Outsourcing: What the numbers mean

Manuel G. Serapio, Jr.

Manuel G. Serapio, Jr. is associate professor and program director of International Business at the Business School, University of Colorado at Denver and Health Sciences Center (UCDHSC). He received his Ph.D. from the University of Illinois at Urbana-Champaign. Professor Serapio’s research and teaching interests are in foreign direct investments, the internationalization of research and development, international alliances and cross-cultural management. He recently completed his sponsored research for the Colorado Institute of Technology, International Outsourcing in Information Technology: Trends, Developments and Implications for Colorado.

Outsourcing in Colorado’s IT sector is prevalent “but the scale is not as great as reported in the press,” said Manuel Serapio, who shared with the Forum key findings of his study “International Outsourcing in Information Technology: Trends, Developments and Implications for Colorado;” sponsored by the Colorado Institute of Technology.

The press seized on a 2001 Bardhan & Kroll study which noted that 14 million jobs were at risk to offshoring,” said Serapio. “But what the Bardhan study did was identify four or five attributes of jobs that can be outsourced. They then put these together with Bureau of Labor statistics and calculated the number of jobs that incorporated the attributes. That’s how they came up with 14 million jobs at risk, and some newspapers misinterpreted this as the number of jobs that will be lost to offshoring.”

Fourteen million is an unrealistic number because “a lot of the IT jobs are not in IT companies; they’re in law firms, real estate and small accounting practices – companies that do not have the scale of size to make outsourcing worthwhile. So only a small portion of the 14 million jobs is actually jobs at risk or subject to international outsourcing.”

The same holds true in Colorado where there are about 10,700 high tech companies, 33 percent of which have less than 10 employees. About 38 percent have 11 to 50 employees.”

The study addressed four major issues:

- How much outsourcing is going on, and to what extent will it continue?
- What factors drive the decision of companies to outsource or not to outsource?
- How will international outsourcing impact IT jobs in Colorado and in the United States?
- What are the policy implications of IT outsourcing/offshoring trends in Colorado?

Serapio acknowledged that the discussion has become very emotional. “It’s difficult to refute the fact that outsourcing is costing US jobs, but it’s also difficult to measure the numbers exactly.” Figures vary from high to low depending on whether they’re coming from opponents or proponents. However, “both sides are using figures that are inaccurate.”

The topic of outsourcing is especially important to Colorado, which ranks first in the concentration of IT workers. “Ninety-eight out of 1,000 Colorado workers in the private sector are in IT.” (Note: Outsourcing and offshoring are used interchangeably.)
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Why India?

Thirty-four Colorado companies were involved in Serapio’s study which included some of the largest employers in the state as well as small entrepreneurial companies. Of the 34, “the majority was in financial services and IT consulting/services. Two were in telecommunications and four or five in software.

Twenty-two of the companies were outsourcing, 12 were not. The bigger companies – telecom and software, for example – are very aggressive in their outsourcing activities,” said Serapio. “Slightly more than half of all companies interviewed said they outsource to India.”

Why is India getting so much of the action? Companies in this study cited three factors: the availability of a well-educated, English-speaking workforce that can be employed at competitive wages; a favorable technological infrastructure; and growing strengths in fields such as applications software development.

“Lower labor costs, access to high-quality employees and the flexibility to augment the workforce as necessary were the major reasons companies gave for their outsourcing decision,” said Serapio.

“Companies not outsourcing said they already enjoy a price advantage in the marketplace and, therefore, it isn’t necessary for them to pursue lower labor costs outside the US. “They also cited proximity to customers, the dynamic and complex nature of their business and a company culture that stressed hiring Colorado workers as reasons for keeping the work at home. Others feared a potential customer backlash should jobs be sent overseas.”

“Thirty-six percent of the companies interviewed for the study said “their spending on international outsourcing next year will be somewhat more than in 2004; 36 percent said it would stay about the same.

“My immediate reaction is that increases in outsourcing here in Colorado may not come from those companies already doing it,” said Serapio. “Increased outsourcing may come from companies not yet engaged in it or just beginning to test the waters.”

IT enrollments down

The study exposed some glaring gaps in IT education. “One of the things we found in this study is the nature of work is going to change. While technical competence will continue to be very important, most future jobs are going to require expanded skills. These skills include project management, communication and consulting – the ability to manage and work with a global workforce – and a greater knowledge of the business,” said Serapio.

“But to a large extent universities are not graduating IT students to succeed in this new world of work. “Most IT graduates finish with excellent technical skills, some management skills but very poor communication skills. They have little in the way of consulting and project management skills.”

“To remedy this situation, “IT departments must work more closely with other business disciplines such as international business, human resources and accounting.”

“Unfortunately, the slump in the IT sector has caused a corresponding slump in IT enrollments at universities nationally. Companies in the study expressed concern about looming shortages of local talent. “According to respondents, a lot of the existing IT systems in use are old by current standards but
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they’re not going to be replaced. Many of the people who are knowledgeable about those systems will retire in five years, leaving a void in the workplace.”

“These circumstances are reminiscent of the past when outsourcing became a solution for so many companies. “Most of the bigger companies started outsourcing prior to 2000 when the economy was doing well and qualified workers were in short supply. Outsourcing then was a quick way to fix the problem,” said Serapio. “Five years from now, should history repeat itself, companies will outsource to an even greater degree. We have to do something to break that cycle.”

* International Outsourcing: Trends, Developments and Implications for Colorado

Research Objectives:

- Identify key trends and developments in the international outsourcing activities in IT by companies in Colorado.
- Address the factors that influence the decision of Colorado companies to engage in international outsourcing in IT, including decisions pertaining to investment and establishment modes and partner choices.
- Assess the impact of international outsourcing on IT employment in Colorado companies.
- Explore policy and programmatic options in regards to how Colorado could best address the opportunities and challenges of international outsourcing.

—Professor Manuel Serapio

The many facets of outsourcing

Terms, concepts

Says CIO.com: “Outsourcing is a trend that is becoming more common in information technology and other industries for services that have usually been regarded as intrinsic to managing a business. In some cases, the entire information management of a company is outsourced, including planning and business analysis as well as the installation, management, and servicing of the network and workstations. Outsourcing can range from the large contract in which a company like IBM manages IT services for a company like Xerox, to the practice of hiring contractors and temporary office workers on an individual basis.”

- Offshoring. Exporting work to any country other than your own. The term is used to differentiate between overseas outsourcing and nearshoring.
- Nearshoring. The practice of outsourcing to neighboring countries rather than overseas. “In the case of the US, these countries would be Canada and Mexico,” said Serapio. The advantages are proximity resulting in less expensive travel and easier communications.
- Business Process Outsourcing (BPO). The unbundling of business services such as payroll and human resources and contracting them to third-party external or foreign-based in-house providers. This is a growing area of outsourcing.
- Onshoring/Insourcing. These are interchangeable terms and used in different ways, said Serapio. One way: “Contracting with an Indian company to provide outsourcing services for you,
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but requiring the services to be delivered on shore in the United States. There’s more of this being done by US companies than outsourcing.”

Onshoring/Insourcing are sometimes used to describe domestic outsourcing, the obtaining of services from an outside provider but within the same country.

Onshoring/Insourcing may also refer to the practice of foreign companies coming to the United States and buying services or research to be distributed to their operations in different parts of the world.