

The debates on offshore outsourcing in america



Outsourcing has provided growth to United States corporations and has allowed these corporations to reduce costs and compete more successfully in the global markets. Corporations are saving billions of dollars by replacing American employment with outsourcing to foreign countries at a much lower wages. In the meantime, workers who once made a middle-class living are now being forced to find different types of employment, and live with less money in their wallets. In the twenty-first century, the debate on outsourcing white-collar jobs to low-wage developing countries has picked up significantly. The general assumption is that jobs, money, skills, and experience are being exported to foreign countries, while the American people are losing jobs, money, skills and experience. America's economic future is at risk due to jobs being outsourced to other countries.

What is outsourcing?

As simple as this question might seem, most people do not truly know and use assumption to what outsourcing means. When the average person hears the word outsourcing, it is presumed that an American company is outsourcing an American job to a foreign country. This is not necessarily true; outsourcing simply means a company that contracts with another company to provide services that might otherwise be performed by in-house employees, regardless if it is being done by a company in the same country, or outside of the company's country. Words that are commonly used in place of outsourcing are sub-contracting, flexible staff, employee leasing, and offshore. This report is focusing on offshore outsourcing. (Johnson, 1999)

What is offshore outsourcing?

Offshore outsourcing is when a company contracts with another company or person overseas to provide services that could be performed by in-house employees. Although offshore outsourcing is very close to the same implication of outsourcing, it is very simple to see how people can get confused over the explanation. It's hard to believe, but even the media confuses the two terms. Take for example a recent article published by Business Week: Pakistan, A Popular Outsourcing Destination? This article talks about how Pakistan is becoming a popular destination for companies all over the world to outsource to. Not once in this article does the author refer to offshore outsourcing, even though that is what the article is truly about. (King, 2009)

The most common departments that are off-shoring outsourced within a company are Customer Support/Call Centers, Accounting, Human Resources, Manufacturing, legal and IT. These departments are the core departments of any corporate business, but really offshore goes further than the corporate office. Realtors, Oilfield labors, computer programmers, welders, shipping and receivers, and the list continue. The more companies research and find cheaper labors in other countries the more different types of American jobs are going oversea.

The single most important tactical reason for outsourcing is to reduce or control operating costs and increase profits. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. Foreign countries offer the talents of a college-educated workforce at a fraction of U. S. salaries. Partnering with an organization with

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world-class capabilities can offer access to new technology, tools and techniques that the organization may not currently possess; more structured methodologies, procedures and documentation, and a competitive advantage through expanded skills. Competing corporations are outsourcing operations offshore to have the cost advantages over the market and to free up management resources. Although outsourcing has achieved cost savings and has been used to enter key foreign markets, these benefits may not outweigh the long-term impacts on U. S. industries and the economy.

Large companies such as American Express, Microsoft, Dell, IBM and SAP all offshore outsource to India. All of these companies are very successful and all have excellent profits. When searching on offshore outsourcing India, there are thousands of articles that claim there is a reduction of at least 40% or more in cost and great quality. There are three main reasons that can be accountable to offshore outsourcing to India: 1. Labor - Wages are much lower than American wages, 2. Capital - Infrastructure costs are lower in India than America, and 3. Labor Management - Outsourcing enables companies to do-away with the expenses on bench labor, as the outsourcing vendor allocates the bench employees to projects for other clients or bears the cost of inefficiency. (Kobayashi-Hillary, 2005)

International Business Machines (IBM) is well known for off-shoring their American jobs and helping other American companies to find employees overseas. IBM provides off-shore consultants to deliver highly quality services with lower hourly costs, which reduces operating costs and increases profits for the American company. Although the American company is benefiting from this service, the American people are losing their

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employment to other countries providing the same services an American provide the company. (IBM, 2008)

According to Alliance@IBM CWA Local 1701 (IBM union), IBM has laid-off approximately 10, 000 jobs in American since the beginning of this year. According to IBM's annual reports, IBM employed the following in the US: 2006 - 127, 000, 2007 - 121, 000, and 2008 - 115, 000. IBM 2009 annual report will not be out until late winter, but Alliance is predicting that 16, 000 American jobs will be lost in 2009. While Americans are losing jobs, other nations such as India employment has been increasing. According to IBM's annual reports in 2007 to have 98, 000 employees in Brazil, China, India and Russia, by 2008 employment overseas increased by 15% to 113, 000, mostly in India. (Thibodeau, 2009)

According to United States Department of Labor, from 2006 - 2016 employment for computer programmers will decrease by 4 percent. In 2006 computer programmers held 435, 000 in American, by 2016 the projected jobs to be held is 417, 000. One factor that will cause 18, 000 jobs to be lost is offshore outsourcing. Computer Programmers are at much higher risk of having their jobs because this job function can be done from anywhere in the world. With today's technology, companies can transmit their programs digitally to anywhere in the world and take advantage of foreign countries lower wages. (Computer Programmers, 2007)

