



Presentation Outline

- HISTORY – Sonnaly K.
- WHAT GETS OUTSOURCED – Dan L.
- PROS – Michael C.
- CONS – Sandra A.
- CONTROLLING OUTSOURCING – Mike D.




What is Outsourcing?

- Merriam-Webster's Online Abridged Dictionary (<http://webster.com/home.htm>) defines **OUTSOURCING** as:
 - *The practice of subcontracting manufacturing work to outside and especially foreign or nonunion companies*
- Though the term is relatively new, the concept of outsourcing has been around for a long time.


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History of Outsourcing



- Outsourcing work from American companies to foreign workers is not a new phenomenon in the United States.
- Since 1982, the term outsourcing has evolved to include all parts of the enterprise, not just manufacturing.
- In many ways, outsourcing is a synonym for sub-contracting. Literally any activity that is performed by a company can be, and probably has been, outsourced.

Outsourcing is NOT the same as Offshoring



- Today, when a company contracts work from another company, it is called outsourcing.
- Outsourced work performed locally (i.e. in the same country) is called "onshore outsourcing".
- Outsourced work performed in other countries that are in roughly the same time zone is called "nearshore outsourcing".

History of Outsourcing



- The emergence of outsourcing began a few thousand years ago.
- It started with the production and selling of food, tools and other household supplies.
- If you think back far enough, each person or family provided everything for themselves.
- They gathered their own berries and nuts, hunted their own food, grew their own crops, skinned hides for clothing and so on.

History of Outsourcing

- When villages began to spring up, and then people began to specialize.
- Which then led to bartering with each other for goods and services, soon money simplified the bartering process.
- In effect, each worker was outsourcing some activities to other workers.



History of Outsourcing The Industrial Age



- In the 1800's and early 1900's only few companies outsourced any part of their processes.
- They were vertically integrated organizations.
- They outsourced very little.

History of Outsourcing

- Specialization, especially of services, led to contracting, which eventually led to outsourcing.
- The first wave of outsourcing began during the boom of the industrial revolution.
- Outsourcing was not formally identified as a business strategy until 1989 (Mullin, 1995).

History of Outsourcing

- This fueled the large-scale growth of services such as:
 - Insurance services
 - Tax services
 - Accounting services
 - Legal services
 - Architecture & Engineering services
- The companies who performed this work were typically located in the same country, most likely the same city, as was the customer. In essence, this was onshore outsourcing.

History of Outsourcing

- Outsourcing for low-tech items such as:
 - Toys
 - Trinkets
 - Shoes
 - Apparel goods
- Higher value manufactured items:
 - High-tech components
 - Consumer Electronics



History of Outsourcing



- Manufacturing was the first activity to begin to move to offshore locations in search of lower costs.
- As transportation and logistics improved through improved infrastructure and the use of computer technology, the cost of transportation went down, and offshore manufacturing went up.
- As education and skills improved in LDCs, manufacturers moved up the value-curve.

Outsourcing Today

- More recently, outsourcing has moved into:
 - The world of information technology
 - Pension and 401k benefits
 - Data transcription
 - Call center operations



Outsourcing Today

- Improvements in areas such as:
 - Continued investment in education
 - Improved information technology (IT)
 - The wide adoption of the internet
 - Availability of low cost telecommunications and data communications in LDCs
- The focus today is less on ownership and more on developing strategic partnerships to bring about enhanced results.

How Does Outsourcing Work?



- The company contracts with an outsourcing provider to do a defined scope of work.
- The outsourcing provider charges the company a fee.
- The fee can take many forms: by transaction, by labor hour, cost per unit, cost per project, an annual cost, cost by service levels, or other possible arrangements.

How Does Outsourcing Work?

- In exchange for a fee, the customer is provided a product or service at a guaranteed quality or service level.



Why Do Companies Outsource?

