

# Cause/Effect Essay (“Outsourcing”), Readings

Topic: OUTSOURCING

## [Text 1] Outsourcing has a bad reputation is it justified?

By Paul Klein, September 18<sup>th</sup> 2013*The Guardian*[theguardian.com/sustainable-business/outsourcing-bad-reputation](http://theguardian.com/sustainable-business/outsourcing-bad-reputation)**theguardian**

In 2012, research by the National Outsourcing Association (NOA) found that 80% of the British public did not think outsourcing was beneficial to the UK. Indeed, society often links outsourcing with “corporate irresponsibility.” Reasons included the loss of British jobs and call centres staffed by people who could not speak English properly. For example, when the Royal Bank of Scotland outsourced some administrative jobs overseas, there was a lot of public anger. People were angry because British employees of the bank once did these jobs.

Furthermore, the British public were concerned about the exploitation of workers in developing world. Primark, a British clothing company, outsourced production jobs to Bangladesh. This saved the company money but then there was an accident at the factory in Bangladesh. Over 1,000 people died. The accident happened in part because the health and safety standards are much lower (and cheaper to meet) in Bangladesh compared to the UK. According to *Time* magazine, “the horror of the disaster made Western consumers consider the ‘real’ cost a t-shirt made for just \$2.50.”

However, there are positive aspects to outsourcing. Firstly, in the West, citizens now have access to goods and services at lower costs. This is because some of the savings that result from outsourcing are passed onto consumers. Secondly, and perhaps more significantly, for developing countries, outsourcing has created millions of job opportunities that did not previously exist.

Economists argue that outsourcing has significantly reduced poverty in the developing world. Outsourcing is more successful at this than are the developing world governments themselves. Individuals who work in the outsourcing industry in the developing world can learn new skills. Moreover, they can afford better healthcare and send their children to better schools. **[Adapted from original]**

## [Text 2]    **Here, There and Everywhere**

By Tamzin Booth  
*The Economist*  
2013,  
Volume 406  
Issue 8819  
Pages: 3-5.

The logo for The Economist, featuring the words "The Economist" in white serif font on a blue rectangular background.

Outsourcing is no longer a one-way process. Increasingly companies from the ‘developing world’ are moving parts of their operations to the West. In addition, some Western companies are bringing back some of the operations they had once outsourced. Indeed, analysts say companies are moving away from the model of manufacturing everything in one low-cost place. More companies now want to be close to ‘all’ of their customers. A senior executive at Siemens said, “India is now as much our ‘home’ market as is Germany.”

One reason for this shift is that era of cheap foreign labour is ending. In the 1980s, 1990s and early 2000s, Western companies could save large amounts of money by moving production from the West to Asia. However, recently wages in China and India have been going up by as much as 15% annually. Furthermore, with more automation (using robots), labour’s share of total costs is now smaller. Presently though, Chinese factory workers make an average of \$1.36 per hour compared to \$23.32 per hour for US-based factory workers.

Another reason for why outsourcing is no longer a one-way process is the realisation of the disadvantages of distance. Western businesses now realise that they went too far in sending jobs overseas and need to bring some of it back home. Indeed, Apple and Google are bringing some of their production back to America. The cost of shipping goods around the world has been rising sharply. This also means it takes weeks to get products from the factory floor to the supermarket shelves.

Nonetheless, financial experts estimate that the USA still outsources 100,000 jobs annually. Only 16% of American companies responding to a recent survey said they either have or would move jobs back to the USA. In sum, outsourcing (in whichever direction) remains big business. The outsourcing industry generated over \$500 billion in revenues worldwide in 2014. **[Adapted from original]**

## [Text 3]    **The Unintended Consequences of Outsourcing**

By Panos Mourdoukoutas, 2011, Dec. 9<sup>th</sup>

*Forbes*

[forbes.com/sites/panosmourdoukoutas/2011/12/09/the-unintended-consequences-of-outsourcing/](https://forbes.com/sites/panosmourdoukoutas/2011/12/09/the-unintended-consequences-of-outsourcing/)

The Forbes logo is displayed in a large, bold, blue serif font.

Many economists argue outsourcing is a good business strategy. It cuts costs and, allows companies to focus on their “core competencies.” Indeed, outsourcing has helped Western companies deal with the competition from the developing world. It also helps them focus on what they do best and innovate.

Nonetheless, the strategy of outsourcing has ‘unintended consequences’. Outsourcing is easy to copy. Therefore, if outsourcing call centres cut costs for one American bank, it will also cut cost for other banks that do the same. Therefore, once all businesses in a given sector outsource, the competitive advantage within the domestic market is lost.