“ Every year India produces around 2. 5 million university graduates, including 400, 000 engineers and 200, 000 IT professionals. It is estimated that India has 28% of the world's IT offshore talent. The cost of an Indian graduate is roughly 12% of that of an American one.” These are just a few of

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the advantages that India brings to the market, which is why the offshore outsourcing boom continues to grow. This is one of the reasons why American students are not majoring in these fields. Young adults have the assumption that IT jobs are sooner or later going to be sent overseas, so there is not point on getting an education in these fields. (The Economist, 2006)

The fear of offshore outsourcing is striking a chord with America's future employees. Recently, the education system has seen shifts in college enrollment, as college students have begun to shun high-tech fields like computer science and even engineering. With the lack of stability in these fields students are concerned that their jobs could eventually be outsourced internationally and are therefore deciding to focus on their business skills. The war for talent is at its fiercest in high-tech industries which poses a threat to the future of the American technology industry and the overall economy. American companies may be forced to consider outsourcing not only to save costs, but due to lack of local talent. Studies have shown that the proportion of incoming undergraduates planning to major in computer science is now 70% below its peak in the early 1980s. (The Economist, 2006)

High-tech, white collar jobs are being transferred to foreign countries which limit opportunities for highly educated Americans. The U. S focuses so much attention on higher education yet people cannot put their skills to use if their job is outsourced. " When manufacturing jobs started moving overseas in larger numbers, American workers were told by free trade ideologues not to worry, that the U. S. comparative advantage was in services—especially high-tech and other knowledge-based industries. Displaced workers were

told to simply acquire better skills and more education in order to succeed in the changing American economy. Many workers did, but now they find that knowledge and talent can't compete against the chase for higher profits and cheaper labor in the new global marketplace." If Americans decide not to invest in their education, companies will mitigate their chances of sustaining a strong knowledge-base within the U. S. and induce the risk of international spillovers. (Dobbs, 2004)

According to the Bureau of Labor Statistics between 1979 -1999, Thirty-six percent of employees who lost their jobs to outsourcing found jobs that matched or increased their wages. Although Twenty-five percent of workers were able to find employment, their wages were thirty percent or more decrease in wages. "' These concerns are real and need to be addressed," says Diana Farrell, the director of the McKinsey Global Institute. But she argues that rather than trying to stop offshoring—a practice that she argues increases wealth in the U. S. economy—" leaders should focus on its distribution and help workers who are disproportionately hit.'"(Otterman, 2004)

" The \$50 billion-a-year offshore outsourcing business was growing at a 29 percent annual rate until the credit crisis hit last fall, Mr. Bourgeois said. But he now forecasts growth in 2009 to be about 10 percent." And according to Forrester Researcher Inc offshore outsourcing will increase 17 percent annually from now through 2012. That is a possible 10 - 17 percent increase in the already high unemployment statistics. With the possibility of more companies looking at offshore outsourcing, the better chance the

unemployment rate will stay around 9%, or even increase in the next few years (Lohr, 2009).

Highly paid jobs are being moved to foreign countries at an increasing rate. 500, 000 financial jobs and 200, 000 engineering jobs are being relocated yearly overseas. That is approximately 54 million square feet of office space vacate. Approximately 8, 500 manufacturing plants are being closed each year. These are American jobs that should be staying in America, who would ever have thought these types of jobs would be moved across seas? China and India will soon be the world leaders in manufacturing and technological. (Pollina Ph. D., 2005)

US President Barack Obama has proposed new tax laws that would affect American Corporations that operate operations abroad by disallowing deductions for various offshore business expenses; this tax law still needs to be approved by Congress. The new tax law, if approved, is aimed at providing tax cuts to companies that keep employment in America, and give higher taxes and removal of tax benefits to companies that outsource to other countries. President Obama is trying to keep jobs in America; many analysts do not believe this new tax law will slow down or stop offshore outsourcing. Companies are offshore outsourcing because costs are anywhere from 40 to 70 percent lower in foreign countries. (Srivastava, 2009)

Corporate America should start “ thinking out-side the box” and finding alterative ideas to off-shoring. It is true companies are saving money and having an increase in profits by off-shoring, but this does not help the

average person needing to pay the bills. By looking at colleges in the area and hiring newly graduated students. Graduated students are inexperienced and do not require a high wage, they are looking for experience. By hiring a graduate, this provides the person experience, the company is paying a low wage, and the job is staying in America. People who are on assistance are another area to look into. By teaching a person a new skill, this takes them off assistance, provides them experience, and again keeps the job in America.

Extensive growth in the practice of offshore outsourcing has raised a number of political and social concerns. On one hand, it helps in creating new employment opportunities within offshore country but on the other hand, it results in cutbacks for white collar jobs within America. In addition to this, it also raises issues pertaining to the quality and confidentiality of specialized and sensitive work that gets outsourced to a foreign country. Offshore outsourcing of jobs, especially white collar jobs to India has emerged as one of the hottest issues in the United States.

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