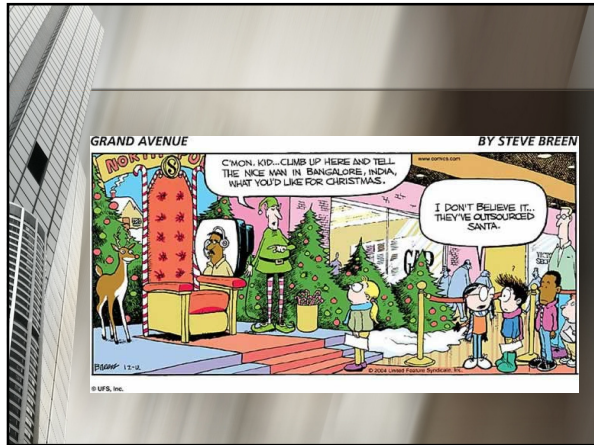
Here are some common reasons:

- Reduce and control operating costs
- Improve host company focus
- Gain access to world-class capabilities
- Free internal resources for other purposes
- A function is time-consuming to manage or is out of control
- Insufficient resources are available internally
- Share risks with a partner company



What Gets Outsourced

- Accounting
- Call Centers
- Payroll
- email services
- Sales
- Human resources
- Software
- Telemarketing
- Factory Jobs
- Claims Adjustment

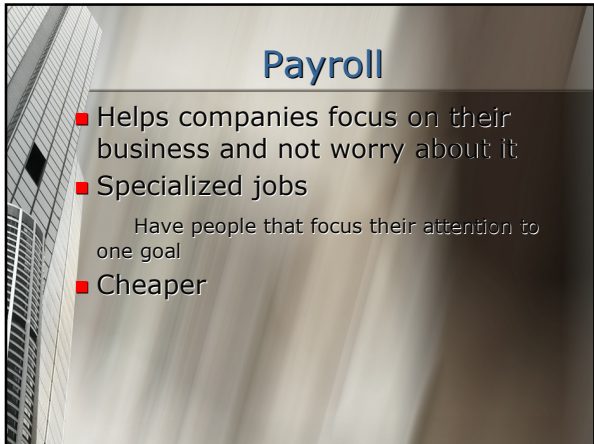


Call Centers

- Offer 24hour service to customers
- Cheaper
- Extend business into foreign markets

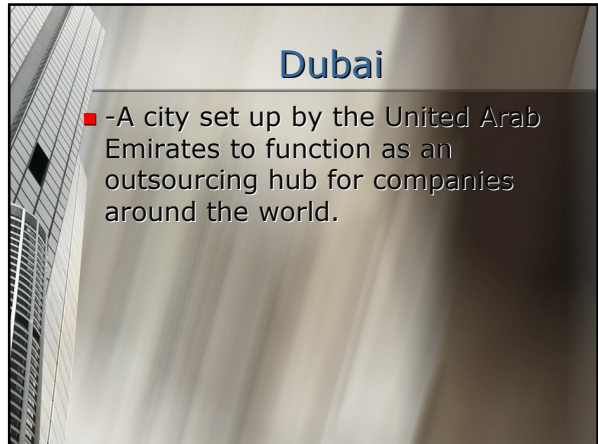
Factory Jobs

- Cheaper
 - Lets companies put money into other resources and stay ahead of the competition
- Globalization
- Had to send jobs overseas because of immigration laws



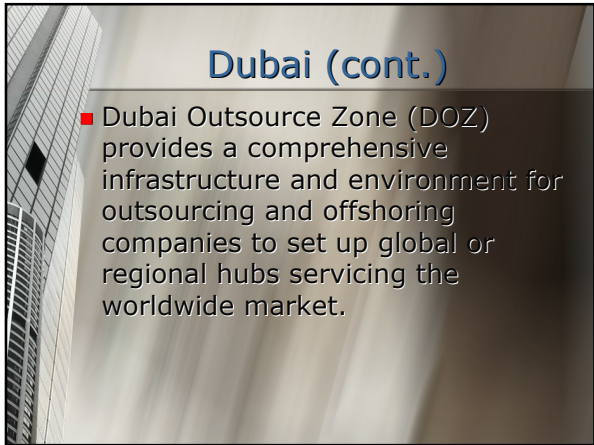
Payroll

- Helps companies focus on their business and not worry about it
- Specialized jobs
 - Have people that focus their attention to one goal
- Cheaper



