

Outsourcing Affects on American Business and My Job



Note: image from (Motif, 2003)

Kevin Davidson
MBA 595
Research Paper
October 8, 2005

Executive Summary

In today's competitive business environment, survival of the fittest rules. Businesses in order to survive have to lower costs. If American companies cannot control their costs, their profit margins will shrink dramatically. In the worst case, the company goes out of business because of the lack of cost control. One of the hottest cost containment debates is whether a company should outsource or not? It is a political debate that has negative connotation for American workers who have lost their jobs or are in jeopardy of losing them. Business Process Outsourcing (BPO) is a \$6 trillion global industry that involves thousands of companies and millions of employees. BPO allows managers to transform their organizations for the better. On a global scale, companies may create a more flexible organization structure that is adaptable, employing the best minds around the world to innovate and slash labor costs (Corbett, 2004). It is personal as well as global. Each worker has to consider whether his or her job will survive. My decision is to upgrade my skills in areas that are impossible to outsource.

Introduction

In this paper, I seek to investigate the impact of outsourcing, first, in general and later upon my own employment. My research questions are:

1. How does outsourcing affect the job I am in and my future opportunities as well?
2. Should my present firm, RP Design Web Services outsource?

To do this, I will define outsourcing and focus upon industries that outsource. In addition, I will address the economics of outsourcing and how outsourcing affects my job. Also,

I will investigate where companies outsource. In addition, the future of outsourcing will be addressed as well as outsourcing the winners and losers. Finally, I will offer recommendations.

What is outsourcing?

Outsourcing may be defined as the delegation of tasks or jobs from internal production to an external entity. “Outsourcing is the act of transferring some of an organization's recurring internal activities and decision rights to outside providers, as set forth in a contract” (Greaver, 1999). For example, a subcontractor is a traditional form of outsourcing. Recently, it has come to imply the migration of native staff work to overseas locations where salaries are substantially lower.

Outsourcing involves management giving control to suppliers. Electronic Data Systems (EDS), founded in 1962, specializes in managing information technology for other companies. EDS would sell the information technology that companies need and in return, the companies pay a monthly for the service with a minimum commitment of two to ten years. In effect, companies lease non-critical business experts from another organization (Wikipedia 2005).

Outsourcing involves hiring another company to manage certain operations such as data processing. Outsourcing companies take on a range of data processing for small businesses, handling desktop applications, integrated systems with vendors, customers, or backing up data remotely. Payroll is the most common form of outsourcing and companies such as ADT or Paychex perform this service (Business Week Online 1998).

An early controversy occurred in the 1980s between American car producers and the autoworkers unions. The union feared that auto producers were going to purchase an increasing number of components such as window cranks, and seat fabrics from nonunion, foreign suppliers (Taylor, 2005). Today, outsourcing is a driving force in American business that affects white as

well as blue-collar workers. It may not actually be beneficial, especially when the decision to outsource affects an executive, knowledge worker. Outsourcing knowledge jobs may adversely impact a company's future so business needs to carefully decide what job to outsource.

There was a time that outsourcing was largely limited to IT. Today outsourcing affects other knowledge workers including telemarketers to tax preparers, radiologists to market researchers. Outsourcing remains the number one problem for US IT organizations. In looking at the productivity and efficiency of the computer industry, many Indian firms are CMM level-5 certified. American programmers are not. Is it better to buy cheaper code produced in Bangalore and Mumbai? It is hard to find answers to this question. Nonetheless there is the perception that the Indian firms are more productive and efficient than US ones so thousands of jobs are being sent there each month (Yourdon, 2004).

The rise of globalization has led many companies to outsource. For some businesses processes such as support and development are being completely outsourced as management looks for the least expensive labor source. For example, companies like IBM, Microsoft, Hewlett Packard, and Novell pick countries like China, and India for development and support jobs. Today with the Internet, small businesses can also outsource projects to offshore developers at minimum cost (Wikipedia 2005).

Outsourcing became more of a common practice after the dot-com crash. During this period businesses struggled with cash flow since investors were leery to invest money in high tech companies. Companies looked for less expensive avenues for development and support. US companies looked at India as a perfect spot for obtaining talented workers who can speak English and cost less: an India engineer works for \$10,000 a year compared to the US cost of \$60,000 to \$90,000 a year (Wikipedia 2005).

External suppliers are turning to strategic outsourcing for everything from payroll to facility management. The objective is better quality at lower costs. Unfortunately, the results are often disappointing because the buyers lack a clear understanding of outsourcing. There are seven identified steps to strategic outsourcing.

1. Planning initiative.
2. Exploring the strategic implications.
3. Analyzing cost versus performance.
4. Selecting the providers
5. Negotiating terms
6. Transitioning resources.
7. Managing the relationships (Greaver, 1999)

Also there are certain checklists to look at before outsourcing.

1. Response time. How fast will the outsource company respond to a customer's request? If there is a problem, how quickly will be fixed? Also, the procedure for identifying and resolving breakdowns needs to be stated.
2. Disaster recovery. Make sure that the outsourcer provides a written plan detailing backup and switch over plans if the primary data is unavailable in the event of a natural disaster or other damage.
3. Confidentiality. The agreement needs to state that business data and information will not be shared with other clients of the outsourcer. In addition, the data should be secure and safe to prevent intruders. Safeguards need to be in place to prevent this occurrence.

