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Outsourcing Our Economy

The other shore of off-shoring

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Imagine your local mayor, or bank president, announced his plan to help rebuild your local economy. Your local economy is reeling from unemployment, property valuations are declining, and the resulting declining force a reduction in basic social services like Medicare for the poor and teachers for the schools. There's no money to repair the roads and the town square is surrounded with a high percentage of empty stores. The solution is to move the remaining white-collar, executive, high-paying jobs to another town far away. The reason is that will help your local economy; Local businesses will be more profitable and thus good for everyone. Though the leader's not sure why it's good for everyone, they proclaim it thus.

And being the loyal subjects, the business leaders compete with each other to see how many such high-paying jobs they can remove from your town. (One of the jobs may even be yours. That's no problem is it? Surely you understand everyone needs to sacrifice for the good of the community don't you?)

And the local news carries grand stories of how many jobs are moved each week. The stories laud the brave leaders who make such tough decisions. Often there's no space left to illuminate the financial rewards earned by these same brave leaders for taking jobs from your community to help it become stronger.

Sounds silly doesn't it?

Who would think that eliminating high-paying jobs helps any economy, whether it's local or regional or national? If it does, then why are so many economies desperately begging for them?

Why do companies think a good decision is to completely discard like overnight trash, its highly-educated, highly-trained, and at one point, highly-motivated staff?

Who would think that a consumer-based economy can grow as you eliminate those who can afford to be consumers, i.e., the drivers for that economy's growth?

Yet, that's exactly what's being done, and celebrated, under the guise of the latest fad in business called "outsourcing" or "offshoring." It's a plan that eliminates the incomes from some of our very brightest, most creative, people whose skills have helped drive our economy forward for the past 20 years.

And it's all being done under the guise of "helping build our economy."

This isn't a nefarious plot by unseen troublemakers from overseas. Nope. This plan is being touted in the business press as the solution to help make our economy stronger.

OUTsourcing or offshoring has picked up steam in the last few years. Let's look at a few facts to see its impact. Then let's look at examples of companies who choose to instead INsource their growth by investing in their staff's development, creating a remarkable experience for their customers and/or investing in their local community.

INVESTORS DON'T BUY THE OUTSOURCING MYTH.

According to a recent Gallup Poll published in April 2004, "About two-thirds, or 66 percent, of the 802 adult U.S. investors polled this month for the [UBS/Gallup Index of Investor Optimism](#) survey said they think offshore outsourcing is "bad for the economy." And overall, investor optimism declined for the third month in a row."

TOO MANY HIGH-PAYING JOBS ARE BEING LOST TO SUSTAIN AN ECONOMY.

[Forrester Research](#) recently reported that 3.3 million jobs will be moved overseas by the year 2015.

MULTIPLIER EFFECT. According to a study conducted in April 2003 by the Connecticut Technology Council each white-collar job adds another 2.3 jobs to a state's economy.

So, a dinner-napkin analysis says eliminating 3.3 million white-collar jobs by moving them offshore translates into a real loss of 10.89 million jobs. Here's the math: 3.3 million white-collar jobs offshored + 7.59 surrounding jobs no longer needed (2.3 surrounding jobs x 3.3 offshored jobs) = 10.89 million jobs or 7.89% of our current employment numbers.

Tom Donahue, President of the U.S. Chamber of Commerce, says that "under any estimate or forecast, these jobs amount to a small fraction of our nation's 138 million workforce."

Currently, the unemployment rate for Americans with a 4 year degree is "just 2.9%." By the time another 3.3 million white-collar jobs are eliminated then that "small fraction" grows to 5.29% or 7.3 million high-paying, white-collar jobs for Americans with a 4-year degree.

These are the jobs whose incomes are used to create wealth in our communities.

Whatever the percent, it's a bit more than a "small fraction."

Tell the country whose going to afford those high-end consumer goods whose profit margins drive our economy?

[The Institute of Electrical and Electronics Engineers-USA](#) reports together with Forrester Research that over \$136 Billion in wages for US white-collar workers will be lost by the year 2015.

