



Inside Outsourcing

*A Summary of the April 6 Panel Discussion
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Over the past few months of this election year, the decision of companies to outsource operations abroad (offshoring) has sparked much debate across the nation with extensive press coverage and controversy. Companies seeking cost efficiencies and a better return for investors have been blamed for layoffs in the hundreds of thousands amidst a bear economy. At the same time many economists argue that offshoring and free trade are good for nations and that in the long-term parties engaging in these transactions are better off. What's new in this new wave of offshoring is the fact that for the first time "white-collar" jobs in the service industry are being sent abroad, hurting in many people's view the nation's long-term sustainability and competitive advantage.

The "Inside Outsourcing" panel hosted at the Tuck School of Business by the Center of Digital Strategies and the Hopkins Center aimed at shedding some light on the subject, demystifying some of the beliefs, and analyzing the cultural impact on the workforce in countries like India where many of these jobs are going.

The panel was composed of Jack Freker, president of Convergys' Customer Management Group (CMG); Paul Gaffney, Executive VP and CIO of Staples; Keith Khan, spectacularist and advisor to the British Government's Department for Culture; and Sonal Shah, Associate Director for Economic and Foreign Policy at the Center for American Progress. The panel was moderated by Professor Paul Argenti of the Tuck School of Business yielding the following insights:

- Although some reports claim that the number of jobs that will be lost range from 3 to 13 million in the next 15 years in the service industry, nobody really knows what the true numbers are as the Department of Labor does not keep track of these statistics and it is extremely difficult to see a clear trend.
- The relative cost of outsourcing (offshoring) to India is not in the 15%-25% range and is incomplete if labor is the only metric considered. The fully loaded cost of offshoring after considering the higher costs of infrastructure, communications, training, productivity and operations in India is around 50%.
- The tension between investors (seeking profits) and people (seeking job stability) will continue although some of the profits are reinvested into creating higher levels of innovation that preserve high-wage jobs.
- US companies are competing in a global economy and a policy of protectionism may be more detrimental to US companies, consumers and the workforce.
- Despite the unprecedented interest in and debate on offshoring, more jobs have been lost as a result of automation and increases in productivity than as a result of offshoring.

- The human impact on the Indian workforce working in call centers ranges from health and social issues arising as a result of working continuous night-shifts to the culture eradication that many Indian people have to go through in order to serve foreign customers.
- Offshoring in manufacturing has benefited businesses and consumers in the U.S. The cost of technology has been reduced significantly, allowing businesses to invest in more technology and develop new technologies, maintaining a competitive advantage in this area for the U.S.
- Companies in the U.S. are forced to get profits out of lower revenues because the American consumer is unambiguous about wanting to pay continually lower prices.
- America is ahead of the curve on its attention to early life-cycle innovation. The U.S. has a more developed culture of creating new businesses and creating new products and can continue to preserve a comparative advantage if it doesn't lose sight of it.
- Public policy in the U.S. towards retraining people and seeing what works and what doesn't has been very poor. The question still remains: Where do people that lose their jobs because of automation or offshoring turn to? What should the U.S. policy be?