The Value of Offshoring Skilled Labor to India:

A Human Resource Management Perspective

Name

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Introduction

The competitive global business arena has encountered new opportunities and challenges that resulted from technological advancement. One important area of dynamic change is the capability of hiring workers in underdeveloped countries that can provide, through the use of Internet technology and careful communication, valuable services at a much lower price than companies must pay for domestic employment costs. India has been ahead of the game in this regard; the education and infrastructure of this country have made it a superior option for companies that seek to offshore skilled labor.

This paper is intended to provide thorough analysis of the circumstances that influence the value of offshoring to India for any given company. Part One covers the potential value of offshoring to India along with important considerations and alternatives. Part Two expounds the nature of offshoring skilled labor from the perspective of the Human Resources department and explains the implications relevant to the practice of management.

PART ONE:

THE VALUE OF OFFSHORING LABOR TO INDIA

Before deciding whether or not it is useful to offshore labor to India, it is important to consider first whether or not it is useful to offshore labor in the first place. If it is useful to offshore labor, the reasons for that usefulness will provide the insight that is necessary to decide if India should be the location of units – or if the time has come to choose another developing country to utilize.

Offshoring is indeed useful. In fact, some would go as far as to say that it is becoming *necessary* for multinational countries that intend to stay competitive in a globalizing world (Farrel, 2004). For example, one bank in the UK provided approximately five thousand jobs offshore between the years 2001 and 2003, and the result was that it saved more than 250 million euros per year (Schultz, 2007). A savings of money can easily translate into an improvement in quality as the company becomes more efficient. The money saved can be put into advertising or new ventures so that it can even translate into money generated. In a certain sense, failure to send work out into the underdeveloped world now that technology makes it possible to do so is similar to other failures to exploit modern technology – perhaps comparable to a decision not to use the Internet. If the competition is increasing efficiency by employing skilled laborers in poor countries, one must follow suit or be left behind.

If it can thus be established that offshoring is a modern necessity for some businesses, the question becomes whether or not India is still a preferable option. It certainly has been preferred during recent decades; India's high-tech sector grew 30% per year during the middle of the first decade of this 21st century, and its number of outsourcing contracts grew 50% each year ("Case Study," from class). Just as every frontier of opportunity must eventually become exhausted, though, one must expect that a day will come when the discrepancy in economic status and other factors that have made India so unique have changed or come to an end. The first part of this paper covers strategic thinking about the prospect of offshoring to India, the importance of a win-win relationship, and countries that may become good alternatives to India for certain multinational companies.

New Potential Overseas: A Shift in Recent Decades

The year is 2009, and globalization continues to shrink the planet down to size. A decision maker with a growing company sees the company's competitors saving ridiculous amounts of money by jumping into the trend of hiring workers in India and then using the savings to increase quality, advertising, price competitiveness, and so forth. The decision maker has to contemplate the idea of following along with this trend in order to reap the same benefits, but this would be a complex and controversial process. To put into context the question of whether or not it is a good idea for a company to offshore skilled labor to India, one must first consider the concept of offshoring and India's notoriously successful role in that process.

India has succeeded in attracting companies to employ its skilled laborers for a number of reasons, and if no new events have changed the underlying circumstances, India is surely still a land of outsourcing opportunity. The ways in which offshoring to India can benefit companies include: providing inexpensive labor a wide variety of services, and high productivity. These same benefits can be produced by offshoring to other countries as well, but up until now India has proven to be the most advantageous, in general.

To be perfectly clear, it is not India that directly plays a successful role, but rather, the individual workers and firms that prosper by taking advantage of the economic discrepancy between India and the better developed countries of what Thomas Friedman calls the “fast” world. India, as a country, has obviously been transformed as a result of its citizens having been hired to work for wealthier countries, but the work does not always pay off for the national economy. As shown in a later section of this paper, foreign investment and offshored labor create a chain reaction of prospering and consuming, receiving and repaying investments, competing with other developing countries, and other complex processes that can do a national economy more harm than good.

The question of whether or not any given company should offshore work to India depends on many factors that are constantly changing. There was a time when offshoring labor was a matter of placing jobs that require very little skill into the hands of unskilled laborers in underdeveloped countries where the lack of education, which is low in proportion with the low costs of living, would not be a detrimental factor. Only in the last few decades have white-collar jobs such as information technology and customer service been given to workers in less developed countries (Krishnan, 2004). Prior to this new paradigm, the outsourced jobs consisted mainly of unskilled labor. The new possibilities that have opened up to multinational companies in recent years have resulted from a variety of factors. In order to understand the factors that have made India such a popular site for offshoring white collar jobs in recent years, along with the prospect for the nation's continuing usefulness, stakeholders must analyze the ways in which decentralized management has been facilitated by modern technology.

Offshoring labor is more than just a modern way of doing things. It is a new phenomenon that has never been possible until advancements in communication and transportation technology changed the world. It is a breakthrough in efficiency for competing companies, and they all need to embrace it if they want to stay competitive in the modern world. Though opposing views clash about whether or not it is responsible to offshore jobs to India, industry analysts agree that it is an inevitable part of capitalism's process in the modern world (Friedman, 2005).