We can only speculate how much wages will be lost from the surrounding jobs in the state that are lost when a white-collar job is outsourced overseas. But let's assume these "additional jobs" that are generated from white-collar positions generate half the wage income of a white-collar position. Then that translates to another \$68 billion in lost wages for a total of \$204 Billion in wage income lost by the year 2015 from outsourcing overseas 3.3 million white-collar jobs.

LOW PAYING JOBS ARE THEIR REPLACEMENT. Recently, [Bureau of Labor Statistics](#) projected that seven of the 10 occupations expected to gain the most ground are low-wage occupations that do not require a college degree.

Tell me again, who's going to be able to afford luxury items we all take for granted?

Lee Price of the [Economic Policy Institute](#) reports that "Since the last expansion ended in the first quarter of 2001, corporate profits in the United States have expanded by 57.5%. Meanwhile, private wage and salary income has contracted by 1.7%."

According to [Cynthia Kroll](#), Senior Regional Economist at UC Berkeley, at least 14 million service-sector jobs are at risk of being outsourced over the next decade. (Many of these service-sector jobs are front-line customer service positions. These are usually not considered white-collar positions. While their pay is small, they do provide needed benefits like health insurance.)

What does the future hold for our economy and country as wage income is increasingly sacrificed for the benefit of corporate profits? As we offshore our high-income jobs, are we going to create a nation of Wal-mart employees: hard-working, striving to support families, but too underpaid to afford shopping in their place of employment?

At what point do companies realize that with no one able to buy, they have nothing to sell. And when will the impact of declining sales, on the scale that outsourcing/offshoring is taking place, impact our economy?

Those questions will require a few years to develop comprehensive, data-driven, answers. Honestly, it's a bit rhetorical to ask them. But, they're certainly a little less rhetorical than saying "outsourcing is good for the economy."

Huge savings in wage/benefit expenses are easy to project when a company can compare paying \$20 or more per hour for a position here compared to \$4-\$5 per hour there.

But does such an approach really create wealth and add-value? Not universally.

40% FAILURE RATE. Recently, Forrester Research published a report showing 40% of all outsourcing projects will not reach the goals originally outlined by the company and vendor when the contract was signed. This failure, their analysts suggest, will cost these same companies between \$30 and \$40 billion from lost time and added expenses. They end up spending more time, more money and achieving far less than projected. And then it impacts their relationship with their existing customers.

According to an article in Informatics.com, an online newsource for IT sales and marketing professionals, outsourcing fails as it focuses exclusively on cutting costs at the expense of improving services or adding efficiencies. Analyst firm Gartner predicted in late November 2002, that 50 percent of IT outsourcing arrangements would fail in the next 12 months because of bad management, according to the same article in Infomaticsonline.com.

According to FOX News, Dell Computers, one of the initial leaders for outsourcing/offshoring. But they've now decided to bring back customer support at least for their corporate customers. This decision was made when customers complained about the poor support delivered from their overseas vendor.

ONE SOLUTION

Is outsourcing/offshoring the only solution for competing in a global economy?

Are there companies achieving their goals using a different strategy?

Does a business model exist that's flexible enough to accommodate the changes occurring rapidly in our workplace, our economy and our lifestyles.

Is it possible to instead INsource a company's success? We use the term "INsource" to mean "INvest" in your SOURCES of success. The term is less important than the concept. This concept is critically important for the future of our families, companies, community both national and global.

THE ANSWER'S YES. It seems there are many companies who choose instead to invest in creating remarkable workplaces and customer experiences, and contribute in the building of their communities.

Oh. And they're profitable, growing consistently, adding jobs, creating livable communities for their employees who contribute the majority of their day to making the company a success.

Is it easy to find such companies? Relatively.

Fortune Magazine's list of [100 Best Companies to Work For](#) is just one list of such companies; These are companies that create a remarkable working environment as the foundation for a successful company, even in industries being ravaged by outsourcing/offshoring like IT, software development, banking and finance, steel manufacturing. Pick any year and you'll find success stories based on a company's willingness to invest in their employees and their employees' development.