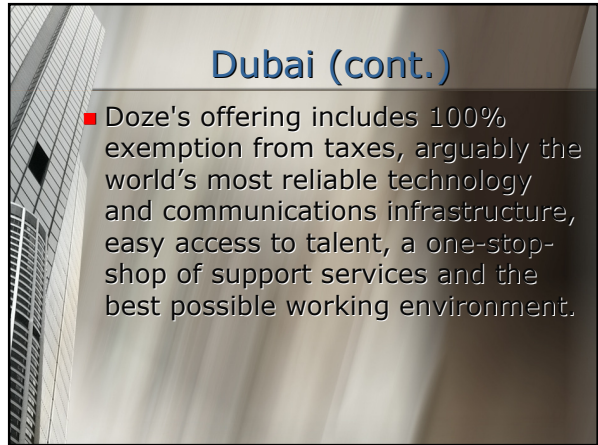
Dubai

- -A city set up by the United Arab Emirates to function as an outsourcing hub for companies around the world.



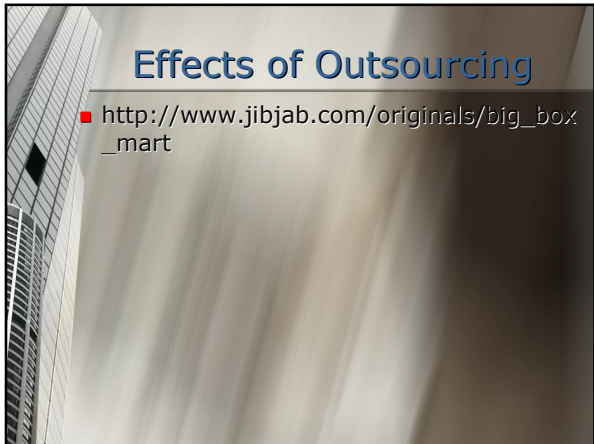
Dubai (cont.)

- Dubai Outsource Zone (DOZ) provides a comprehensive infrastructure and environment for outsourcing and offshoring companies to set up global or regional hubs servicing the worldwide market.



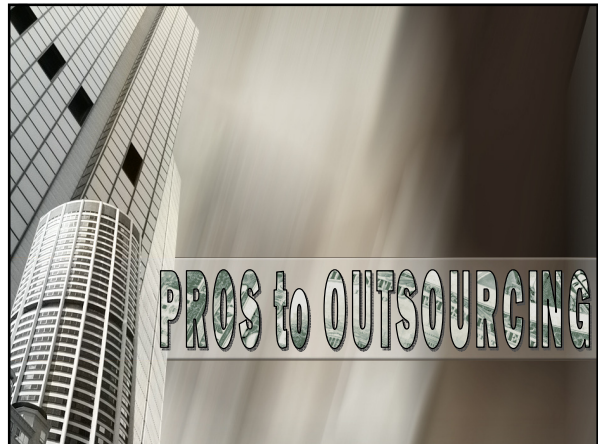
Dubai (cont.)

- Doze's offering includes 100% exemption from taxes, arguably the world's most reliable technology and communications infrastructure, easy access to talent, a one-stop-shop of support services and the best possible working environment.



Effects of Outsourcing

- http://www.jibjab.com/originals/big_box_mart



PROS to OUTSOURCING

Why Outsource At All

- Economic Theory
- WTO
- Jobs
- Presidential Support

Economic Theory

- Competitive Market
- Free Trade
 - Comparative Advantage

WTO

- World Trade Organization
- January 1, 1995
 - Uruguay Round Agreements
 - General Agreement on Trade in Services (GATS), categorizes four different ways in which services can be traded.

WTO (cont.)

- Mode1- arm's-length supply of *services*, with the supplier and buyer remaining in their respective locations. *Services is what most economists have meant when they discuss "outsourcing"*.
 - Benefit of: not involve accepting a foreign presence on one's soil.
- Mode2- International trade in *tourism*
- Mode3- Banking and insurance
- Mode4- Programs of temporary or permanent migration.

WTO (cont.)

- U.S. Bureau of Economic Analysis export more service jobs than we import, the large U.S. trade surplus in services--\$51.1 billion in 2003
- U.S. economy offers high-value Mode 1 services while importing low-value ones instead, the net trade balance in Mode 1 services is also almost certainly in America's favor.