4. Software licenses. There must be a software license that operates on behalf of the business.
5. Termination. The contract should clarify termination procedures. It should spell out conditions under which either party can get out of the contract. An orderly process is needed by which operations can be returned to the business or transferred to another outsourcing firm, upon termination
6. Partner in revenue-enhancing technology without incurring up-front training and equipment costs.
7. Do research when selecting an outsourcer because a poor arrangement results in delayed operations, unhappy customers, and significant costs (BusinessWeek Online, 1998).

Outsourcing becomes strategic when it is properly aligned with the organizations long-term goals. Monitoring outsourcing benefits over several years to determine whether the results are positive or negative is significant for organizational health (Greaver, 1999).

Industries that Outsource

The outsourcing of information technology and high-end manufacturing is not new for the US companies. For example, IBM, EDS, and Accenture built their businesses on outsourcing. In 1989, Kodak outsourced all of the IT to IBM and 1994; Xerox outsourced all of the IT to EDS. The US government outsourced in early 80's to CSC. The reason for outsourcing is to reduce capital expenditures, operating costs, while accessing competence, and focusing on the core departments. US multinationals have offshored work to overseas manufacturing, research and development facilities in semiconductors, computing, chemical, and pharmaceuticals to UK, Germany, France, and Ireland and recently to China and India. This has

been going on for over 30 years. Companies such as Flextronics and Solectron developed their business on outsourcing high volume electronics, which were manufactured by US firms. Today outsourcing to specialized vendors and offshoring is an acceptable practice (Prahalad, 2005). Companies such as IBM, Microsoft, Novell, Oracle, AT&T, Fujitsu, Motorola, Digital, Hewlett-Packard Philips, General Electric, IBM, Reebok, Fujitsu, British Aerospace, General Motors and Sears outsource to India for competitive advantage (Outsource 2 India, 2005).

Many companies such as Coca Cola, Proctor Gamble, and Texas Instruments already do most of their business overseas and employ most of their workers outside the U.S. There are American brands that are owned by non-U.S. companies. Examples of non-US owners are Unilever owns Hellmann's mayonnaise, and BV California wines are owned Diageo. Also, many products of US companies are produced over seas such as Maytag refrigerators that are no long manufactured in Galesburg, Ill. Now Maytag refrigerators are made in Mexico. Another example is a Dell laptop. A Dell laptop maybe assembled in Malaysia and the parts made by American companies in Thailand (Colvin, 2005).

Wachovia is outsourcing work to US and overseas companies in an effort to trim annual costs by \$1billion. The outsourcing will cost up to 4,000 US jobs by 2007. Wachovia will outsource software development and maintenance work to US-based IBM and India-based Infosys Technologies and Cognizant Technology Solutions. "Various units may be performing an assessment in their group to consider the possibility of offshoring," spokeswoman Christy Phillip said. Christy Phillip also stated "no decisions have been made." Wachovia has also worked with India based Tata Consultancy Services on specific programming projects (Rothacker, 2005).

Wachovia will also outsource payroll to Hewitt Associates. Roughly 165 Wachovia employees will join Hewitt. This move will cost about 150 Wachovia jobs. “Wachovia will continue to evaluate to evaluate the strategic benefits of outsourcing, including domestic and global partners,” Phillips said (Rothacker, 2005).

Reasons and Where to Outsource

It is estimated that the US will not be able to fill more than a million jobs by 2010. The aging populations and worker shortage is already a major problem in Germany, France, UK, and Japan. This creates the need for either more immigrants to work in these countries or outsourcing work to India, China, Eastern Europe, Russia, or the Philippines. Firms that learn to innovate and manage the workflow and efficient coordination will retain the competitive advantage (Prahalad, 2005).

So on the surface; globalization is costing American workers millions of jobs. There are three main reasons factors.

1. The world economy is based on information. The information is in the form of bytes and bits and that can be easily transported over worldwide networks.
2. Computing and telecommunications can be developed anywhere in the world.
3. Low cost countries are producing well-educated, highly qualified individuals who can work in the information-based economy. These countries include China and India Mexico, Malaysia and Brazil. For example, China this year will produce 3.3 million college graduates who speak English. India will also produce 3.1 million English-speaking college graduates. In contrast, the US will produce 1.3 million college graduates. In the field of engineering alone, China graduates over 600,000, India 350,000 while America only 70,000 (Colvin, 2005).

America is simply being out gunned so Americans who thought that only blue collar jobs such as factory production and call centers will be outsourced are in for a shock. The US economy is the most service intensive economy, employing 76% of all service workers in the world and a growing number of service jobs are prone to outsourcing. Service jobs such as insurance-claims processors, accountants, and medical transcriptions are vulnerable to being outsourced to lower cost countries. Morgan Stanley for example is hiring, Indian bondsmen and Texas Instruments is looking into the development of the next generation chip and is betting its future in India. American computer programmers who earned \$100,000 are being fired and replaced by Indian and Chinese for 1/5 their salary or less (Colvin, 2005).

