



Search

Quotes & Research

Advanced Search

Symbol(s)  Narr

Other Journal Sites

As of Monday, July 14, 2003

- Home
- News
- Technology
- Markets
- Your Money
- Opinion
- At Leisure

**THE OUTLOOK**

FROM THE ARCHIVES: July 14, 2003

**Outsourcing Abroad  
Draws Debate at Home**

By **CLARE ANSBERRY**  
Staff Reporter of THE WALL STREET JOURNAL

PITTSBURGH -- With the job outlook grim, **outsourcing** overseas is an increasingly thorny issue.

Those opposed say it effectively means exporting work and jobs, a controversial strategy given that the overall number of people collecting unemployment benefits reached a 20-year high last week. Those in favor say it enables U.S. companies to compete globally. One thing is clear: The debate is bound to escalate as the practice spreads.

Forrester Research Inc. predicts that American employers will move about 3.3 million white-collar service jobs and \$136 billion in wages overseas in the next 15 years. Concern about the impact on the nation's economy and its workers is prompting union protests and congressional hearings. At least five states introduced legislation aimed at keeping jobs in the U.S., among other things, by blocking companies from using foreign workers on state contracts. The House Small Business Committee held a hearing last month on **outsourcing**, just one week before high-tech workers protested outside New York's Waldorf-Astoria, site of an **outsourcing** conference. In Seattle, high-tech workers rallied outside the city Chamber of Commerce, where local officials were meeting with a British **outsourcing** firm.

**Outsourcing** took off in the 1990s when companies, mainly manufacturers, wanted to cut costs and concentrate on their core high profit-margin tasks. The price didn't seem high. The lost jobs were lower-skilled and lower-paid. The labor market was tight. But then the recession hit. Companies, looking for ways to further slash costs in the face of global competition, sent more work overseas, and laid off workers at home. Affected were not only those workers, but midsize and small suppliers who couldn't compete on price.

But now the practice is spreading well beyond assembly and data-entry. Business-

- In Today's Paper
- Columnists
- Portfolio
- Setup Center
- E-Mail Setup
- Site Map
- Discussions
- Help
- Contact Us
- Log Out

THE WALL STREET JOURNAL  
Print Editions  
Customer Service

Today In:

BARRON'S Online

- @ Your Service
- Financial Workstations at PC prices
- FREE report >>
- Forbes columnist's stock market analysis
- Get there with IBM e-business on demand.
- Get postage 24/7 at your office!
- Give the perfect gift: The Online Journal
- Order Free Annual Reports
- Order Free Fund Prospectuses
- Trade 5 Free @ Lind-Waldock. Click Now!
- What makes some businesses stand out? Find out more at www.theplayers.tv

ADD TO PERSONA

EMAIL

Tools: Sponsored by PITI

advertisement

Have  
you  
checked  
Steris  
lately

**outsourcing** company iGate Corp., Pittsburgh, started a life-science unit to **outsou** trials of new drugs in India and elsewhere for pharmaceutical companies that want to the market faster, but are required by regulators to conduct larger trials. General Corp. built a \$21 million research and engineering center in Bangalore, India, whi home to a General Electric Co. lab where scientists and engineers work on next-ge refrigerators and jet engines.

Pradip Kamat, who runs Indus International Inc., a Cleveland-based business-cons has organized a delegation of 30 companies from India to tour Ohio, including one to design and produce parts for huge cellular telephone towers. The tower parts w shipped to the U.S. and constructed here. It's a cost-savings issue, he says, noting t in India earn about \$5,000 to \$10,000 compared with at least \$50,000 in the U.S. " run, it raises unemployment issues in the U.S., but in the long run it's necessary to

For the most part, companies say they aren't taking jobs from the U.S. and moving overseas, but rather getting additional resources at a lower cost. Moreover, in the c moving research and development functions overseas, they can get products to the faster, because work can be done 24/7 with scientists and engineers in one part of passing off the project at the end of their day, to those just waking up overseas. Th them more competitive and nimble to compete in the world market.