Is it expensive to invest in your employees? You're thinking that it must be as so few companies these days choose that option.

Not necessarily.

J.M. Smuckers, the number one place to work for in 2003, invests with time. It's a gimmick-free management style. Listen, look for the good in others, have a sense of humor and say 'thank-you' for a job well-done.

Does it work?

Their stock's generated returns of over 100% for the past 5 years. (Compare that to your billion-dollar mutual fund's management style and their returns for your portfolio.)

And the list goes on:

- » **AMERICAN CAST IRON PIPE** (#45) provides a full-service hospital, pays employees to reduce pounds or cholesterol, and has employee reps on their board of directors. 50% of their employees have been with them over 20 years! Talk about corporate loyalty!
- » **SRA INTERNATIONAL** (#40) delivers on-site health care clinics and staff nurses for employee care or advice. They have 1900 applicants for 28 positions. Job growth was over 20% last year. Ride the train to work? Great, they reimburse employees for that expense.
- » **W.L. GORE** (#6) 16,000 applicants for one new opening. They're doing something right. Workers choose their own title. Leaders aren't appointed; They emerge as they attract followers. You're thinking this is a small company. Think again. \$1.3 billion in revenues in 2002. Four thousand U.S. employees; 2000 overseas employees.

- » **SAS (#8)** It's hard to imagine this company NOT being number one. Two on-site child-care centers, an eldercare information and referral program, an employee health care center, wellness programs, a 77,000 square-foot recreation and fitness facility, and more. And they're in the software development/business intelligence industry!

With all the outsourcing in IT these days is there a list of 'best places to work for' in the IT industry? Yes. And you'll be surprised at how leaders in that industry invest in their employees. The companies on this list invest in their employees with "technology, training and flexibility."

A company that cares for the mothers in its workforce, by definition, is one that invests in its human capital. *Working Mother Magazine* offers its list of [100 Best Companies for Working Mothers](#). Look at the list. You can see one company after another who are leaders in their respective fields. Among the investments in their employees are: flex-time (99%), employee assistance (99%) and eldercare resources and referral services (98%) and child-care resources (98%).

Ok. So this must 'sophisticated' approach. Caring for employees must be possible only for big companies. Nope. The [50 Best Small Companies to Work For \[PDF\]](#) from Society for Human Resource Management describes the same type working environments in small companies as found in their larger brethren.

Analytic Graphics (<http://www.stk.com/>), #1, serves 3 meals a day, inviting family members, the company kitchen offers free foods and drinks, laundry room with free washers, dryers and supplies; a well-equipped fitness room and for nominal fees the employees can receive dry cleaning, oil changes, car washes, flower delivery and shoeshines. Said CEO Paul Graziani, "We serve dinner because people are staying late." Does this approach work? Their annual sales per employee is \$260,000.

Deploy Solutions (<http://www.deploy.com/>) Stock options, employee referral bonuses, and tuition reimbursements of up to \$5250 per year, along with employees and managers regularly working together on volunteer initiatives including soup kitchens, and fund-raising events supporting farming communities around the world, make this a perennial favorite on best small companies to work for.

Marco (<http://www.marconet.com/>). #25 on this list, this company provides full access to the company's financial details to their shareholders: their employees. It's wholly-owned by the employees. They developed Peer Appreciation and Thanks Day to communicate co-worker appreciation and raise funds for fun employee activities. (Those don't cost much...)

The list of such companies is many and varied. They all confirm that a company can create a company with recurring, and even growing, profits by investing in their employees and their communities.

What does our company, Conference Calls Unlimited (<http://www.uconference.com/>), do? We invest monthly in funding in continuing education programs, health-care supplemental income, flex-time, regular and quarterly sabbaticals for the employees, and financial incentives based on the company's overall performance. We also invest a lot of time in creating a team-oriented, consensus based working environment. Creating customer loyalty starts with creating employee loyalty. We also donate on average over 6% of our pre-tax net income to non-profit organizations.