Jobs

- New Jobs Vs. Lost Jobs
- Compensation
- Problems
 - Education and job training

Presidential Support

- Franklin D. Roosevelt
- Harry Truman

CONS to OUTSOURCING

The CONS to Outsourcing



Public Opinion

- A recent Gallup poll released 8/07 found that 77% of Americans think outsourcing is bad for the economy and not just because of the loss of jobs.



CONS to Americans

- The American people's experience with outsourcing is primarily in communication with a service provider by phone and find it difficult to communicate effectively with the call center representatives.
- Americans are concerned with the quality of service they are receiving not with who or where their help is coming from.
- Americans are concerned that their private information will not be safeguarded in the hands of another service provider outside the U.S.

CONS to Americans (cont.)


- As consumers, the American people dictate with their actions and their money the success or failure of businesses who outsource and can subsequently cause unnecessary losses to American corporations...
- American industry workers are being pressured to compete against those who are willing to work twice as hard for half the pay.
- Americans are concerned that good employment opportunities are being sent out overseas when they could remain in their communities, especially in industry.
- 57 % of displaced workers cannot find jobs that pay as well as their old ones that were outsourced.

CONS for Businesses

- Public opinion is not favorable for companies who have outsourced their services and products.
- Potential backlash from consumers can result in boycotts and protests that will directly affect their bottom line.
- Layoffs are a costly result because of *severance packages* and bonuses offered to *employees who stay through the transition period*.
- Although entry level positions may be easily replaced overseas, midlevel and senior staff are much harder to find, train and keep in those positions.


Examples

- Dell Computers moved its call center for corporate business support back from India to the United States in 2003.
 - Clients had complained about English being spoken in hard to follow accents and were given *vague answers* to technical questions.



CONS for Businesses (cont.)

- Secure, sensitive and private information is vulnerable when it leaves the hands of the company into those of an outsourcer.
- A company who sends jobs overseas may very well have no record of who works there, how long they were employed, what education they had or what conditions they worked in.
- Laws designed to prevent corporate theft and other major issues could be inadequate or absent from the country in which infractions occurred.



CONS for Businesses (cont.)

- Corporations risk low quality and *major delays* because they are at the mercy of an *outsourcer*.
- High turnover of employees *minimizes production*, increases costs, because *efficiency is lost* and more new employees have to be trained and qualified.
- Language and cultural differences may hinder trust that needs to develop between the two parties, the job itself is not sufficient to make a *common bond*.
- Outsourcer companies may not have *specific knowledge* of the business industry for which they were contracted which furthers the distance between the two parties.

CONS for Businesses (cont.)

- The cost to negotiate, manage, maintain, and oversee a detailed contract are also great.
- Overlooking this critical phase can result in many of the problems already detailed.
- It can take years to get an outsourcer up to speed and gain the efficiencies that are implied for an outsource and become profitable.
- Approximately 1/2 of the outsourcing contracts are terminated because of complications and unexpected costs.

Some Statistics

- Operations outsourced (call centers, payroll offices, accounting and human resource functions) lose between 15-20% of their workforce each year.
- Travel costs for company administrators to visit outsourced sites is rising yearly.
- The number of outsourced jobs has increased from 5.5 million in 1983 to over 10 million today, and research projects that 3.3 million more will be outsourced over the next fifteen years.
- The American furniture industry lost 21% of its jobs between 2000 and 2006 while imports surged from \$17.2 to \$30.3 billion during the same period (virtually all that increase coming from China).
- From 2000 to 2004 the IT industry suffered job losses: computer programmers down more than 24% from 745,000 to 564,000; electronic engineers down 23% from 444,000 to 343,000; also computer scientists and computer analysts dropped more than 16% from 835,000 to 700,000.

On a serious note...



CONS for Foreign Countries

- Immigration laws limited American companies from hiring undocumented workers and as a result many of these employers took their businesses to the workers.
- Some major countries where outsourcing takes place are India, Canada, China, Indonesia, Mexico, Russia and the Ukraine.
- An average American engineer gets \$75 per hour while outsourced engineers receive just over \$25 an hour for performing the same job as well or better.
- An American call center employee can demand \$12 an hour, but his or her outsourced counterpart is paid \$3-4 an hour.