Smaller and midsize companies are getting into the act, too. A recent study by the Institute found that 60% of companies with fewer than 500 employees expect to sp \$1 million and \$5 million on **outsourcing** in the next 12 months for technology, n and logistics. "Growing an enterprise has evolved," according to Frank Casale, chi of the institute. "It's no longer about what you own or build; success is hinged to t and talent you can access."

For many it's a matter of survival, having found they can't compete with low-cost : producers or service providers. But, they are also able to tap into a growing numb organizations clearing the way for them. Plante & Moran, an accounting and const holding a session for midsize manufacturers in the Midwest this week on business The session, drawing close to 500 top executives, was sold out.

One 25-employee company, which had been told by its biggest customer that it ne its prices, looked to the World Trade Center Cleveland for advice. David Yen, exe director, helped find a partner in Taiwan to make low-cost circuit boards and win t a \$1 million contract.

Many companies, though, are feeling only the downside. Wes Smith says **outsour** automotive customers puts the squeeze on his 250-employee metal-stamping comp Michigan. "As our customers go offshore, that's where the jobs are going. There a guys like me who wonder if there is going to be anything left to hand to our childr

**Write to** Clare Ansberry at [clare.ansberry@wsj.com](mailto:clare.ansberry@wsj.com)

*Updated July 14, 2003*

 [EMAIL THIS](#)  [FORMAT FOR PRINTING](#)  [SAVE THIS](#)  [ORDER REPRINT](#)

Sponsored by

# Offshoring not hurting U.S. economy

WASHINGTON — It is difficult to say something perfectly, precisely false. But Speaker Dennis Hastert did when participating in the bipartisan piling-on against the president's economic adviser who imprudently said something sensible.

John Kerry and John Edwards, who are not speaking under oath and who know that economic illiteracy has never been a disqualification for high office, have led the scrum against the chairman of the president's Council of Economic Advisers, N. Gregory Mankiw, who said the arguments for free trade apply to trade in services as well as manufactured goods. But the prize for the pithiest nonsense went to Hastert: "An economy suffers when jobs disappear."

So the economy suffered when automobiles caused the disappearance of the jobs of most blacksmiths, buggy makers, operators of livery stables, etc.? The economy did not seem to be suffering in 1999, when 33 million jobs were wiped out — by an economic dynamism that created 35.7 million jobs. How many of the 4,500 U.S. jobs that IBM is planning to create this year will be made possible by sending 3,000 jobs overseas?

Hastert's ideal economy, where jobs do not disappear, existed almost everywhere for almost everyone through almost all of human history. In, say, 12th-century France, the ox behind which a man plowed a field changed, but otherwise the plowman was doing what generations of his ancestors had done and what generations of his descendants would do. Those were the good old days, before economic growth.

The disappearance of whole categories of jobs can be desirable for reasons other than economic rationality. The economist Irwin Stelzer



George Will

Washington Post

recalls that John L. Lewis, the fire-breathing leader of the United Mine Workers of America from 1920 to 1960, once said that he hoped to see the day when no man would make his living by going underground.

For the highly competent work force of this wealthy nation, the loss of jobs is not a zero-sum game, it is a trading up in social rewards. When the presidential candidates were recently in South Carolina, histrionically lamenting the loss of textile jobs, they surely noticed the huge BMW presence. It is the "offshoring" of German jobs because Germany's irrational labor laws, among other things, give America a comparative advantage. Such economic calculation explains the manufacture of Mercedeses in Alabama, Hondas in Ohio, Toyotas in California.

As long as the American jobs going offshore were blue-collar jobs, the political issue did not attain the heat it has now that white-collar job losses frighten a more articulate, assertive social class.