So it is the new world economy that threatens American wages. How can we continue to create high-value new jobs that workers in the rest of the world are unable to do? Washington needs to take notice. Due to security concerns from 911, visas for highly qualified foreign workers have been cut from 195,000 to just 65,000 a year. Our immigration policies are forcing the brightest students from Asian countries to stay home for their PhD studies. Yet, PhD's are the driving force of America's most successful innovative technical companies. So America is losing out for these PhD's students to other countries unlike the mid 90's (Colvin, 2005).

Even PhD's already in this country are returning home. Elite students see huge potential in markets like China and India that are growing at rates 2 to 3 times that of America. Even foreign nationals established in the US are leaving big corporate jobs to make more money in China (Colvin, 2005).

The U.S. now ranks 17 in the world in the number of undergraduates in engineering and natural scientists. In 1975, the United States was number three in the world with undergraduates in engineering and natural scientists only behind Japan, and Finland. Another problem is that

colleges are unable to keep students in engineering. The University of Southern California states of about 120,000 students that starts engineering in colleges and universities, yet only half earn an engineering degree (Grimes, 2005).

Bill Gates on a recent three-day tour of college campuses including Howard, Princeton, Michigan, Wisconsin, Columbia, and the University of Waterloo located in Ontario Canada, pointed out that computer software writers will be in greater demand than ever in the next decade. Yet, the number of college graduates in search of software jobs is declining. This is a trend that alarms Gates. Software jobs pay great and are fun according to Bill Gates. Gates is shocked that more college students are not applying for the high paying jobs in the computer field. Bill Gates says, “We haven’t made it clear what the steps are to get the right skills to get these jobs.” The statistics are even worse for blacks and other minorities from which only small percentage pursue computer careers. The number of black engineers is actually decreasing. Bill Gates hopefully will have the impact needed to get young people interested in computer science (cnn.com, 2005).

Experts point out other reasons for the US’s engineer shortage including poor math and science curricula in the public schools. A study of 2,800 of Silicon Valley’s youth by A.T. Kearney shows 73% are familiar with high-tech careers; however, only 32% wanted to pursue them. Students mentioned that engineering is intimidating, uninteresting, and consider engineers socially awkward, and obsessed with their work. Some of the female respondents called computer engineering tedious and antisocial (Grimes, 2005). Not only is there a social stigma, society encourages our brightest children to become lawyers, stockbrokers and doctors because of the higher pay and prestige.

The US Chamber of Commerce has partnered with other industries to double the number of science graduates in 10 years. The goal is for more homegrown US professionals to keep the technological edge. The group Education for Innovation Initiative is working with the Federal Department of Education to encourage colleges to develop more math and science teachers. This objective is to have students at an early age focus on math and science. The group wants the federal government to offer incentives for students and teachers. This would make learning, teaching math and science more attractive. Furthermore, the number of students graduating with science, technology, engineering and math degrees has decreased by 20% in the past 20 years (Johnson, 2005).

Many immigrants who benefited from engineering are finding their children do not want to be engineers. Vindo Dham is a technology executive warning about the engineering shortages in the United States. He mentions that to stay globally competitive, the US needs to do better in guiding the youth towards engineering. Dham cannot even get his kids in engineering. Dham engineering degree allowed him to move from India to a 16-year career at Intel Corp, where he helped develop the Pentium chip. His 22-year son is studying economics and Dham cannot get him interested in the rigorous engineering program. His 19-year old son is also studying economics and does not want to go into engineering because the job will be outsourcing (Grimes, 2005).

There are other problems in the United States besides education. Another problem is the social welfare system. Businesses are required to pay not just salary but Social Security tax, Medicare tax, workers' compensation, and unemployment insurance. In addition, health insurance is costly. Trial lawyers are out of control with their lawsuits destroying millions of jobs. Outsourcing to countries like India where the people are less litigious and eager to work is

an incentive for American employers. Simply put, the government policies mentioned above that make it too costly to employ American workers. To the point, picture yourself going to a job interview and saying I am expensive and do not know much (Carnahan, 2004).

Some believe that outsourcing is the clear path for productivity. That is, shifting jobs offshore where they can be done cheaper and better. In some cases, less skilled work overseas raises productivity, resulting in the falling prices. As a result, Americans will have more money to spend on new products and services, creating new jobs in United States and other developed countries. Outsourcing is being recognized as the most important shift in the new century. To this point in history, outsourcing was recognized as an abstract. Now it is for the common good that business leaders manage outsourcing in the changing business environment (Brown, Wilson, 2005).

Companies such as IBM, Microsoft, Novell, Oracle, AT&T, Fujitsu, Motorola, Digital, Hewlett-Packard Philips, General Electric, IBM, Reebok, Fujitsu, British Aerospace, General Motors and Sears outsource to India to capitalize on quality software expertise. Below is a chart why these companies outsource to India.¹

Acquire technology skills	49%
Gain industry expertise	48%
Increase application expertise	38%
Add flexibility/reliability	25%
Improve IT performance	22%
Improve competitive position	13%
Link IT and business strategy	12%
Share risk	10%
Reduce costs	10%

¹ The results are from surveys of 250 Information Systems Executive. Note: the results do not add up to 100% because multiple responses were allowed (Outsource 2 India, 2005).