CONS for Foreign Countries

- Companies wish to enhance profits by exploiting workers in low-wage areas of the world.
- Exploitation of workers worldwide is closely related to dishonesty and unfairness regarding distribution of wealth. Greedy, wealthy corporations want to maximize profits by underpaying them.



Something to Think About...

- During the 1930s many American workers were forced to work 12 to 16 hours a day under horrible conditions in factories. After a while these workers started to unionize and participate in various movements to stop their employers from exploiting them. Over time many businesses started to seek the unprotected and un-unionize workers they desired within poor nations, where the low cost of living further reduced the price of labor.

What does this mean for us as college students and soon to be college graduates?

- Though we are receiving degrees, making us more appealing to employers, finding jobs after graduation is still going to be very difficult. We already know that there are more workers that are willing to work for less money. As college grads, we are forced to look for jobs that pay more as a result of the debt most of us will have after graduation. When job searching it will be difficult for us to find jobs that will pay enough to pay our loans. Owing thousands of dollars puts a huge pressure on us as students to have degrees in the fields that are hiring at that time. Most students I know that have graduated were forced to take jobs they did not necessarily want just to pay off their loans. Though someday that "dream job" may come, outsourcing has made finding that job extremely difficult.

CONTROLLING OUTSOURCING

Possible Outsourcing Related Policies

- Laws preventing US companies from moving jobs overseas.
- Laws related to who can do work for the government.
- Laws related to which countries can provide certain services to America
- Punishing overseas labor abuse by US companies

Actual Outsourcing Policy

- Law regarding the companies the federal government hires.
- Actions taken in interest of national security.
- That's about it...

Existing Government Policy

- In 2004 Congress passed a bill that forbid any company the government had contracted for work from subcontracting to foreign companies.
 - Was intended to help keep jobs in America
 - Opponents said it would make those companies less competitive.
 - It's government spending though so *efficiency was never really expected.*

Other Examples of Governmental Action

- Congress stepped in to stop the sale of a US commercial shipping port to a company in Dubai
- US state department yanked all computers made by the Chinese company Lenovo from all their sensitive networks.
- US oil company rejects takeover bid from a Chinese company.

Should the Government Get Involved?

- Is it in the basic interest of the country to protect American jobs?
- Does the government have the right to tell business how they can conduct their business?

Growing Gap


- Multinational Companies are stretching across a wide number of countries which have vastly different laws and regulations.
- The Federal Government has done little to involve itself with the companies practices overseas or the outsourcing of jobs.
- It is not clear what the government has the authority to involve itself in and what it should.

Defining What is Wrong

- A nine dollar a day wage in China?
 - What is the cost of living?
 - What are local companies and the government paying?
- A 15 year old working in a third world country.
 - Are there educational opportunities?
 - What is the condition of the family?

Nongovernmental Regulation

- A number of NGOs and international organizations have stepped in to fill the gap of guidelines.
 - United Nations Global Compact
 - Each developed country has a number of NGOs that track companies actions
 - Companies are also tracking their own productions lines



United Nations Global Compact

- **Human Rights**
 - Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
 - Principle 2: make sure that they are not complicit in human rights abuses.
- **Labor Standards**
 - Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
 - Principle 4: the elimination of all forms of forced and compulsory labor;
 - Principle 5: the effective abolition of child labor; and
 - Principle 6: the elimination of discrimination in respect of employment and occupation.
- **Environment**
 - Principle 7: Businesses should support a precautionary approach to environmental challenges;
 - Principle 8: undertake initiatives to promote greater environmental responsibility; and
 - Principle 9: encourage the development and diffusion of environmentally friendly technologies
- **Anti-Corruption**
 - Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Nongovernmental Regulation Organizations