The welfare state, beginning with unemployment relief, was pioneered in part by European conservatives, Disraeli and especially Bismarck, to reconcile people to change — to the frictions and casualties of economic dynamism on which, such enlightened conservatives saw, national greatness would depend in the industrial age. It is sound social policy, and simple jus-

tice, that the party who benefits from free trade — the nation as a whole — should be taxed to ameliorate the discomforts of those who pay the short-term price of progress.

That is the case for education and job training for persons needing to change their skills. Such assistance is especially imperative when the casualties of change bear no responsibility for their fate — unlike, say, U.S. steelworkers, whose overreaching in collective bargaining deepened the problems of their industry.

John Kerry says offshoring is done by "Benedict Arnold CEOs." But if he wants to improve the health of U.S. airlines, and the security of the jobs and pensions of most airline employees, should he not applaud Delta saving \$25 million a year by sending some reservation services to India?

Does Kerry really want to restrain the rise of health care costs? Does he oppose having X-rays analyzed in India at a fraction of the U.S. cost? Recently, Indiana Gov. Joseph Kernan canceled a \$15 million contract with a firm in India for processing state unemployment claims. The next-highest bidder was a U.S. firm that would have charged \$23 million. Because of this potential 50 percent price increase, there would have been \$8 million fewer state dollars for schools, hospitals, law enforcement, etc. And the benefit to Indiana would have been ... what?

When Kernan made this gesture he probably was wearing something wholly or partly imported and that at one time, before "offshoring," would have been entirely made here. Such potential embarrassments are among the perils of making moral grandstanding into an economic policy.

George Will's e-mail address is [georgewill@washpost.com](mailto:georgewill@washpost.com).

## Greenspan warns on protectionist cures

The Associated Press

WASHINGTON — Federal Reserve Chairman Alan Greenspan, venturing into the politically charged debate over shipping U.S. jobs overseas, warned on Friday against resorting to "protectionist cures" to deal with job losses.

Jobs have become a big issue on the 2004 campaign trail with Democratic presidential candidates blaming President Bush's economic policies for the loss of 2.2 million jobs since he became president.

Last week Bush's annual economic report was released to Congress in which his chief economic adviser, N. Gregory Mankiw, said that the growth of service job outsourcing offered long-term benefits to the economy through freer trade flows.

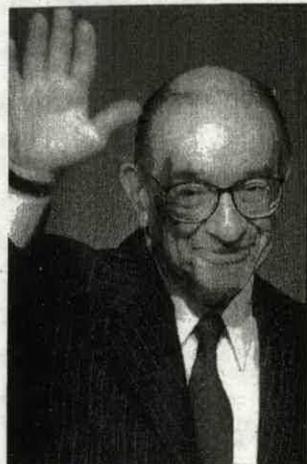
Greenspan said that upgrading educa-

tional opportunities for low-skilled workers in America was the best way to deal with increased global competition.

He conceded there were heightened job insecurities in the current environment in which nearly 2 million unemployed Americans have spent more than a year looking for a new job.

"The protectionist cures being advanced to address these hardships will make matters worse rather than better," Greenspan said in a speech to the Omaha, Neb., Chamber of Commerce. "Protectionism will do little to create jobs and if foreigners retaliate, we will surely lose jobs."

Democratic presidential candidates have indicated they would re-examine all of President Bush's trade deals with the aim of making sure they contained greater protection for U.S. workers.



VATI HARNIK/The Associated Press

Federal Reserve Chairman Alan Greenspan waves after speaking Friday at the Omaha Chamber of Commerce.



# The Net makes it all easier—including exporting U.S. jobs

Where is work most efficiently done? It's a logical question, but one that business never had the luxury to ask: Work was done where the company was. Then, as travel and communication got easier in the 1950s and 1960s, manufacturing started moving to wherever costs were lowest. Today, with the rise of what's called business process outsourcing (BPO), the same thing is happening to office and white-collar work. In the age of the Internet, a company's location hardly matters. That's starting to make labor little more than a commodity.

