

Growth of India and China, emerging markets threat and opportunities

[youtube:http://uk.youtube.com/watch?v=yFN SHAHbRWs auto]

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**** "How AI Will Change Your Life - A Futurist's Guide to a Super-Smart World" - Patrick Dixon's latest book on AI is published in September 2024 by Profile Books. It contains 38 chapters on the impact of AI across different industries, government and our wider world, including the impact of AI on manufacturing, logistics and supply chain management.***

Impact of Outsourcing Jobs - Economies of Wealthy and Poor Nations - Better Risk Management

The truth about the speed, scale and unstoppable momentum of business process outsourcing and offshoring. This is such a controversial and politicised area - especially in nations like America.

What will be the net impact of outsourcing on American and European economies? How should company executives and union leaders respond to threats from emerging markets? Can or should the offshoring process be reversed? Advantages and disadvantages of outsourcing? What have we learned during COVID?

Outsourcing affects every part of business from manufacturing through to design, software development, financial control, logistics management, customer support and sales.

Outsourcing has been praised as cost-effective, efficient, productive and strategic - but also condemned outright as evil, money-grabbing, destructive, ruthless, exploiting the poor, destroying whole communities and nations.

But most outsourcing is local: to specialist companies in the same town or city or nation.

Outsourcing incentives are huge - and can lead to falls in service costs of 50-60%

Up to half of the \$19 trillion spent every year by European companies on sales and administration could be outsourced - in theory.

As I say, despite the publicity, outsourcing is most often to companies in the same nation.

For example ISS employs over 500,000 local people in catering, buildings maintenance, facilities management, cleaning and security for hospitals, schools, government buildings, factories and offices.

However, during 1995-2020 there was a large migration of skilled, semi-skilled and unskilled jobs from high-cost to low-cost nations.

Turned out to be a medium term trend which ran out of steam.

Outsourcing has produced labour shortages in many emerging economies

For example, China has been seeing 100% salary inflation at top end and India is not far behind - acute shortage of experienced business [leadership](#) .

Some companies are now moving operations to places like Pakistan (50% lower costs and over 200,000 IT graduates looking for work), Bangladesh or Vietnam.

Changes are happening very quickly. But other corporations are already moving jobs back home.

That's because cost savings have narrowed, and because outsourcing carries [risks](#) - in supply

chain delays, language and culture challenges, distance management, loss of intellectual capital and so on.

This was already the case in early 2020, then massively accelerated by COVID as companies looked to simplify operations and reduce risk.

Outsourcing decisions need handling very carefully

New outsourcing decisions can generate weeks of hostile media coverage, widespread protests and industrial action.

The outsourcing issue is so sensitive that decisions are usually taken behind closed doors at the most senior levels in the organisation, and only announced after much careful research into how the proposals are likely to be received.

If handled badly, business process outsourcing can damage corporate image, weaken a brand, unsettle customers, and result in lower quality of products and services. But when handled well, the results can be good enough to save a failing corporation. It all depends.

Outsourcing - EU, US, India, China and Central Europe

[youtube:<http://uk.youtube.com/watch?v=UDmspVFv1c4>]

You have to show why outsourcing is right.

If you want to save money fast and take everyone with you, you have to convince those involved that the world will be a better place as a result of outsourcing. Take the high moral ground.

A good example of this has been tensions over relocating call-centres and software support from countries like the UK and the US to India .

More than 230,000 jobs are lost each year in America as a result of outsourcing - but many economists believe that a similar number of new jobs are being created at the same time.

Union members have protested that jobs are being destroyed in an immoral way, not only

because communities are hit back home, but also because they argue the new jobs created in other countries pay very little and exploit the poor.

They have often driven vigorous campaigns at work and in the media, designed to block the outsourcing process.

This has happened because many of the corporations concerned have failed to tell a good news story in a convincing way, to explain why business process outsourcing will result in a better future in a broad sense - not just for shareholders.

Selling the good news story of outsourcing to workers, customers, shareholders

So what is the good news story?

First you have to tell the bad news about the corporation, and prepare the ground for how you are going to save the day.

Corporations may differ, but when it comes to outsourcing to a developing country, the "better world" promise is nearly always identical.

Future of Outsourcing and Offshoring - is it all over?

[youtube:<http://uk.youtube.com/watch?v=5ZwCDYLCIPM>]

BAD NEWS

We need to take urgent action to reduce costs

If we don't run our business efficiently, everyone could lose their jobs

People who have entrusted their life-savings to us (mainly pensioners), will also lose their money

Customers will feel exploited by our high prices, and will go elsewhere

GOOD NEWS

We can easily save costs, save the company, save most people's jobs, keep prices down and offer great service - by relocating some jobs to other, less expensive parts of the world

Highly skilled people are available for outsourcing in some of the poorest nations

Their daily costs of living are lower, and we can pay them less while still enabling them to enjoy a good standard of living.

People in these countries really do need the support and investment that outsourcing brings.

Every job we create in these countries through outsourcing can create many others as new money flows into the national economy, and is spent on local goods and services

By investing in these countries, we are also helping them develop into new markets for our own business, which is good for everyone

We are also doing our part to help tackle the greatest moral challenge of our time, which is the growing gap between richest and poorest nations, helping build international peace, prosperity and security for a better future

And so the message continues:

In summary, if we continue as we are, the result will be disaster for everyone - customers, workers and the community.

If we outsource, the future will be better for all, apart from a few who we deeply regret will lose

their jobs for the sake of those who remain.