Were this manifesto format longer we could also point that companies that invest in creating remarkable experiences for their customers are companies that grow through economic cycles, generate an envious record of media coverage for their approach, and serve as examples of business leadership and vision.

Here's a brief list:

- » The host of ChangeThis, Seth Godin, has published several books that outline this approach profiling over 100 in his successful ebook [99 Cows](#).
- » Jackie Huba and Ben McConnell, editors of the blog [Church of the Customer](#), have authored two books profiling companies whose commitment to creating remarkable experiences for their customers turns their customers into evangelists.
- » James Collins wrote two outstanding books: [Built to Last: Successful Habits of Visionary Companies](#) and [Good to Great: Why Some Companies Make the Leap...and Others Don't](#).
- » Tom Peters: [In Search of Excellence](#), groundbreaking book from the 80's that pointed out the age-old truth that pursuing 'excellence' is the only real plan for long-term success.
- » Peter Drucker: Management guru for decades, has never once indicated that outsourcing/offshoring was a successful management gambit. Two quotes stand out:
 - 1) Our traditional mind-set even if we use sophisticated mathematical techniques and impenetrable sociological jargon has always somehow perceived business as buying cheap and selling dear. The new approach defines business as the organization that adds value and creates wealth.
 - 2) The scarcest resources in any organization are performing people. It's the human capital that's most dear to a company's success.

There's no wealth being created for customers, employees or communities when service-sector and white collar jobs are outsourced overseas, none except for the company owners and investor-class.

How does a company create a work-group of performing people, one characterized by enthusiasm, drive and creativity when that same group of workers know they were chosen solely for their low wages, unregulated workplace rules, and the need to provide them minimal, if any, additional benefits such as health care or ongoing training. (Forget about flextime, eldercare and childcare resources.)

The “roaring 90’s” was created in large part by our nation’s willingness to retrain and reinvest in those people whose careers were eliminated in the tumultuous 80’s.

Yes. Their jobs were eliminated. But at the same time, reinvestment programs were in place for these individuals and for their communities to create replacement economies. Companies also reinvested in creating superior services and products to compete in the growing global community. (Replacing experienced service-sector employees with cheaper, but less motivated, overseas hires does not add to a superior product or experience for the customer.)

That’s not happening in the majority of cases where large numbers of existing jobs, with the required benefits of a safe working place, mandated over-time, and voluntary benefits of health-care, 401Ks and the like are eliminated with no training programs in place now by any government agency nor by the company eliminating wage expense.

Easy highlights; Low-hanging fruit. But there are hundreds and perhaps thousands of examples for companies that remain competitive by choosing to invest, and reinvest, in their sources of success: employees, customers and community. By doing so, they create wealth and add value for their key partners: employees, customers and their community

But now the trendiest competitive strategy (i.e., the easiest to explain to a company’s board of directors) is the one to “buy cheap and sell dear,” regardless the cost from its side-effects of diminishing value for the customer and eliminating wealth for all but the shareholders. What seems to be missing is the understanding that “The scarcest resources in any organization

are performing people. It's the human capital that's most dear to a company's success. So it goes to reason that as a company invests in that rarest of elements "performing people" they add value to their company, their customers and their employees as well as their shareholders. And likewise, as a company slashes their investment in creating "performing people" only the shareholders benefit and then only until the customers vote with their pocketbooks and choose a product or service that's now superior.

How do we remind our business leaders that our greatest wealth comes from investing in our neighbors, friends, colleagues, and their families, the ones who comprise our rarest of competitive advantages: human capital, "performing people"?

ENDNOTES

- 1 "Jobs, Trade and Sourcing and The Future of the American Workplace: A Special Report" The U.S. Chamber of Commerce, April 2004.
- 2 Drucker, Peter F., "The Information Executives Truly Need," *Harvard Business Review*, Volume 73, Number 1, pp 54 – 62.

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ABOUT THE AUTHOR

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
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