It's a scary thought for many of us, but for businesses this new hyperflexibility may be the most fundamental—and positive—change yet wrought by the Information Age. Companies now can send office work anywhere, and increasingly that means places like India and the Philippines, where for \$1.50 to \$2 per hour companies can hire college graduates to do jobs that could go for \$12 to \$18 in the U.S. Says Damon Jones, a spokesman for Procter & Gamble: "Your expense report doesn't have to be processed by someone down the hall. They can be in another country as long as you both have access to the same computer network." P&G says it has saved \$1 billion since 1999 by concentrating back-office work in Costa Rica, the Philippines, and Britain.

BPO doesn't just save money; it generally results in better work. It attracts the top people in the new countries, since the jobs tend to pay more than most local positions. Turnover is low, and people work hard to improve their skills. "The shock has been that the quality of the work's better," says Dennis McGuire, CEO of TPI, an outsourcing consulting firm in Houston. "It reminds me of back when we assumed that if something was made in Japan, it was worse quality. We were wrong." Experts say that even after factoring in transitional and management expenses, most companies can cut net costs of a given process 30% to 50%. Says Gail Fosler, chief economist for the Conference Board: "This phenomenon will be a very important force for getting profit to the bottom line."

BPO has its roots in IT outsourcing, which IBM, EDS, and others have been doing for more than a decade. The pace of the dot-com boom years, coupled with pressures surrounding Y2K, forced many CIOs to ship coding jobs to places like India or Bulgaria. Now, in a time of wrenching pressure to cut costs, nonmenial, nontech jobs are moving too. Ernst & Young uses accountants in India and the Philippines for tax work, and a number of Wall Street firms are considering using offshore re-

searchers to analyze stocks. Wipro, a major Indian outsourcing firm, has people doing not only customer-service work but benefits administration, credit card and insurance claims processing, and CAT-scan reading for U.S. clients. Atul Vashistha, whose neoIT firm in San Ramon, Calif., advises on offshore outsourcing, says a client is negotiating to move 1,000 U.S. product-support jobs. Another recently signed a five-year, \$40 million deal to do employee-services work in India.

Outsourcing can enable companies to do things they simply couldn't do before. Wipro CEO Vivek Paul offers as an example a consumer products company that had previously found it impractical to chase down tardy customers buying less than \$1,000 worth of goods. With the process run in India, the cost dropped so much the company can now profitably follow up on bills as low as \$100.

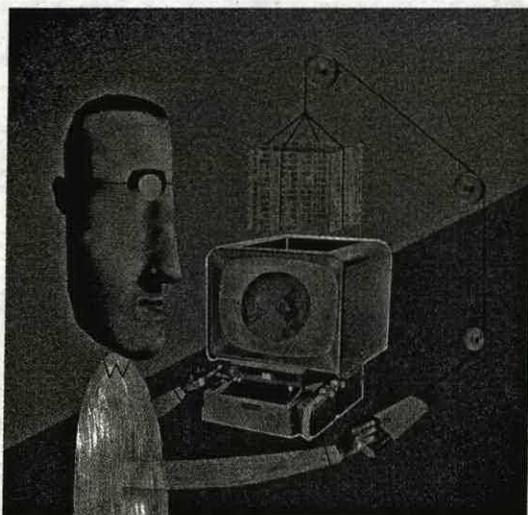
Which company is this? Paul isn't saying—and no wonder. Most corporate giants remain mum for fear of a political backlash. There are already signs one is brewing. After a state contractor hired agents in Mumbai (formerly known as Bombay) to handle telephone inquiries from welfare clients, the New Jersey state senate last fall unanimously passed a bill prohibiting such outsourcing for state contracts. The bill remains in a

state assembly committee. Says Lisa Ross of Ross Research in Cambridge, Mass., which studies the outsourcing industry: "Offshoring is not viewed as particularly patriotic."

