist*, 26 July 2007.

¹⁴ Global job migration myth, *Australian Financial Review*, 10 July 2007.

¹⁵ Offshoring not all it's made out to be, *AAP*, 13 April 2006.

¹⁶ Offshoring results often disappoint, *The Australian*, 3 July 2007.

¹⁷ A Shore Thing, *CIO Magazine*, 6 March 2007.

²⁴ Australia Offshore Outsourcing Survey, IDC, 2005.