On the other hand, offshoring labor is not entirely beneficial. Another factor that interferes with companies' abilities to benefit by offshoring labor is a diminishment of efficiency and profitability that is caused by legislation and litigation in countries where the government is attempting to limit the practice of offshoring. Some endeavors need to be undertaken in a resolute way, with all barriers removed – a classic principle that underlies the freedom inherent in the open market – and it seems that policies intended to inhibit the practice of offshoring create dysfunction in an international community that should perhaps be left alone to collaborate for efficiency.

Circumstances also have the potential to change the value of offshoring labor to India. This concern involves the potential detriments to operations that can come from seeking to save money by offshoring to its skilled workers. In general, offshoring to India or any other developing country can bring complications due to one complex source of potential dysfunction and several sources of potential controversy. Avoiding potential dysfunction is the delicate and dynamic process of trying to reconcile operational norms with cultural discrepancies – the art of acclimating to a new culture and to decentralized management. The several sources of potential controversy include the following:

- The value of offshoring is diminished when customers complain about having to cross that cultural barrier – the classic example of this is represented by common complaints about being unable to understand the Indian customer service or tech support professional on the telephone.
- The value of offshoring is diminished when labor unions commence litigation in response to the loss of employment opportunity in the company's country of origin.
- The value of offshoring is diminished when public dissatisfaction influences politicians and policy makers to set up policy that deters the practice of offshoring.

Based on these observations about the downside of offshoring in general, one can quickly surmise that the way to predict complications that diminish the value of offshoring to India must largely involve predicting the consequences that such a maneuver will have on customer relations and employee relations. This involves careful consideration of the customer base, the organizational culture, national policy, and cultural barriers.

Strategic Decision-Making about Offshoring to India

When entrusting important responsibilities to workers on the other side of the globe, great caution is obviously necessary. To lay off a great number of employees, incur public wrath, offend even the employees that are allowed to keep their jobs, and proceed to transfer responsibilities to new recruits on the other side of a cultural barrier – one must go through an enormous process of planning and consideration. Luckily, organizational leaders of 2009 can learn from the mistakes and successes of companies that have gone before them to the other shore. Accenture's affiliation with BC Hydro is an educational example.

Accenture became a service provider for BC Hydro, and the relationship got off to a rocky start. Because of complications associated with outsourcing mentioned previously in this paper, unforeseen difficulties presented themselves (HRMID, 2005)). Some tasks were not getting done, while others were getting duplicated; expensive training made it necessary to spend some of the money that was saved by outsourcing; people became confused about the roles they needed to play. As a result of this learning experience, HRMID (2005) provides four important considerations for human resource managers:

- The nature of the relationship and the amount of ongoing dialogue and cooperation needed.
- Identification of which activities are most suitable for outsourcing.
- The respective ways of working. It is crucial to determine whether outsourcer and provider are immediately compatible or if changes need to be made on either or both sides.

- A realization that outsourcing some of its activities does not mean that an organization is able to completely wash its hands of any responsibility for them. (p. 11)

Acting on these principles, organizational leaders can take the first steps toward recreating the efficiency that existed with domestic workers – while saving money by working instead with skilled, inexpensive laborers overseas. After the awkward transition is over, trust will have been fortified, and decentralized management can be used in order to negotiate the obstacles that come with offshoring to India. The benefits of decentralized management include the refinement of managerial focus, so that as independent units in India prove to be self-reliant the central management in a company's country of origin can spend more time and energy focusing on other matters. Localized coordination of operations, from the old paradigm of centralized management, was perhaps sufficient in companies that had not outgrown the borders of their respective nations, but in a global system a new approach became necessary.

When a company in a well-developed country uses offshoring in order to benefit by using the cost-saving benefits of employing people from less developed countries, everyone involved is both helped and hurt. The company suffers complications caused by language and cultural barriers, deskilling, and new costs associated with the process of moving some aspects of operations overseas, but it benefits by taking advantage of the efficiency associated with less expensive labor and, to a lesser extent, from the greater variety of skilled professionals that become available for hire as operations are moved across the globe. The well developed country benefits by seeing its large companies able to prosper and grow as a result of capitalizing on foreign labor while also empowering offshore employees to become viable consumers who are able to patronize the well-developed country's businesses, but the obvious drawback is that jobs are being lost by citizens of the well-developed country as they are undersold by those who compete for the same jobs from countries where the cost of living is much lower. The less developed country benefits as its citizens gain the opportunity to earn money from the company and spend part of it on domestic goods and services, but the fact remains that its people are being exploited. In this convoluted set of circumstances, how is one to decide whether offshoring will prove to be valuable for his or her company?

