

Outsourcing: Managing Labor Needs

I. Motivation and Impact

¹ *Outsourcing* is prevalent in almost every business sector as a way for companies to delegate tasks to independent contractors and external suppliers – people who do not work for the company directly. They may outsource tasks to another company or crowdsource them to individuals. For a corporation, outsourcing can be a cost-effective strategy because it reduces overhead¹. Cost savings are often the greatest if a task is outsourced to workers in other countries where labor costs are lower, a practice sometimes called *offshoring*. Corporations often outsource some of their support functions to overseas contractors, such as accounting, telecommunications, or information technology (IT). One frequent choice for offshoring is customer service, with many U.S.-based businesses establishing call centers overseas, particularly in India and the Philippines, where English skills tend to be high. Businesses may even outsource some of their core functions; manufacturers often outsource jobs like building computer components or assembling parts of a car to overseas **firms**.

² There are valid economic reasons for outsourcing and offshoring. However, these practices are not just about reducing overhead costs; they can also improve a company's efficiency. The increasingly global nature of work has made outsourcing easier by giving companies access to an enormous pool of independent contractors and freelancers all over the world. Employing these independent contractors instead of full-time workers means not having to pay full-time benefits or office costs. Companies can also take advantage of the flexibility of this type of workforce, hiring people only when they are needed for specific tasks. Yet equally important is the opportunity to secure talented, skilled individuals who can complete tasks quickly, efficiently, and at a high level of **quality**.

³ For these and other reasons, outsourcing has increased steadily since the 1980s. Statistics show that more than 2.6 million jobs had been outsourced from the U.S. as of 2013, mostly to India and China. (See Figure 3.1.) Among U.S.-based companies, 43 percent of all IT jobs were outsourced by 2013, while 12 percent of call centers (customer service and telecommunication) were located in countries quite far from the customers they serve. In addition, 38 percent of all research and development tasks and 26 percent of product distribution jobs were performed by workers outside of North America, and 53 percent of all manufacturing jobs had moved offshore. The United States has experienced particularly high levels

¹ *overhead*: the regular and necessary costs involved in running a business, such as rent, salaries, electricity, etc.

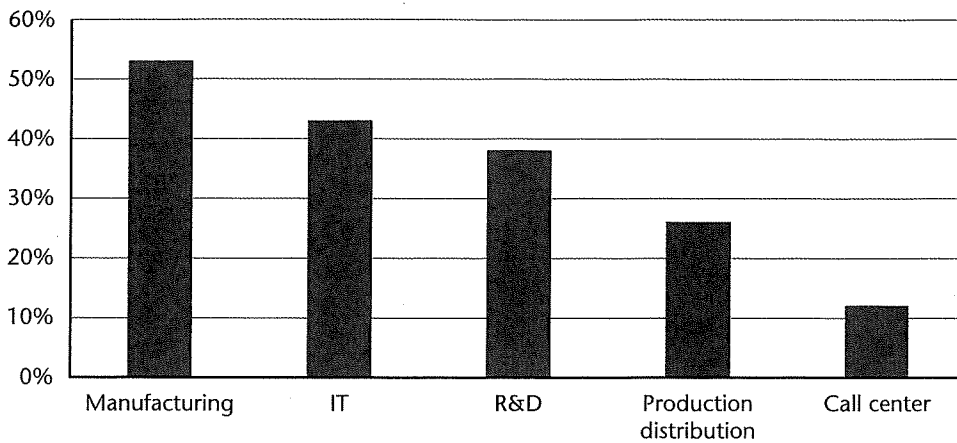
WHILE YOU READ 1

Highlight the main idea of paragraph 1.

WHILE YOU READ 2

Look back at paragraph 2. Highlight transition words that introduce contrasting claims.

Figure 3.1 Percentage of U.S. Jobs Outsourced by Sector(2013)



of outsourcing, but the practice is common in other developed countries as well.

- 4 It may have many benefits, but there is an undeniable downside to outsourcing. Outsourcing, and especially offshoring, provokes a negative response from the public because, although it means cost reductions for the corporation, it typically also means downsizing the domestic labor force. It has had a huge impact on U.S. cities that depended on manufacturing. A good example is Flint, Michigan, which was once a manufacturing hub, primarily serving the automotive industry. General Motors (GM) – a leading U.S. car manufacturing company – employed 30,000 people at one Flint plant alone, but after a steady loss of jobs to offshoring, the plant closed down for good in 2010. Around this time, the unemployment rate in the city peaked at 28 percent. Outsourcing and the resulting job losses at home can lead to a backlash against companies that pursue this strategy, damaging their public image. Before undertaking such a move, therefore, companies need to weigh the potential financial gains with the negative public perception it can **bring**.

- 5 This perception affects not just the workers who lose their jobs; it has an impact on consumers as well. They see products that are manufactured overseas as a threat to their jobs and the country's economic security. Perhaps that is why slogans² such as "buy national" have become more pervasive since the 1980s. According to a 2009 study, consumers who believed that they should only purchase merchandise produced in their home country shared a negative attitude toward outsourcing. Analysts agree that Americans, in particular, resist outsourcing efforts and feel protective of domestic jobs. American consumers may refuse to purchase products manufactured overseas and instead demonstrate their patriotism by "buying American." This attitude is a factor in policies of **protectionism** – laws and regulations that restrict business between countries, limit imports,

² *slogan*: a short phrase that is easy to remember and makes people notice something

WHILE YOU READ 3

What can you infer from paragraph 4?