The big United States firms now outsource their technology to lower-cost areas with high brainpower. Smaller firms are following. For example, last year 55% of US software companies with annual revenues of 10 million or less farmed out a portion of their development overseas. According to Sand Hill Group, India is by far the top destination for US software companies -- choice of 69% in 2004. 14% of US software companies selected Russia and just 9% choosing China. Furthermore, the survey stated that 8% of United States software companies preferred Canada (Murphy, 2005).

In Bangalore, every 6 months hundreds of new employees converge on Progeon Ltd., which is a business process outsourcing company. These Indian workers are highly educated with 90% holding university degrees. The workers grammar may need adjustments. The company trains the workers on common English since the India English accents may vary depending on which of the least 18 languages native Indian is spoken. In addition, the India workers need to be trained to interact with different cultures. These employees handle mortgage, overdraft notification, telephone repair, and other tasks dealing with major banks, telecommunications, and financial service companies. Accuracy and customer rapport is integral. The callers from the United States and Britain may not suspect that their calls are routed to another continent. The training is working with only 38% turnover (Huff, 2005).

Jobs Lost to Outsourcing

How far will outsourcing go? A study by McKinsey Global Institute predicts that there are some industries that will be changed beyond recognition. They predict that jobs outsourced to low waged countries will be:

- 49% of packaged software worldwide

- 44% of InfoTech service
- 25% of worldwide banking jobs
- 19% of insurance jobs
- 13% of pharmaceutical jobs
- 52% of engineer jobs
- 31% of accounting jobs will be outsourced (Colvin, 2005).

McKinsey calculates that if 9.6 million U.S. service jobs were sent offshore today, it would lead to unemployment increase ranging from 5% to 11.4%. McKinsey figures 4.1 million service jobs will actually get offshored from high-wage countries to low-wage countries in 2008.² Forester Research estimates that 3.4 million US white-collar jobs will be outsourced by 2015, while the University of California at Berkeley predicts 14 million US white collars will be outsourced to low-wage countries (Colvin, 2005).

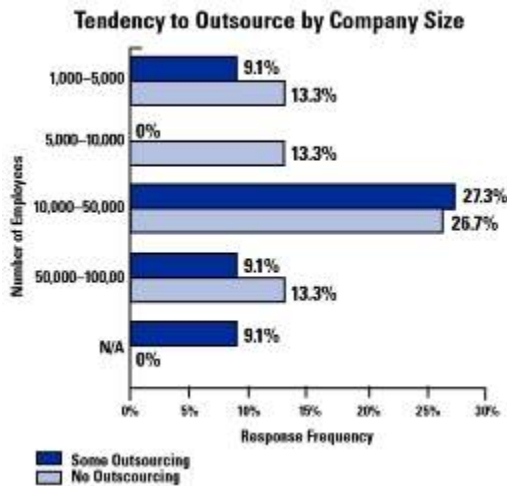
In 1950, 34% of Americans worked in factories. Today less than 13% work in factories. Factory employment has been cut by 2/3. Business services have increased from 656,000 to 10,000,000. Another trend is in the rise in education and healthcare. The number of education workers increased from 616,000 to 2.5 million and health care workers from 1.5 million to 10.7 million. Now, we have more people working for the government than in factories. For example, Levis-Straus no longer manufacturers in the US. Over 25 Levi-Strauss factories were closed. If America cannot make a profit selling jeans, what can American make? Loss of American jobs to foreigners is not new concept. Outsourcing has been going on for thirty years. The only power that US have left is its military and that will not last. You cannot be a military

² This number does not include US jobs

power without being an industrial power, and the US is no longer an industrial power (Irwin, 2004).

Yet, 140 million Americans do get hired. Unemployment is at 5.4% well below the 6.3% of the past century. The statistics bring up the point: is there really an outsource crisis. Forester Research estimates that only 225,000 jobs were lost last year due to outsourcing. The past decade had seen 17 million jobs created and a loss of 15 million. The Commerce Department points out foreign countries bought \$134 billion from American firms specializing in computers, finance, and telecom. That number is 56% percent more than the US spent overseas -- a trade surplus (Carnahan, 2004).

The graph below shows that the tendency to outsource does not vary much by company size. This graph is important because it affects workers jobs and shows that companies need to find the right employee skill set.



Note: Chart is from (Hack, 1994-2002)

Economic Effect of Outsourcing

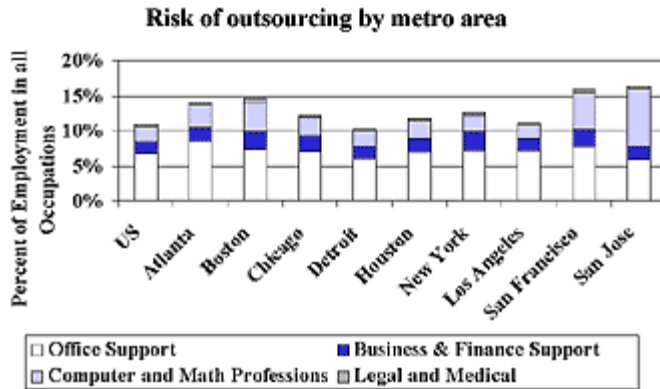
This phase of outsourcing leads to a competitive advantage for American companies since it lowers cost and improves quality. For instance, India has more than 40 software houses

that have quality ratings of CMM 4 or 5. Speed is another benefit. If vendors and customers work in time zones 9 to 12 hour different, rapid response is now possible since the company never sleeps. Then, there is access to high quality skilled workers. US firms in India have filled over 900 patents by having Research and development there in the years 2002-2003 (Pralhad, 2005).