The answer to this question can be pursued by weighing the "pros and cons," so that the outcome might be predicted in an almost mathematical way, but such a method may lead to an oversimplification of the dynamic mechanisms that are at work in the process of offshoring employment in the 21st century. Some experts suggest that the way to maximize the value of the practice of offshoring is to create a situation in which the two countries that are involved can benefit mutually (Schults, 2007). This symbiotic relationship must include not only a mutually beneficial arrangement, but also circumstances that will continue to be mutually beneficial over the course of time as operations grow and change (Schultz, 2007). This important concept is central to many discussions of strategic management by organizational leaders and other stakeholders.

The Industry and Customer Base

The viability of India as a location for the offshoring of skilled labor depends on the customer base and industry being served for a few major reasons. First of all, the customer base and services being provided will be joining the company itself, to a certain extent, in crossing the cultural and language barriers that exist between the two countries involved. A customer base that has historically been observed to react poorly to controversy and/or cultural barriers is, for example, an important consideration for companies that have become interested in offshoring to India. Depending on the nature of a company's customer base, and what circumstances work against efficiency when offshoring to one developing country or another, various factors may make other countries better choices than India for any given multinational company.

In addition to factors that determine how customer service and satisfaction will be affected by offshoring work to India, a much more complex phenomenon must also be considered. A dynamic process has been taking place in the years that have passed since China became a member of the World Trade Organization in 2001. In fact, in the next section of this paper, it is explained that China's entrance into the WTO has established it as a much safer investment opportunity for foreign stakeholders than it has ever been. This is a serious development, because the price of labor offered by China is far lower than that offered by India. The fact that China has in recent years been taking steps to attract business endeavors makes it necessary for India's big companies such as Infosys and Wipro to specialize in various ways.

Two forms of specialization that have been being used in the years since China became a more serious competitor include specialization of skill and special attention to certain industries. In order to fill a strategic niche in the changing market, Indian entities are focusing on accommodating particular needs (See Appendix A), and its infrastructure, tax regime, and intellectual property law are tailored to serve the needs of particular industries (Schultz, 2007). For this reason, any company that is considering offshoring to India must also consider India's current policy and preparedness for its unique needs.

Thus, India has begun to specialize in ways that make it more advantageous for companies in some industries than for companies in other industries. The process of specialization is ongoing, and constantly changing in response to demand and opportunity. Depending on the many factors that are at work, decision makers within a company must determine the feasibility of offshoring to India, and due to India's ongoing process of specialization an important part of the decision making process must involve the industry and customer base served by the company.

Cultural Barriers

Another consideration pertaining to the developed country from which offshoring takes place is consists of the statistics about how that company might fare when trying to market its products and services to its base of employees in the developing country. One factor that accounts for discrepancies in this regard is a language barrier! In comparison with English, far fewer workers in India speak either French or German, so crossing that cultural barrier is even more difficult. France and Germany are at a significant competitive disadvantage because there are fewer French and German speaking workers than English speaking workers in developing countries. For this reason, companies from France or Germany might choose to offshore labor to North Africa or Eastern Europe

(McLean, 2005). This consideration shows that companies from English speaking countries can expect fewer implementation problems than those from non-English speaking countries.

In addition to implementation problems that result from language and cultural barriers, it is also true that the value of offshoring work to India can be impacted by the company's ability sell its products and services to consumers in India. If a company sells a significant number of products and services to the employees being paid to do the work, the value of offshoring becomes greater. For obvious reasons, language barriers affect the feasibility of making consumers out of employees in India.

Furthermore, with regard to national policy in a company's country of origin, one who is considering offshoring skilled labor to India must consider domestic factors that affect the efficiency with which the process can be implemented. One consideration is whether or not India is affected by any government policies intended to "keep jobs at home." When steps are taken by governments to deter the practice of offshoring, the value of offshoring is decreased. Therefore, decision makers must consider and anticipate steps that might be taken in this regard.

Needless to say, innovations that help to achieve effective communication despite the complications inherent in offshoring can increase its value and effectiveness. Computer programs, for example, can be used to help companies as they transcend cultural barriers. This is accomplished through automation, in the sense that processes that could be thwarted by cultural barriers can happen naturally and automatically. This is also accomplished through the standardization procedure, so that, through the use of computer programs differences associated with culture can be balanced by commonalities inherent in the programming. A few examples of computer programs that are used to facilitate the offshoring of skilled work include SAP and PeopleSoft (Hammer, 1996).

Organizational Culture and Climate

Organizational Culture is a term that refers to set of "norms and values that are widely shared and strongly held throughout the organization [. . .] appropriate attitudes and behaviors for organizational members (how to feel and behave)" (O'Reilly and Chatman, 1996, p. 166.). When organizational leaders refer to the "strength" of organizational culture, they are assessing the extent to which these norms within the organization are "pervasive, widely understood, and frequently upheld throughout the company" (O'Reilly and Chatman, 1996, p. 166). Companies differ in the strength and character of their organizational culture.

Consideration of organizational culture is of unique importance for companies that are thinking of offshoring labor to India. Challenging the norms within a company can cause great turbulence, and a long established principle of organizational change is that it should be approached gradually in order to minimize the harm and complication that can surely be expected to result. The decision to lay off a number of employees and introduce team members from another continent represents certain abandonment of this principle.