We are deeply indebted to them for the contribution they have made and are committed to their future. We will do all we can to help them find employment elsewhere.

It matters how outsourcing is done

It is harder to argue for outsourcing if the corporation is making record profits, is not facing significant competitor pressures, and is making people redundant against their will.

On the other hand, few labor organisations consistently oppose outsourcing if the corporation is vulnerable, competitor pressures are severe, other companies have already led the way, and if existing workers are being offered voluntary redundancy on reasonably generous terms as well as retraining.

And of course, people also want to see assurances that new workers in emerging countries will get an appropriate, fair wage and safe working conditions.

People also want assurances that the ADDITIONAL RISKS cost has been fully factored in.

Risks from poor communication / language and culture barriers.

Risks from less face to face contact with key people.

Risks from length of time to get product from factory to where needed.

Risks of disruptions in supply chain / logistics over long distances - geopolitics; weather; COVID-type illness and so on.

So outsourcing in most industries does not make economic sense unless the immediate cost saving looks like being more than 30% - due to the downsides above.

Facts about Outsourcing

Some say that it is wrong to pay people in India less than the same job would justify in somewhere like the US.

However we need to compare not just salaries, but what those salary levels will actually buy in different countries.

An IT professional in India may be far better off in terms of lifestyle, even though paid only a third of the US salary. It all depends on exchange rates. The pressures will continue to grow, not just for cost saving, but also for quality, service and speed.

* India produces more than 870,000 new IT graduates a year and produces more than a million engineering graduates a year, plus 16 million others with engineering diplomas. India is leading the way in new areas of pharmaceuticals, biotech, electrical and mechanical engineering. China also.

* One in 5 UK workers at risk from outsourcing have difficulties reading and writing. The UK struggles to turn out just 8,000 IT graduates a year.

* Most outsourcing is by large companies, yet small companies provide most jobs in America and Europe, and most of the economic growth. Big companies create headlines but the greatest impact is elsewhere and almost invisible. The UK has 3.3 million companies. If each one takes on just one more person on average, the result would be more than 3 million new jobs, and that is what has happened in the last few years, with unemployment at very low levels despite several million people added to the labour force. Yet 6,000 redundancies at a factory is mistakenly seen as a national crisis.

* Each outsourced job in India can generate work for more than 20 other people as the money flows around the national economy, usually at a far faster rate than in countries like the US.

* When a product is manufactured in China instead of the US or Europe, only a small part of the total retail price lands up in that country. Most is taken as before by the retailer, wholesaler, distribution system, research, design and development teams and company owners as profit. So the impact is less than you might expect.

* Research shows that some of the new economic activity generated in developing countries by

outsourcing will generate new demand for goods and services in the country where the jobs have moved from (eg America). McKinsey Global Institute estimates that for every dollar US corporations spend on outsourcing to India, 33c gets 33c and the US economy benefits by \$1.14. This is based on several assumptions: that 69% of displaced service workers will find new jobs within a year, and will end up earning 96% of their previous wages - backed up by 1979-1999 data. However older workers may be out of work far longer, especially if their education is poor.

* Outsourcing saves money for corporations which means lower costs for consumers, and higher dividends for pensioners who own 75% of US and UK wealth - that means more money to spend on other things such as local services (meals out, beauty treatments, gardening, decorating etc) and that produces new jobs.

* Outsourcing has meant for example that you can buy a DVD player for less than \$100. It is one reason why retail costs of products has halved in many sectors over the last 20 years, allowing for inflation.

* Future economic growth depends on new generations of creative, dynamic entrepreneurs, with good access to venture capital, who will drive national economies through transition.

Making stronger case for high performance

Too many business leaders talk about higher performance as a general aim without making a powerful enough case for it. They assume that everyone will automatically sign up to deliver high performance because by definition it is a GOOD THING. But the reality is that for individual team members, demands for high(er) performance are often a BAD THING for team members who suffer longer hours, land up working even harder, chasing even more stressful targets. That's why we have to be convincing and passionate about the reasons why high performance is so important.

In many industries the answer is obvious: safety. For example, air crews hardly need lecturing on the consequences of poor plane maintenance. But many other kinds of business struggle to make as convincing a case.

"We want to reduce errors in the packages we send out because it is so annoying to be on the other end, and it takes us all ages to sort out."

"When the software crashes, it's a complete waste of time and very frustrating."

Sure, it matters, but not as much as a plane crashing, hardly a matter of life and death, but it must be a matter of life in some significant way if we are to engage passion.

Failing that, all we are left with is a GOOD NEWS / BAD NEWS story like the outsourcing example where the only reason we can give to get people's attention on performance is that

without it, the entire corporation is at risk.

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* Patrick Dixon has given keynote presentations on a wide range of emerging markets issues in North America, Central America, Latin America, West Europe (European Union), Central Europe, Eastern Europe, Baltic States, Middle East, Africa, Central Asia and South East Asia. He has been a conference speaker at events in Barbados, Belarus, Brazil, Burundi, China, Czech Republic, Democratic Republic of Congo, Egypt, Estonia, Fiji, Estonia, Hungary, India, Kazakhstan, Latvia, Malaysia, Mexico, Morocco, Nigeria, Panama, Poland, Romania, Russia, Saudi Arabia, Singapore, Slovakia, Slovenia, South Africa, Thailand, Turkey, Ukraine, Uganda, United Arab Emirates and Zimbabwe.