Global firms are looking for new markets and not just the next source of competitiveness. China and India, which are developing nations, are attractive markets. For example, the cell phone industry is adding two million phones per month in India. China is an emerging market for Caterpillar tractors and the auto companies. India is no doubt a source of competition for high paying jobs but it too has benefits. India is a growing market for Dell computers, Microsoft software, Motorola Cell phones, Whirlpool appliance and Oracle databases. For example, the technicians that work at India call centers use hardware and software that is made by American firms (Pralhad, 2005).

While our educational system can be improved, it is unclear that by itself this will stop outsourcing. For example American firms do not move call centers to Bangalore because American workers do not have the skill. Bangalore is prime location to fill jobs because their workers fill jobs at 10% of American wages with no tax and benefit burdens. Until government policy changes and companies are penalized for outsourcing the trend will not reverse. The argument is for schools to train American workers in specialized fields that require more training such as software development or engineering management (Carnahan, 2004). Yet how can this work if we are being out-educated by our competitors?

The graph below shows the high cost areas that outsourcing can impact as well as the professions that are at risk to outsourcing (Maclay, 2003).



Note: Chart is from (Maclay, 2003)

Benefits

Outsourcing also has economic benefits for the US. It is a growing phenomenon that can be recognized as plus for the economy. Goods are produced abroad and shipped here. Ronald Coase mentioned that if a product or service can be produced at lower cost with the same quality than do it. He stated that the make or buy alternative can take place over time. For instance, firms can respond to technology and price changes by the degree of quality control the firms exercise. The contract plays an integral role in determining how confident an outsourcing company is in the quality of goods that it receives if it chooses to buy. Many American firms have decided to purchase an increasing number of products and services in the last few decades. Managers should focus on the scarce resources performing their core competencies. Firms used to have payroll and human resources departments. Computer technology has made it easy to outsource payroll service. For instance, Automatic Data Processing cuts paychecks for one in six private sector workers in the United States. Manpower, Inc has connected two million American workers per year to 400,000 different employers. Also, First Data Corporation manages credit cards for 1,400 issuers, and handles 400 million credit card accounts. Therefore, these jobs range from temporary to permanent (Taylor, 2005).

Offshoring will create 257,000 US jobs this year from the economic benefit generated by IT offshoring. Also, outsourcing will create more jobs than exporting. In 2010, a study estimates creating 337,000 US jobs. The jobs will be in all fields across the board creating higher-end jobs due to the lower costs of outsourcing. In addition, \$68.7 billion, which will be added to real GDP from the benefits of global sourcing software and IT services. Finally, \$5.1 billion more US goods and services will be exported due to lower prices and higher incomes produced by outsourcing (McGee, 2005).

Outsourcing has allowed American business sector productivity to grow from 4.4 percent in 2002 to 3.9 percent in 2004. These are three of the best 3 years of productivity since 1971. Producing more per hour increases the standard of living. US firms have developed these remarkable growths by outsourcing information and communication technology. The practice of outsourcing that took place in foreign and domestic firms, created innovation in the information and technology sectors (Taylor, 2005).

Productivity is doing more for less and lowering prices for consumers. This allows consumers to spend more of their money on new products and to economic growth. We saw it first on the farm. In 1900, 40% of American worked on farms and today less than 2% generate food that the entire United States needs. The quantity of food is significantly more than it was 100 years ago in the United States. Today groceries cost a smaller percentage of income compared to our grandparents' day. The excess money can used to buy homes, computers, cars, Ipod, TV and vacations. The food cost saving has allowed for new products and services to come out and for workers to be hired at these firms. Politicians have tried to solve the world poverty for years. The only way to solve world's problem is by economic growth whose driving force is increased productivity (Brown, Wilson, 2005).

Hidden Costs

There are some hidden costs of IT outsourcing. It is not always cheaper. For example a Russian programmer charges 80% less than American. Yet when a company farms out the work, the total cost of offshoring a given IT job is comparable to have the work done domestically. Most companies just look at the wages, not productivity. Unfortunately, most companies cannot measure the productivity until after the outsourcing and companies do not know the real costs of outsourcing (Business Week Online, 2003).

Companies have learned the hard way. For example, a year ago 100% of neoIT's business came from consulting companies wishing to go offshore. Today 25 to 30% of its business deals with fixing problems. Expect more crashed projects in the next 6 to 12 months. Another weakness of moving support overseas is that it leaves no one on-site to help customers. For instance, Quark has an English-speaking tech support staff in India. This is the person that you call if your app keeps crashing. Quark's President says that the move does not affect the service quality or caused any customers to leave. They claim that the Indian support staff is able to resolve problems over the phone; however, it leaves some customers worried (Business Week Online, 2003).