The concept of organizational culture is especially relevant to HR personnel. Johnson (2000) studies the ways in which employees perceive organizational culture in their respective workplaces. In Johnson's study, it was shown that all employees were concerned with improving customer service and satisfaction, and that employees tend to perceive the most room for improvement, with regard to the quality climate, in the operation of their human resources departments. Rewards were a significant interest for all personnel, and especially for employees between the ages of 29 to 39 years old. Moreover, females tended to perceive more opportunity for quality improvement than males.

In Johnson's (2000) study, she measures the perceptions of quality culture and organizational climate among a study sample that consists of both supervisory personnel and non-supervisory personnel. The researcher's hypothesis was that, "supervisors' perceptions of the implementation of quality management principles and practices and the organizational climate are significantly more favorable than those of non-supervisors" (p. 119). This hypothesis was based in part on the results of another study, Burke (1995), which showed that advancement to higher organizational levels positively affects job satisfaction. Male employees within a large professional services firm whose positions within the organization were at higher levels than females were characterized by significantly higher levels of job satisfaction during Burke's (1995) study. However, when controls were used for organizational levels, that discrepancy did not present itself; males and females tended to enjoy levels of job satisfaction that corresponded to their levels within the organization, with people at higher levels reporting greater job satisfaction regardless of gender.

Insights from this study can assist organizational leaders in analyzing the prospect of offshoring to India within the framework of organizational culture. This is an area in which more research is necessary, because the wealth of literature pertaining to organizational culture will certainly prove to be useful as theory is generated for optimizing the practice of offshoring while coping with the inherent challenges.

What Responsibilities Should Be Entrusted to the Service Provider?

HRMID (2005) explains than one of the most important decisions that need to be made for companies as they try to decide whether or not to use offshoring is the nature of the arrangement being considered. Should the company outsource, establish a joint venture, or retain in-house control? (p. 14) An important step is to estimate the project savings that could result from each of these three options. One financial services company in Europe discovered that either joint venture or outsourcing would provide a savings of 40% to 50% after the first year, retaining in-house control for an offshore venture would provide 50% savings after the first year and increase to 65% in the following year. Thus, when cost savings are a prime motivator for offshoring (and they usually are), it is important to foresee the outcome of each type of relationship.

Because a variety of benefits and complications can result from any given arrangement, organizational leaders must give equal consideration to all options. The specific services that are to be provided by workers in India should be determined with guidance from careful analysis by intuitive experts. After deciding whether or not to use offshoring, and whether or not to choose India as the location, a process of fine tuning must be used in the actual delegation of responsibilities.

The previous sections have shown that decision makers in any given company must consider a long list of factors in order to ascertain the value of offshoring skilled labor to India. That list includes:

- How will customers react to the cultural barriers?
- How will employees and labor unions react to the loss of jobs?
- How will the organization's culture and climate be affected by the change?
- How will government policy makers in the company's country of origin deal with public disapproval about the practice of offshoring?
- How prepared is India for accommodating the company's unique set of needs?
- What responsibilities should be entrusted to the new service providers?

In the next section, another important subject is discussed: the importance of creating arrangements that are mutually beneficial for the countries and people involved.

The Importance of a Win-Win Relationship among Countries

One of the most interesting and elusive concerns for decision makers within companies that are considering offshoring jobs to India may be the question of whether or not, in the long run, the process will be mutually beneficial (Schultz, 2007). An ironic twist that seems inevitable for the future of capitalism during the process of globalization is that, as the world shrinks down to the size of a cozy, international community whose members are threaded together by their interdependent economies, something about the "dog-eat-dog" nature of capitalism is forced to change. As the separate, competing nations find their economies and prosperity intertwined, it becomes more necessary than ever to look after one another.

Schultz (2007) explains that a mutually beneficial arrangement is necessary in order for offshoring to be useful in the long run. A common objection to the practice of offshoring labor is that jobs lost in the company's country of origin will hurt the national economy. However, the truth is that employing Indian workers serves as an investment that results in increases in bilateral trade. It is possible that so much money will be spent by the developing country on previously unavailable foreign goods, and also on repaying foreign investments, that the developing country's economy will suffer. America, for example, was shown by a recent study to ultimately retain $0.78 for every dollar it spends on outsourcing (McKinsey Global Institute, cited by "Case Study" from class). This means that the economy of the country in which jobs are being created may actually be hurt in the long run.

Therefore, it is necessary to anticipate the outcomes for both countries involved. After determining whether or not offshoring will be a "win" for the company's country of origin, one must determine if it will also continue to be a "win" for India. Decision makers should compare India with other possible locations in terms of the feasibility creating a win-win relationship. One must consider how well his or her country tends to fare when companies offshore work to India in comparison with how it fares when companies offshore work to other viable countries.

Is it a Win for the Country of Origin?

