

# Offshore outsourcing 'not always a negative thing'

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As the Royal Bank of Canada faces stinging controversy over outsourcing jobs, some small business owners say that the strategy is key to their survival in Canada.

At the same time, the debate unleashed over RBC's actions has also drawn attention to the question of balancing those economic needs with the social responsibility business owners might have to provide jobs for Canadians.

According to some Canadian entrepreneurs, in order for a domestic business to grow, it has to capitalize on efficiency, and that could very well involve looking outside the company and sometimes going abroad for workers.

*'Outsourcing will not go away because the economics behind it are so well-established.'*

*—Ron Babin, professor of business at Ryerson University*

Mario Zelaya, who runs Majestic Media, a Toronto marketing and technology agency, says being in charge of a risky startup left him with very few financial options in terms of whom he could hire.

Although the company's strategy development, sales and client meetings take place in Toronto, the technological innovation and creative work are done in Argentina, Costa Rica, Venezuela and Poland. Four people, including Zelaya, work in Toronto, approximately 15 people work for the firm in Latin America and another six work for it in Europe.

"Originally when I had got started, I was the only employee in Canada, but now I have project managers, I have marketing people, I have sales staff here in Canada," Zelaya said.

For Zelaya, it was always a matter of affordability — of paying less for the cost of production somewhere else and thereby getting a higher return for it.

"I can't afford a quarter million [dollars] to pay a creative director; I can't afford a million to have 10 engineers. But what I can do is afford hiring them externally and still have them be of the same quality."

Zelaya says having the majority of his technology-based work done at a lower cost through outsourcing enabled him to grow his business to the point where he could hire Canadians as well.

Offshore outsourcing "is not always a negative thing," he says.

"When people say that hiring people overseas is costing us millions of dollars here, it's not, because these are jobs that I could have never have been able to offer in Canada. I never would have been able to scale the company to where it is right now if I hadn't made those decisions early on."

## Maximizing efficiency

Ray Lavitt, president and CEO of CORE, a Canadian not-for-profit company that helps organizations find ways to outsource, says that companies do it — whether locally or by going offshore — for a variety of reasons.

"Perhaps it's to solve a particular business problem, trying to reduce costs, maybe trying to enhance their own market competitiveness nationally or globally," Lavitt says.

"It's thinking that an external company can do [that particular job] more cost-effectively than what a company can do

for itself."

Ron Babin, a professor of business at Ryerson University and the Ted Rogers School of Management in Toronto, says reasons for outsourcing boil down to lowering costs.

Much of the time, outsourcing offshore can lower the costs by about 30 to 40 per cent, he says.

"That's the economic driver, the motivation to outsource," he said.

## **Hub specialities**

In some instances, various business specialties have developed in specific countries or locations. India, for example, has taken centre stage as a hub for new technologies.

There's also the matter of labour and wage arbitration; workers in other economies are paid according to a significantly lower market rate and thereby save Canadian entrepreneurs a lot of capital, Babin says.

Zelaya says that it's not a matter of Canadian engineers and technology experts not deserving the higher remuneration they often demand or expect because he agrees they "do excellent work." Rather, for him, it's a matter of what a new business can afford to pay and still grow.

Babin says outsourcing became more prevalent during Y2K, when companies needed a lot of technically skilled people very quickly to cope with anticipated computer software problems as the year 2000 approached and they didn't have enough employees with the needed skills at home.

He also doesn't expect it will disappear.

"Outsourcing will not go away because the economics behind it are so well-established and it flows like water over the internet anywhere in the world within seconds."

## **Responsibility at home**

In an open letter, RBC CEO Gord Nixon apologized to any bank employee affected by outsourcing and promised them "comparable job opportunities within the bank." He also said RBC will invest in more jobs for young Canadians.

Babin says that Nixon's actions are a good step toward the bank being more responsible for creating jobs in the Canadian landscape.

While Canada needs domestic businesses to be as efficient as the ones they compete against both locally and globally and outsourcing is needed for profitability; companies must also balance social responsibility, he says.

"We must take care of our citizens, we must take care of our income earners, our wage earners, working people, because we are the ones that pay the taxes, we're the ones that support families and the economy and the government."

Still, for entrepreneurs like Zelaya, hiring more Canadians comes as a result of the success outsourcing has allowed them to achieve.

"It's a fine line of finding the right balance for what works for your company," Zelaya says.