Another example is Empowered Software Solutions, which specialized in developing applications for Microsoft's .Net platform for web services. Empowered Software Solutions (ESS), located in Burr Ridge IL, earned \$500,000 from fixing buggy software written in India. ESS spent 5 months to repair a glitch-filled application for a Web portal. Most of the pages on the site were not connected, making updates a nightmare. In addition, some code was missing. The poor work done by the Indian outsourcer caused a \$1 million budget overrun. ESS could have done the work for less than \$900,000. Particularly outsourcing information technology is more complicated than traditional manufacturing. IT is more difficult to gauge since IT is an

integral part of every business process, requiring communication and management. Nonetheless the outsourcing trend is growing, since more than 40% of US companies developed software, test and supported it overseas in 2004 (Business Week Online, 2003).

Drawbacks

The dark side of outsourcing is that it has led to domestic unemployment of thousands of high-tech professionals. Many of the unemployed are college graduates expected to earn top salaries. Instead many had to train their offshore replacement, after they were downsized (Wikipedia 2005).

Outsourcing has mixed reviews. Some companies that hired offshore talent encountered communication barriers and high foreign personnel turnover rates. Companies would ask for one thing and receive some thing else. Several companies complained about the low quality of work by the Indian development team. Other companies had favorable results. For example one company said that low cost Indian development team allows him to hire more higher-paid American developers (Wikipedia 2005).

Some US customer reaction to outsourcing is negative. For example, many Dell customers complain about the communication barrier with Dells support. This is because of the heavy Indian accent and cultural differences. Due to negative publicity Dell moved some of the phone tech support jobs back to the US. Still Dell plans to augment their Indian staff. Also, outsourcing of many high tech jobs from United States to India, has led to phrase “Don’t Get Bangalored (Wikipedia 2005).

Ronald Reagan made America proud because he stood for American values. He supported democracy and free markets abroad. Today policy makers and corporate leaders need to look into the long-term effect of outsourcing. There are certain questions. Why does

United States give tax incentives for companies that offshore? Can American companies implement lean manufacturing in the US with the same cost reduction of outsourcing, saving American jobs at the same time? Is intellectual property offshored at risk? Are American companies offshoring innovations in regards to manufacturing methods? Are American companies capturing the true costs associated with outsourcing? Is offshoring a quick fix for American companies allowing them to avoid more difficult change in order to achieve competitive advantage in the global economy? There needs to be data systematically gathered without bias in understanding the current effect of outsourcing. Such data must be used to look at the current policy on the US economy and the US job market (Hira, 2005)

Many CEOs feel that they have to match the competition at the workers expense (Colvin, 2005). Yet the loss of technology workers can be detrimental in for the United States: America workers become poorer while the rest of the world becomes richer. American workers who lose their jobs to outsourcing may take jobs in different industries at lower pay. For these workers, the rest of the world's living standards are rising while the US standard of living decreases.

Outsourcing affects the job that I am in

I am a proponent of outsourcing since outsourcing benefits RP Design Web Services. We are specialist in the web industry. I am a Marketing Manager of RP Design Web Services, a 10-person web service company. If companies were able to do web design, web maintenance web redesign or hosting, they would not outsource their web work to our company. These companies would do their web work in house. We also outsource some of our work overseas to workers in Bulgaria. Without outsourcing, RP Design Web Services would not be in business and I would be out of work

Large web design companies can control their cost and produce web development at lower costs. To reduce our costs, we have since outsourced our programming to Bulgaria to two individuals who are highly educated and highly qualified programmers. RP Design Web Services has also outsourced payroll to Intuit to do the payroll. Our philosophy is to do what we are best at and outsource the weak areas

My job at RP Design involves continuously learning programming language in order to be having the competitive advantage. If we can continue to grow our business and have more companies outsource their web services to RP Design Web Services, my job will be safe. It all comes down to control costs and increasing revenue. However, if companies decide to outsource their web services to India, I can lose my job. In particular if our customer base decides to leave because of pricing, we cannot compete against India's pricing. We have to point out our highly educated staff and continue to show our top notched web sites. Moreover, the future requires that we continue to hire highly qualified foreign programmers to remain competitive in the web site business.

My future career path is to remain in the technology sector. The technology sector is in cyclical slump and is starting to recover. Companies need to have strong web presences in order to survive in the turbulent business environment.

I am in charge of the paid search advertising services that we offer. I interact with customers and set up their Yahoo and Google pay-per-click ads. This is a difficult service to outsource since the advertisements have to make sense to US consumers. Nonetheless I need to become even more computer savvy, continuously learning online marketing technologies to stay ahead of the foreign competition. Otherwise, my skill set can be outsourced.

The web design business is becoming a commodity business and that certainly can affect my job. Prospects can outsource to India for much less than the price that we charge. This in turn affects my pay structure and makes it more difficult to earn a living. To charge RP Design Web Services rates, I emphasize to prospects the educational background and credential of our staff. I point out that two PhD's and three Master degrees work at RP Design Web Services. Almost every one of our staff except one has at least a four-year degree. The key to the web business is local service for web maintenance. People will always need to meet or talk with someone that understands their business needs.