The importance of this "win-win" principle of mutual benefit for national economies needs no explanation, but its importance for the actual companies involved needs closer consideration. Strictly speaking, the welfare of a multinational company does not directly depend on the economy of its country of origin; business is made international in order to escape from domestic constraints. Furthermore, businesses are not responsible for striving to improve the national economy; as Milton Friedman famously asserted in 1970, "The social responsibility of business is to increase its profits" (p. 1) for its shareholders. All else is "pure socialism" according to Friedman. Nevertheless, this does not mean that there are no negative consequences when offshoring takes a detrimental effect on the economy in one's country of origin.

In the previous section, it was explained that many of the implementation problems faced by countries that offshore work to India come from controversy that gives rise to unfavorable litigation and policy changes. When jobs in the United States are shipped overseas, for example, critics of the practice cannot argue with the fact that – although the displaced workers sometimes face serious adversity – the overall effect on national economy is a beneficial one. This creates a situation in which policy makers and other stakeholders are less likely to implement changes that will decrease the value of offshoring to American businesses. Hence, it is useful to consider whether or not offshoring will be a "win" for the country of origin.

The United States is an example of a country whose economy improves as a result of offshoring to India. The United States earns back more money than its companies spend in order to offshore work to India. On the other hand, France and Germany lose value by offshoring to India. Schults explains that France earns back only 86% of the money it spends, and that Germany only reclaims 74%. A study by McKinsey Global Institute (2005) takes into consideration several ways in which the United States can generate money that compensates for the insult to United States economy (i.e. that results from employing non-citizens) shows that for every dollar spent on outsourcing to India the United States generates between \$1.14 and \$1.17 as a result (McKinsey Global Institute, 2005). The factors considered when making this estimation include: Increases in India's consumption of American products and services; the amount of money that was saved by the U.S. companies, and profits yielded to the U.S. from its investments in India. Two of these three factors can hurt the economy of India in the long run and possibly negate the benefits of offshoring when the stability of Indian economy begins to falter.

Another factor that makes companies in the U.S. better suited to offshore work to India is the fact that the reemployment rate for displaced workers in the United States is 70%; this is impressive in comparison with France's rate of 60% and Germany's rate of 40% (McKinsey Global Institute, 2005). For this reason, in a democratic country where policy is shaped by the demands of the people the reemployment rate for displaced workers can significantly affect the value of offshoring to India.

Is it a Win for India?

As the first decade of the 21st century approaches its conclusion, India stands out as a vast, thriving example of growth attributable to outsourced white collar labor – and it continues to grow. In addition to the IT jobs for which India's workers are proving to be so well-qualified, other jobs in accountant services, medical services, and research are also growing ("Case Study," from class). However, industry analysts know better than to believe that this success will endure indefinitely. According to Mitra (2008) of *Forbes*

Magazine, offshoring to India used to enable companies to pay an average of one sixth the amount they would have to pay for domestic labor. In 2007, they report that this estimation has changed to one third, and soon, workers in India can be expected to require compensation that is similar to that of workers in the the developed world. (For rate information, see Appendix C) Mitra (2008) warns, "Assuming a 15% year-to-year salary hike rate, and a 2007 cost advantage of 1:3 in favor of India, if U.S. wages remain constant, India's cost advantage disappears by 2015. Then what?" (paragraph 19).

Mitra gives a harsh critique that blames complacency among Indians for the downfall she predicts. She explains:

> Forbes recently published some scary statistics on wage inflation in India. [. . .] Salaries rose 15.1% in 2007, up from 14.4% the previous year. The 2008 forecast: 15.2%. This would be the fifth consecutive year of salary growth above 10%. [. . .] Add to that the appreciation of the rupee against the weakening dollar, and its impact on the labor arbitrage market. Is the death of Indian outsourcing all that far off? (paragraph 17).

Mitra looks beyond the cost advantage that is gradually being lost by India and examines the factors that are at work. Complacency results when life becomes easy, and India's recent popularity among multinational companies has indeed increased the standard of living for many of the nation's skilled professionals. According to Mitra's intuition, fulfillment gives rise to complacency just as need is the mother of invention. If her very critical article made any readers uncomfortable in India, perhaps her purpose was achieved.

In light of the predictions that India's value as a location for offshoring labor will continue to decrease, organizational leaders must ponder not only the current circumstances in India but also the circumstances that can be expected in the future. While India becomes less attractive as a means of cutting labor costs, other countries are overcoming the limitations that kept them out of the game while India thrived. The cautious organizational leader will consider the feasibility of offshoring to India in comparison with various alternatives. Depending on a company's industry, country of origin, and other circumstances, another developing country might prove to be a better choice.

Alternatives to India

(See Appendix D)

One reason India has been the most desired location for companies seeking to offshore skilled labor is that it has an immense reservoir of young, educated, experienced professionals. This is an attribute that India has in common with China. In either of these two countries, the number of skilled professionals is comparable to the number of professionals in developed countries such as the United States and the United Kingdom, and India and China collectively contain a multitude of skilled professionals that make up an unexplored frontier of opportunity for multinational business. India has been preferable to China, primarily because of isolationist policies that have been maintained by the Chinese government even after the opening of its doors to international trade in 1977; furthermore, China had an unreliable system of law enforcement which made foreign business endeavors matters of great uncertainty (Friedman, 2005). After all, companies cannot be sure that their interests will continue to be served if there is no sure legal recourse or accountability.