	Fair Labor Association (FLA) www.fairlabor.org	Social Accountability International (SAI8000) www.sai8000.org	Worldwide Responsible Accredited Production (WRAP) www.wrapapparel.org	Workers Rights Consortium (WRC) www.workersrights.org
Child labor	Minimum Age: 15, or 14 if country of manufacture allows; or age for completing compulsory education.	Minimum Age: 15, or 14 if meets developing country exemption; or local minimum age if higher.	Minimum Age: 14; or age for completing schooling; or minimum age established by law; whichever is greater.	Minimum Age: 15; or 14 if consistent with ILO practices for developing countries.
Harassment and abuse	No employees shall be subject to any physical, sexual, psychological or verbal harassment or abuse.	No corporal punishment, mental or physical coercion or verbal abuse. No sexually coercive or exploitative behavior.	No harassment, abuse or corporal punishment in any form.	No employees shall be subject to any physical, sexual, psychological, or verbal harassment or abuse. No corporal punishment.
Non-discrimination	No discrimination in hiring, salary, benefits, advancement, discipline, termination or retirement, on basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.	No discrimination in hiring, compensation, access to training, promotion, termination or retirement based on race, caste, national origin, religion, disability, gender, sexual orientation, political affiliation, or social or ethnic origin.	No discrimination on basis of personal characteristics or beliefs. Question about discrimination based on seniority.	No discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, sexual orientation, political opinion, or social or ethnic origin.

ILO, International Labour Organization

Nongovernmental Regulation

	Where right restricted by law, employer shall not seek state assistance to prevent workers exercising right to FA.	Where right restricted by law, employer facilitates parallel means for free association and bargaining.	Lawful right of free association, including right to join or not join association.	No employee shall be subject to harassment, intimidation or retaliation in their efforts to freely associate.
Freedom of association and collective bargaining				
Health and safety	Safe and healthy working environment required. Standard also applies to employer-operated facilities part from production facilities (e.g. housing).	Safe and healthy working environment required. If provided, housing should be clean and safe. Steps taken to prevent accidents and injury. Regulate health and safety training.	Safe and healthy working environment required. If provided, housing should be safe and healthy.	Safe and healthy working environment required.
Wages	Local minimum wage or prevailing industry wage, whichever is higher, and legally mandated benefits.	Legal or prevailing industry wage, and meet basic needs/ provide discretionary income.	Legal minimum wage.	Legal minimum wage and benefits. WRC code requires paying a "living wage."
Hours of work	48 hours per week and 12 hours overtime or the limits on regular and overtime hours allowed by the law of the country. One day off in every seven.	48 hours per week and 12 hours overtime maximum. Personnel shall be provided with at least one day off in every seven-day period. All overtime work shall be reimbursed at a premium rate.	Shall not exceed the legal limitations of the countries in which apparel is produced. One day off in every seven-day period, except as required to meet urgent business needs.	Not be required to work more than the lesser of (a) 48 hours per week or (b) the limits on regular hours allowed by the law of the country of manufacture, and be entitled to at least one day off in every seven day period, as well as holidays and vacations.

Source: Organizational websites and Magnits Solidarity Network (2010).

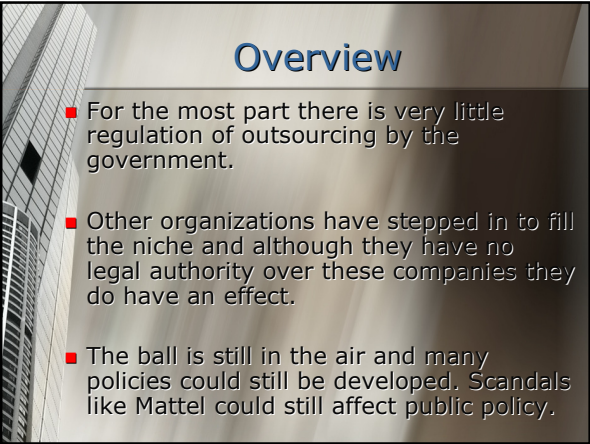
Internal Regulations

- Nike was the first company to set up internal reviews of its labor standards through the various factories.
- Many other companies have since joined in. This has come to be a part of a movement known as Corporate Social Responsibility (CSR).
- Companies will have their overseas factories audited, they may also have their suppliers audited from time to time
- Many large companies release annual CSR reports



How Effective Are Voluntary Regulations?

- With the high level of media coverage and public awareness in developed countries corporations are eager to prove they are good and green.
- Some of the actions of compliance to these organizations may be for public image but it still encourages social responsibility.



Overview

- For the most part there is very little regulation of outsourcing by the government.
- Other organizations have stepped in to fill the niche and although they have no legal authority over these companies they do have an effect.
- The ball is still in the air and many policies could still be developed. Scandals like Mattel could still affect public policy.