- a) There was a negative reaction against GM.
- b) GM stopped offshoring.

WHILE YOU READ 4

Use punctuation signals to find the definition of *protectionism*. Highlight the definition.

and impose or increase tariffs³ on merchandise manufactured in other countries. Some economists see such policies as a hindrance to overall economic growth; nevertheless, emotional attachments to domestic companies often remain strong. The fact that a company with a name like Texas Instruments, a leading producer of semiconductors⁴, now outsources much of its manufacturing to Asia can be particularly hard for some Americans to accept.

II. A Case Study – General Motors

6 In the 1980s, General Motors closed ten American factories and moved its production to Mexico. However, this outsourcing strategy was not limited to its manufacturing divisions. By 1996, most of GM's technology work was being done by Electronic Data Systems (EDS), a GM subsidiary. Company leaders decided it made more financial sense to outsource its IT services by converting EDS into a separate business entity. EDS then became the company's supplier for all of its IT needs. From GM's perspective, this was a smart move because the company's leaders wanted to concentrate their efforts on the core business – the automotive industry. It was not cost-effective for GM to spend **countless** hours and millions of dollars on IT services; in fact, its IT costs were pushing the company into the red⁵. The primary benefit of outsourcing IT services was the speed of execution: by focusing on its core business, EDS, like GM, could get the job done more quickly and efficiently. The strategy allowed GM to reduce its IT budget by over \$1 billion. As a global company, it was better for GM to take advantage of independent operating businesses like EDS, all carefully linked in a standardized process. Following this strategy, GM was able to streamline its infrastructure, optimize its operations, and cut costs.

7 Fifteen years later, however, GM began to reverse its outsourcing practices. As cars became more computerized, the company needed employees with different kinds of specialized skills. Specifically, the company needed to become more innovative in supporting the digitalization of the company's operations, especially in IT. Relying on old-technology mainframe computing, GM experienced manufacturing slow-downs in its operations all over the globe. GM's directors realized that they needed to develop a twenty-first-century IT infrastructure. So after more than a decade of outsourcing 90 percent of its IT services, GM began to build up an in-house IT staff. GM aimed to keep the costs low while increasing productivity by moving the operations of 23 data centers back to the United States. Always looking for greater productivity and efficiency, GM's goal was to have innovation centers, where tasks that once took 12 to 18 months would now take only three to six months. This new "in-sourcing," or "on-shoring," strategy reversed a pervasive trend in the automotive and IT industries.

³ *tariff*: government charges on goods entering or leaving a country

⁴ *semiconductor*: a substance, such as silicon, that allows electricity to flow through it, used in making electronic devices

⁵ *in the red*: operating at a loss, not making a profit

WHILE YOU READ 5

Use context and your knowledge of word parts to guess the meaning of *countless*. Is it (a) an unknown number, or (b) a large number?

III. Recent Strategies

8 Since 2012, a few other firms have pursued a similar strategy. In the same way that GM was a role model for outsourcing, its move toward in-sourcing may once again be setting an example for global business practices. GM believes that bringing jobs back to a more consolidated hub will help them gain more value and efficiency from their employees and make their products more competitive. The Chief Information Officer asserts that although the company still employs more than 50,000 workers around the globe, it expects to bring nearly 10,000 jobs back to the United States over the next **decade**.

9 Another sector in which a reversal of the offshoring trend is evident is customer service. At one point, 30 percent of call centers for high-tech firms were located overseas, but in recent years that number has fallen by more than half. One reason for this trend relates to the nature of the calls themselves. In the past, when customers had simple requests, such as resetting a password, they needed to speak to a person. Today, many of these simple requests have been automated. This leaves the more complex questions and problems for the call centers. Resolving these kinds of problems requires excellent language and communication skills, which leads to the second reason that many call centers are returning to locations closer to home. Many callers experience communication difficulties when they contact overseas call centers, leaving them feeling frustrated and their problems often unresolved. For companies concerned about customer service, this is a problem; thus, after a decade of offshoring this part of their business, many companies have abandoned this **strategy**.

10 Alongside this in-sourcing trend, many entrepreneurs and businesses continue to outsource in order to access the highest qualified and most cost-effective labor, particularly in brain hubs like Los Angeles or New York. Even if a company decides not to look outside the country, there are plenty of domestic workers to whom they can outsource tasks, especially if they crowdsource them. Workers in brain hubs, and in urban areas in general, tend to earn higher salaries than those who live outside of cities. Crowdsourcing allows companies to tap into a large, but non-local workforce. This is an ideal solution for many companies – outsourcing within the country instead of offshoring helps maintain a skilled low-cost domestic workforce and, at the same time, satisfies those consumers who want to support the “buy national” trend.

11 In the end, experts predict that outsourcing will maintain a firm foothold in the corporate world, especially in the form of crowdsourcing. The growth and accessibility of independent contractors has permanently changed the face of the workforce and the way companies do business. The global outsourcing trend is likely to continue throughout the twenty-first century.

WHILE YOU READ 6

From this paragraph, you can infer that in-shoring has erased the effect of offshoring. (a) True
(b) False

WHILE YOU READ 7

Underline the writer's claim in this paragraph. Highlight the support for the claim.