However, China has been removing much of the restriction that has complicated trade and foreign involvement with the citizenry, and Friedman (2005) explains that China is expected by many to soon be in a position to set that standard for just how cheap labor can be. That is to say, China will soon be able to offer labor of competitive efficiency at an even more competitive price. This creates a situation in which the value of India becomes lessened in comparison with that of China. Moreover, the great amount of room for growth that exists in China makes it likely that companies dealing with China can expect the sort of mutually beneficial, win-win arrangement stressed by Schultz (2007) for many years to come.

One primary factor is causing changes in China's usefulness to multinational businesses: In 2001, China finally agreed to join the World Trade Organization, and this enabled investors and entrepreneurs to enjoy the protection of international law and standard business practices when exploiting opportunity in China. This change prevents Beijing from interfering with business in a way that would put foreign parties at a disadvantage. The same tariffs and policies must be applied uniformly to all business entities. In fact, in addition to the new levels of security and certainty (not to mention extremely inexpensive labor), China now offers tax breaks, education benefits, and subsidies (Schultz, 2007).

Friedman (2005) explains that policy makers in China will now have the ability to bring standards for working conditions to a new and disturbing low. Countries that take part in the practice of offshoring work or purchasing inexpensive foreign goods for resale have begun to call the result of this exploitation the "China price" (Friedman, 2005). Needless to say, this new set of circumstances in which China can undersell all competition may have serious consequences. For the businesses offshoring work to India and other developing countries, this means that new concerns will arise as their competition begins to exploit the greater efficiency that is available in China; they will have to either differentiate themselves somehow from their competition or follow suit by buying labor at a low cost in China and other new candidates for offshored work. For the workers in India, this means that the inexpensive labor they are already providing will suddenly become less marketable.

India's thriving companies such as Infosys and Wipro are aware of the threat posed by China, and they are now striving to specialize in new ways that will enable them to remain competitive. Two methods are being used for this: specialization in higher valued skills, and specialization in particular industries (McKinsey Global Institute, 2005). Nevertheless, India is already becoming less competitive in the sense that wages are no longer cheap compared to those in Vietnam and China (Schults, 2007). For companies that need to choose between India and another country, these changing situations are worthy of deliberation.

In one study designed to measure the value of different countries for use by companies offshoring skilled labor, the results showed that India does remain the most attractive location overall but that some other countries are "not far behind" (Schultz, 2007, p. 239). The United States has built up excellent rapport and mutual understanding with the Phillipines, and Europe is finding valuable outsourcing opportunities in central Europe. Russia and China are attractive because of the high levels of skill represented by professionals there, but a language barrier and lack of a mature infrastructure has kept them somewhat excluded.

PART TWO:
IMPLICATIONS FOR HUMAN RESOURCE MANAGEMENT

Human Resource Management International Digest (HRMID) (2005) poses the question, "Should human resource management play home or away? Just as service providers in India must be proactive in order to stay competitive even as they continue to prosper, Human Resource managers must be proactive in order to acclimate to the new circumstances that come with offshoring. In both cases, life seems to be getting easier, but the competition inherent in capitalism makes constant improvement necessary. No one can afford to relax for long.

It is fascinating it is that a relationship seems to exist between advantage and complacency. Modern science has made great feats of communication and collaboration possible, so that people around the world can work together as part of a single entity, and this new level of efficiency has made life easier for many people. In a previous section of this paper, it was explained that Mitra (2008) expects India to lose its place as the most attractive location for outsourcing, and she believes that this is the result of failure to stay focused in the presence of new comfort. She believes that India's human resource powerhouses failed to keep up with the changing times, because their success made them lazy: Mitra writes, "The workforce is getting comfortable in their cubicle chairs, just as the turkey gets comfortable before Thanksgiving" (paragraph 10).

What has this got to do with the practice of human resource management in companies that offshore work from the most advanced countries of the world? In the same way that firms such as Infosys and Wipro must guard against complacency and satisfaction with the status quo now that life became easier, human resource management with the offshoring companies must step up the intensity of their effort – rather than relaxing – when new levels of efficiency make life easier. It is a mistake to believe that efficiency-enhancing technologies create a situation in which HR professionals no longer need to work as hard. In fact, they must work harder, now, to keep up with the faster pace of the world. The reason for this is that, even though technology has made it possible for one's company to make a permanent improvement, the same improvement is being made by all other companies that embrace efficiency-enhancing technologies. The reason capitalism works so well is that the inherent competition makes it impossible for businesses to stop striving toward better quality and value. What are the implications, then, for human resource managers?