Fosler of the Conference Board says the critics should relax. She doesn't think that the trend will significantly hurt U.S. employment. Forrester Research estimates that 3.3 million U.S. jobs will move offshore by 2015. But Fosler points out that the U.S. services sector loses about ten million jobs every year even as it creates another 12 million. "So a couple hundred thousand jobs a year going to India is a drop in the bucket," she says. In addition, this new means of holding down costs will combat inflation, benefiting consumers. And it will help U.S. companies remain competitive in an increasingly brutal global marketplace.

Vashistha, a U.S. citizen who was raised in India, sees another major benefit in the offshoring trend—it helps spread wealth from rich nations to poor ones. "When I walk through the streets of Manila or Bangalore, it makes me proud to see the impact we're having," he says. Among its many other virtues, the Internet may turn out to be the great equalizer. ■

David Kirkpatrick is senior editor for Internet and technology. Fast Forward also appears weekly on fortune.com.



# Offshoring: Problem or Opportunity in Disguise?

CONSIDER OFFSHORING A STEPPING STONE TO GREATER OPPORTUNITIES, NOT A DEADWEIGHT DRAGGING YOU DOWN. BY ANDREW KRIS



Andrew Kris is Chairman of the Shared Services & Business Process Outsourcing Association (SBPOA), operating worldwide from Brussels, Belgium. He can be reached at [andrew@sharedxpertise.org](mailto:andrew@sharedxpertise.org).

**N**ot a day goes by without the European press lamenting the loss of administrative jobs to “far-away” places. And that does not always mean India or the Philippines. Far-away can be quite close in terms of distance in Europe. Prague and Budapest are not more than 100 minutes by air from most of Western Europe, or 48 hours by T-72 tank, as we used to say not long ago. Central Europe is close culturally too, and, in any case, the European Union will soon welcome many of the countries that just a few years back we thought of as “foreign.” So what’s the fuss about?

There is a short-term opportunity for labor arbitrage in Central Europe, as well as in the less well-heeled areas of the South, but it is a short-term opportunity—a three- to five-year window at best. Barcelona, Lisbon, Prague, Krakow, and Budapest will not take long to go the way of Dublin and Rotterdam, both overheated labor markets for HR and administrative service providers. There is not an endless supply of willing, well-educated, bright young things dashing to learn Western ways and ready to sacrifice all for higher paid jobs. The pond will be fished out soon enough.

Still, under today’s ultra-competitive conditions, what CEO, CFO, or far-sighted HR leader would not give everything for an extra 15 to 20 percent reduction in back-office costs that can be achieved by going

to go on investing in legacy technology ways of managing paper through document systems, automated scanning, etc. really smart?

Stop here. I know that offshoring is around—it takes Western business closest neighbours in Central Europe companies more efficient. It also helps improve local economic conditions. I am a Hungarian migrant to the West, and a powerful and welcome influence.

It is becoming difficult, though, to export of jobs brings misery at home—popular press and union protests are a disquiet in the United Kingdom and the continent. My colleagues at the receiving calls daily from HRO providers services operators asking for support their case and lobbying in London and

My HR friends lament that HR has grown comfortable with the years of routine administration. They say that forgotten what HR is really all about processes and administration! And the routine has been offshored, we those same HR professionals to become advisors overnight.

Who is going to invest in recycling the skills of the people whose jobs south and east? If the Chartered Institute and Development (CIPD) in the UK and their counterparts do not take extend continuous professional development, an entire generation of HR professionals destined for the scrap heap.

Calling all HR managers in Europe. Your way and it is an irresistible proposition to be part of the future of HR, sure your skills are up to the new tasks coming your way once your routine has gone offshore, to Central Europe because it will. **HRO**

**If you want to be part of the future in HR, act now. Make sure your skills are up to the new tasks coming your way once your routine administration has gone offshore.**

offshore to Central Europe? Even if only for three or four years. I do wonder, though, whether the drive to offshore leaves us too focused on the short term.

For all the effort involved in taking work out of country, would we not be better served accelerating the simplification and IT-enabling of our HR processes? Because labor is cheaper for now, we are tempted