Future of Outsourcing

Outsourcing is here to stay and is important in our collective future. You did not sew the clothes you are wearing. You do not grow the food that you are eating. You did not build the house that you live at. You did not manufacture the car that you drive. You do not fill in the cavities of your teeth; you go to a dentist. Most of us do not cut our own hair; we go to barber or hairdresser. A maid may clean the house that you live in. You have a yard service so that you do not mow the yard yourself. You may send your child to day-care service so that you can work. You do not make your own home when it cost more to make than buy (Taylor, 2005).

Winners of Outsourcing

The winners of outsourcing are the businesses that engage. Outsourcing gives companies gains in production efficiency, allowing them to sell for less. Outsourcing also drives down the prices of services. For instance, if health care and insurance providers can manage their costs down by outsourcing office operations, consumers can have more money to spend on goods that will create more jobs in other industries (Taylor, 2005).

Recently, there was a report by McKinsey Global Institute showing what happens when American firms move work that cost one dollar to India. For one American dollar, India's economy produced 33 cents in wages paid to and profits earned by Indian companies. 67 cents accrued back to the American firms. The Indian firms spend five cents by buying American equipment. There are some American firms that own the operation in India that perform the outsourcing. In this situation 4 cents come back to the American firm. So the advantage for American firms is that outsourcing to India saves 58 cents of each dollar paid. In addition, after looking at the human and financial cost, the study concludes that corporate dollar spent on offshore outsourcing provides \$1.12 to the American economy (Taylor, 2005).

The winners of outsourcing will be anyone associated with imports or exports. These positions include: dockworkers, inspectors, warehouse workers, truckers and dispatchers as well as the specialists that can provide advice in developing markets abroad such as legal services, design, and technology. Consumers are also winners of outsourcing. Outsourcing allows consumers to pay less for goods and services, increasing their buying power (Suite101.com 2004).

Losers of Outsourcing

The loser will be the labor-intensive manufacturers such as textile and apparel producers. Furniture makers will share their fate. Asia is able to capture the mass market because of lower costs. In addition, auto parts manufacturers will lose out to cheaper imports from Asia (Suite101.com 2004).

The real losers to outsourcing are the American workers in affected industries where millions of jobs are being lost. These workers need to be retrained. If the workers skills are limited, it will be difficult for them to find other jobs. Often these workers get lower paying jobs

and feel let down by the government's support of global economy. These workers may want the United States to be protectionist and lobby against outsourcing.

In order to compete globally, displaced workers will have to become better educated. It is critical for these laid-off workers to get trained in a field that is growing. If not, they will not continue to be productive members of society.

Conclusion

The 2004 election tried to portray outsourcing as evil. The image of low-paid workers in India taking service jobs from American workers in decent paying fields such as telephone call centers, payroll, accounting departments, medical, legal transcription services, software writing, and maintenance, preparation of tax forms, and the reading of routine x-rays riled voters (Taylor, 2005). As with most things, it is not so simple.

Even a small company such as the one I work for, RP Design Web Services, needs to outsource to survive. We need to lower our costs and take advantage of more opportunity. For companies that outsource have compelling advantages over those that do not. It is the workforce that may suffer. On this the jury is still out.

In my job, I respond to companies that realize the value of the worldwide web. Web marketing is becoming a more cost effective method to advertise than traditional marketing. The Internet can reach millions of potential customers and level the playing field. Smaller companies can look bigger with a strong web site and create a favorable impression to potential suitors -- often times the only opportunity that a company has to get in front prospect is their web site. Like all competitive advantages this one may be temporary. However, I will continue to stay in the technology sector for my career path to avoid being caught in an outsourced job.

References

- Brown, Douglas, Wilson, Scott (2005). The Black Book of Outsourcing: How to Manage the Changes, Challenges, and Opportunities (Hardcover). New York: Wiley.
- Business Week Online(1998). *Outsourcing? Check This Checklist First*. Retrieved September 15, 2005 from http://www.businessweek.com/smallbiz/content/jun1998/sb19980610_476.htm
- Business Week Online (2003). *The Hidden Costs of IT Outsourcing While moving software development and tech support offshore is all the rage, many companies find the overall savings aren't that great*. Retrieved September 15, 2005 from http://www.businessweek.com/technology/content/oct2003/tc20031027_9655_tc119.htm
- Carnahan, Ira (2004). *The Lowdown on Labor Lost*. Retrieved September 20, 2005 from <http://0-proquest.umi.com.csulib.ctstateu.edu:80/pqdweb?did=7139601sid=2Fmt=3clientId=23650&RQT=309Vname=PQD>
- Colvin, Geoffrey (2005). *CAN AMERICANS COMPETE? Is America the World's 97-lb. Weakling? In the relentless, global, tech-driven, cost-cutting struggle for business, America isn't ready—here's what to do about it*. Retrieved September 15, 2005 from <http://www.fortune.com/fortune/articles/0,15114,1081269,00.html>
- Corbett, Michael, F. (2004). The Outsourcing Revolution: Why It Makes Sense and How to Do It Right (Hardcover). Chicago: Dearborn Trade Publishing.
- Cnn.com (2005). *Gates pushes Computer Careers*. Retrieved October 15, 2005 from www.cnn.com/2005/TECH/10/14/gates.minority.students.ap/index.html
- Cullen, Sarah, Willcocks, Leslie(2003). Intelligent IT Outsourcing: Eight Building Blocks to Success (Computer Weekly Professional) (Paperback). Amersterdam : London :Butterworth-Heinemann.
- Greaver, Maurice, F, II (1999). Strategic Outsourcing: A Structured Approach to Outsourcing Decisions and Initiatives (Hardcover). New York :American Management Association
- Grimes, Ann (2005). *Even Tech Execs Can't Get Kids To Be Engineers*. Retrieved September 20, 2005 from <http://0-proquest.umi.com.csulib.ctstateu.edu/pqdweb?index=3&did=813709441&SrchMode=1&sid=1&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1126821849&clientId=23650>

Hack, Becki (1994-2002).