### **Impact on workers and customers**

Economists argue that the relationship between management and employees will worsen if too many parts of a company’s operations are outsourced. If a company’s skilled workers fear that their jobs will be outsourced, it is likely to reduce their loyalty and motivation levels. A 2010 survey by Zogby found that three quarters of Americans believed that “outsourcing jobs” was bad for their employment prospects.

Moreover, if the majority of a company’s production and service operations are outsourced, local customers may feel betrayed. Analysis point out that outsourcing is now a key political issue. The same Zogby survey found most Americans to be unhappy with the way outsourcing negatively effects their own job prospects. Moreover, most were not happy to discuss their medical or financial records with people in foreign countries.

### **Impact on the domestic community**

Outsourcing can harm the relationship between the company and the domestic community. Research shows that citizens prefer companies that outsource less, hire a greater percentage of local people, and produce goods locally. Interestingly, the USA recently introduced the “Bring Jobs Home Act.” The purpose of the act is to help companies to move jobs back to the USA from overseas. **[Adapted from original]**

## [Text 4] Banks increase outsourcing to cut costs

Written by Emma Dunkley  
2016, June 2<sup>nd</sup>  
*The Financial Times*

[search-proquest-com.ezproxy.uaeu.ac.ae/docview/1801374553](http://search-proquest-com.ezproxy.uaeu.ac.ae/docview/1801374553)



Many British banks are moving IT jobs overseas. The banks argue that such jobs are typically ones that support technology rather than ones that deal directly with customers. One senior bank manager said the offshore jobs were not “critical” to domestic operations and that having staff around the world enabled it to run customer care services 24/7.

As any business manager knows, if you do not make a profit (remain competitive and innovative) your business will not survive. One way to remain competitive is to reduce production costs. Outsourcing can be one way of lowering such costs. Outsourcing, which started in the 1980s, became very popular in the 1990s. Economists consider outsourcing as part of the economic process of globalisation.

Presently, the majority of jobs that are outsourced are in the service sector. In fact, more than 60% of the total outsourcing market is ICT-related. Research shows that outsourced workers hold almost 40% of help desk positions in the banking industry. Individuals in Asia undertake more than a third of jobs in payroll and benefits administration.

The longstanding trend of banks moving jobs abroad has accelerated in 2016, according to a trade union called Unite. Cutting costs is a key driver behind the relocation, as banks come under pressure from shareholders to boost their returns. So far this year, banks have moved over 1,200 ICT and back office positions overseas. HSBC has cut 840 ICT jobs in the UK and created a similar number of jobs in India and China. Lloyds Bank is also transferring 450 ICT jobs to India.

Nonetheless, the process of making jobs and services overseas is causing concern among consumer groups. A key concern is the banks’ ability to sustain their ICT and customer service centres. Another concern is that there are now fewer jobs in the banking sector for British citizens. While offshoring might help lower costs, experts think customers will blame any future IT problems on outsourcing. Due to this, customers may switch to banks that outsource less. **[Adapted from original]**

## [Text 5] Britain's Shadow Workers

Alan White – December, 2012

*New Statesman*, 141, 13–14

[search-proquest-com.ezproxy.uaeu.ac.ae/docview/1238735538](http://search-proquest-com.ezproxy.uaeu.ac.ae/docview/1238735538)

# NewStatesman

Outsourcing is the process of moving one or more of a company's operations to another agency. The UK now is dependent on workers in Asia for all sorts of things. From making toys to providing pension advice. From selling mobile phone contracts to making clothes and furniture. Operations includes functions like production (making things), marketing, and customer services. Economists sometimes call this process "offshoring" if the other agency is located overseas.

As Tim Peak of the London School of Economics said, during the 1980s and 1990s the main reason to outsource was to save money. Companies in the West could save money by moving their factories overseas. This process saved companies money because the cost of labour was much cheaper in the developing world. Whereas a British worker would demand \$20 per hour for working on a car production line, an East Asian worker would accept \$2 per hour.

Today, around one third (36%) of British companies have relocated some types of manufacturing jobs to China. Almost two-thirds (60%) of British companies now employ some Indian workers to carry out administrative roles.

### Balance sheet

The effects of outsourcing for businesses will depend on the industry and the exact purpose for why a given company chooses to outsource. Outsourcing is not just about saving money. Companies with great ideas but small factories can quickly achieve economies of scale by utilising large factories in Asia. Companies can focus on their core competencies and outsource less important functions like product packaging. However, even if companies outsource for sound business reasons, there is a danger that it will negatively affect their reputation in their domestic markets. **[Adapted from original]**

# Citations

Source references: format each to an APA citation\*

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Text 3	
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# References

Source references: format each to an APA reference\* (remember – APA ordered references alphabetically)

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\* Refer to the presentation “Basic guide to APA referencing” @ <http://aquascript.com/apa-style/>