Reframing Negative Ideas about the Company's Ethics

In the company's country of origin, jobs are eliminated as efficiency increases. It is a harsh but natural process. Employees may believe that the company is unethical, when in fact it is only taking the steps that are necessary for staying in business. Human resource professionals need to know how to mitigate the negative ideas that arise when, for example, many domestic employees are laid off so that their jobs can be shipped overseas. “It is natural for them to believe that the company has ‘‘done the dirty’’ on colleagues and to feel anxious about their own futures” (HRMID, 2005, p. 13). However, it is also true that most people do understand that capitalism involves daunting competition, and when they go beyond their initial impressions most people share a common understanding that automating and outsourcing in order to eliminate the need for certain jobs is often a “necessary evil.” HR Management should be able to tap into this deeper understanding in order to ease the transition into the practice of offshoring labor to India.

Vickers (2005) observes that “business ethics” is a term that creates tension, because managers must balance the interests of shareholders with the interests of other affected people and entities. He asserts that, despite this challenge, “today's business leaders can model behaviors and create a corporate culture that support ethical business practices even while making their firms more competitive in the marketplace” (p. 26). This seems like a questionable assertion. Capitalism is ruthless; competition will force some organizations out of business. To the extent that advantage can be gained by lowering standards for one’s own “business ethics”, companies that would otherwise be forced out of business can save themselves by lowering their ethical standards.

This does not mean that low ethical standards are acceptable. On the contrary, the company strives toward high ethical standards and takes pride in how well it treats the employees. It is appropriate to feel proud of being able to provide jobs and good benefits, because this is only made possible through effective strategic management that has kept the company competitive. When circumstances change, though, and the company must change to accommodate new circumstances, ethical decisions must be made. Human resource managers need to be able to convey the fact that the number of people a company is able to employ necessarily fluctuates.

In addition to the pressure felt by those responsible for keeping the company competitive, a delicate balance must always be maintained; because various interests must be weighed against one another, everyone remains in a state of slight dissatisfaction. Vickers (2005) writes:

> Although society wants companies to create many well-paying jobs, those same organizations want to limit compensation costs and raise productivity levels. Customers want to purchase goods and services at low prices, but businesses want to maximize profits. Society wants to reduce pollution levels, but businesses want to minimize the cost that environmental regulations add to their operations. (p. 26)

Along with the employees that become offended by the fact that their co-workers have been laid off in favor of cheaper labor from professionals in India, HR professionals can also expect arguments from patriots who perceive this move to be hurting the economy in the company's country of origin. These people may be very passionate in their disdain for the company, but oftentimes communication can solve this problem. Bauman (1998) observes that a strong relationship exists between a link between nationalism and fear, for example, so to the extent that airline personnel experience increased fear due to the possibility of terrorist attacks they may experience increases in nationalism as well. David Allen (1993) likewise writes about "stranger fear" (p. 7) associated with cultural identities; with added fear, fundamental changes take place that organizational leaders must understand when mitigating controversy pertaining to the practice of offshoring.

Bauman and Allen are not the only scholars that perceive a link between nationalism and fear. In a 1999 article by Stephen Segal, the mechanisms behind nationalism are explored, and it is pointed out that we need to confront the, "pivotal role played by insecurity and uncertainty in forming political identities. It was Nietzsche who pointed out the relationship between power and fear" (p. 174).

Despite natural fears associated with intercultural differences, it is a misconception to think that the practice of offshoring will necessarily hurt the economy by eliminating domestic jobs. As explained earlier, the United States is an example of a country that actually sees its economy *improve* over the years through the practice of offshoring. In order to mitigate anger from employees and other stakeholders who feel offended on behalf of the country, one might look to the actual statistics showing the truth of the matter.

Yet another type of anger comes from those who feel sympathy toward the people in the developing countries that are being "exploited." This sentiment is especially true when unskilled labor is outsourced and poor working conditions with low pay become the norm. The more recent practice of offshoring white-collar jobs, however, and investing in the country being utilized, is far less likely to seem unfair to the offshore employees. If anything, a process of equalization and integration is taking place.

Nevertheless, HR professionals should be prepared to reframe negative ideas about the ethics of offshoring in this regard.

Employee Relations:

What Do We Tell the Employees whose Jobs Have *Not* Been Outsourced?

Human resource professionals are responsible for representing the company to the actual employees. Success or failure to present the company in a positive light can have far reaching consequences. In order to do their part to minimize the damage that offshoring does to the company's public image, HR professionals should stay mindful of ethical principles. Vickers (2005) warns management not to simply, "throw up their hands and turn over the problem of ethics to corporate lawyers, saying, 'Just keep us out of court'" (p. 26).

In that sense, it is especially necessary for management to communicate well with HR professionals about the mechanisms that were at work to establish offshoring as the correct decision. When HR professionals have doubts about the company's virtue, they are less likely to conduct themselves like representatives of a virtuous organization – and the other employees can sense it. It would be a shame if, for example, a company was forced by competition to lay off many employees in order to cut costs by hiring overseas and its HR managers did not fully understand that it was a necessary move; the management would convey that misconception despite the truth. A deep understanding of the reasons for offshoring must be passed along especially to the HR department, because of its ongoing influence on the perceptions of other employees.