Whether Internal or Outsourced, Project Management Skills Are Key.

Retrieved November 25, 2005 from

http://www.apqc.org/portal/apqc/ksn?paf_gear_id=contentgearhome&paf_dm=full&pageselect=include&docid=115022

Hira, Ron, Hira, Anil (2005).

Outsourcing America: What's Behind Our National Crisis And How We Can Reclaim American Jobs (Hardcover). New York: AMACOM.

Huff, Charlotte (2005). *Accent on Training.* Retrieved September 15, 2005 from

[http://0-](http://0-proquest.umi.com.csulib.ctstateu.edu.80/pqdweb?did=804742281&sid=3&Fmt=4&clientId=23650&RQT=309&VName=PQD)

[proquest.umi.com.csulib.ctstateu.edu.80/pqdweb?did=804742281&sid=3&Fmt=4&clientId=23650&RQT=309&VName=PQD](http://0-proquest.umi.com.csulib.ctstateu.edu.80/pqdweb?did=804742281&sid=3&Fmt=4&clientId=23650&RQT=309&VName=PQD)

Johnson, Latima (2005). *Tech Careers Need Makeover.*

Retrieved December 5, 2005 from

<http://www.informationweek.com/showArticle.jhtml;jsessionid=WYFFC401VUDI2QSND BEC KHSCJUMEKJVN?articleID=174401507>

Maclay, Kathleen (2003). *UC Berkeley study assesses 'second wave' of outsourcing U.S. jobs.*

Retrieved November 25, 2005 from

http://www.berkeley.edu/news/media/releases/2003/10/29_outsource.shtml

McGee, Marianne, Kolbasuk (2005). *Yankee Ingenuity Wins Out.*

Retrieved December 5, 2005 from

<http://www.informationweek.com/showArticle.jhtml;jsessionid=D51HKKP5ICGDIQSND BEC KHSCJUMEKJVN?articleID=174401506>

Motif (2003). *outsourcing_circle.jpg.*

Retrieved December 13, 2005 from

http://images.search.yahoo.com/search/images/view?back=http%3A%2F%2Fimages.search.yahoo.com%2Fsearch%2Fimages%3F_adv_prop%3Dimages%26imgsz%3Dall%26imgc%3D%26vf%3Dall%26va%3Doutsourcing%26fr%3DFP-tab-web-t%26ei%3DUTF-8&w=120&h=162&imgurl=www.motifinc.com%2Fimages%2Ftopimg%2Foutsourcing_circle.jpg&rurl=http%3A%2F%2Fwww.motifinc.com%2Foutsourcing.htm&size=6.5kB&name=outsourcing_circle.jpg&p=outsourcing&type=jpeg&no=5&tt=114,437&ei=UTF-8

Murphy, Richard, McGill (2005). *Pulling the Plug on Outsourcing Before you move part of your business to Bangalore, know this: it may not be worth it.*

Retrieved November 2, 2005 from

<http://www.fortune.com/fortune/smallbusiness/technology/articles/0,15114,1072668,00.html>

Outsource 2 India (2004).

Why Outsource Work? Retrieved September 15, 2005 from
http://www.outsource2india.com/why_outsource/why_outsource.asp

Prahalad, C.K. (2005).
The Art of Outsourcing.
Retrieved September 20, 2005 from
<http://0-proquest.umi.com.csulib.ctstateu.edu/pqdweb?index=1&did=850717101&SrchMode=1&sid=1&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1126821849&clientId=23650>

Rothacker, Rick (2005). *Wachovia's turn to outsourcing*.
Retrieved November 20, 2005 from
<http://www.charlotte.com/mld/charlotte/business/13215785.htm>

Schiff, Irwin (2004).
Why we're losing jobs and why outsourcing is taking place.
Retrieved September 15, 2005 from
<http://irwinschiff.homestead.com/JobsOutsourcing.html>

Suite101.com (2004). *Jobs in the Next 5 to 15 Years*.
Retrieved November 25, 2005 from
<http://www.suite101.com/discussion.cfm/investing/82399/1018057>

Taylor, Timothy (2005). *In Defense of Outsourcing*. Retrieved September 15, 2005 from
<http://www.cato.org/pubs/journal/cj25n2/cj25n2-12.pdf>

Yourdon, Edward (2004). Outsource: Competing in the Global Productivity Race (Yourdon Press Computing Series)(HardCover). New Jersey: Prentice Hall.

Wikipedia (2005). *Outsourcing*. Retrieved September 15, 2005 from
<http://www.free-definition.com/Outsourcing.html>