This principle of striving for deep understanding is very important. The factors affecting competition among large businesses are too numerous and change too quickly for anyone to be able to truly have a thorough understanding. Everyone just has a *sense* of it. Corruption is kept invisible wherever it exists, so people have suspicions of corruption everywhere. Even if no one felt that greed was at work, opinions would continue to differ about the best strategic moves and the best ethical practices. This means not only that people's views of the company can vary significantly, but also that the question is not a simple matter of approval or disapproval. HR personnel and all other personnel can have their approval reinforced or their disapproval lessened through good communication. HRMID (2005) advises, "The answer is to communicate, communicate and then communicate some more" (paragraph 13).

The Importance of Attending to Morale

Simms (2007) provides an important reminder about employee satisfaction: it is a good predictor of customer satisfaction. "If you want your customers to be satisfied, you need to ensure that your employees are" (Simms, paragraph 9). Employee morale is an important consideration for many reasons. Champion-Hughes (2001) explains, "If your employees are happy and satisfied in the workplace, they will usually be more motivated, more productive, and have positive self-esteem and improved morale" (287). Unfortunately, it almost seems as if the "fragmentation" process of offshoring labor seems to fragment morale as well. Aside from the obvious concern that arises when one sees colleagues lose their jobs to replacements in India, the fragmentation and decentralization of a company can interfere with morale in subtler ways as well. To the extent that shared values and common norms within a company “strengthen” organizational culture, fragmentation and discontinuity within a company can be reasonably expected to weaken it.

A good example of organizational leadership that achieves high employee morale is Southwest Airlines. This company has remained fortified over the years through creativity and tight organizational structure. Rather than branching out all over the world like other airlines, Southwest concentrated on its market niche. Newstrom (2002) references Southwest Airlines’ notorious leader, Herb Kelleher, as a perfect example of leadership that optimizes the company’s performance by boosting morale. He explains that Kelleher, calls himself the “High Priest of Ha-Ha,” and always emphasizes the importance of fun. Newstrom also writes:

> Southwest Airlines looks for a sense of humor in their new recruits, paints company airplanes in wild designs such as Shamu the whale, hides flight attendants in luggage racks to surprise customers, sends new hires on a scavenger hunt to uncover corporate history and culture, and produces rap music videos [. . .]. In an industry where thousands of lives are at stake every day, Southwest Airlines wants its employees to take their jobs seriously but not themselves (p. 4).

What makes this example interesting with regard to the practice of offshoring labor is that Kelleher’s large yet close-knit organization represents the kind of cohesiveness that is relinquished when jobs are transferred overseas. A solid understanding of this phenomenon is important, because modern times require true finesse in attending to relations between employers and employees.

Finesse in Employee Relations: A New Paradigm

With the increasing sophistication of the modern world, good employee relations are becoming more important than ever. Modern democratic freedom and protection has advanced to such an extent that the employees now have much greater abilities to make their dissatisfaction known. In order to stay true to the sophistication of modern times, management must realize that employee perceptions are becoming more and more consequential over the years.

In the United States, for example, during and after the industrial revolution employee relations were much more militaristic than they are today; the advent of labor unions and the gradual increase of protections for employees created a situation in which management, appropriately, had to be more sensitive to their needs. Wuthnow (1996) writes:

> By the start of the twentieth century, influential debate on these issues was set largely in the context of utilitarian arguments concerning the connection between work and money. The principles of scientific management advanced by Frederick Taylor and so effectively operationalized by Henry Ford can perhaps be taken as the apex of this development." (Wuthnow, 1996, p. 85)

During the mid-20th century, the militaristic style of management that had been used during the Great Depression and World Wars I and II was no longer necessary. Like a prospering company that becomes able to increase employee benefits because of increasing profit, the United States became wealthy enough to greatly increase its protection of workers.

It was during this transition that, in 1961, W.H.C. Prentice wrote his famous article, "Understanding Leadership." He defines "leadership" as the achievement of organizational goals "through the direction of human assistants" (p. 1). He explains that the human assistants are motivated by many rewards, only one of which is financial compensation. Employees want fulfillment, appreciation, and other intangible rewards as well, and they are dissatisfied without them. Prentice even cited the "Golden Rule" – that one should treat others as one wants to be treated – as an important managerial principle. This shows that a change was occurring in the practice of management.

A few decades later, a new century dawned, and articles about leadership began to involve concepts like Goleman's (2004) "emotional intelligence." Qualities such as self-awareness, self-regulation, motivation, social skill, and empathy were shown to be more important than I.Q. or technical skill for empowering leaders to achieve superior results. Goleman studied high achieving managers and average managers, and the results of the project showed that 90% of their differences consisted of attributed related to emotional intelligence. Over the course of a century, leadership changed from a role of militaristic toughness to a role of subtle wisdom and finesse.

Modern circumstances make it useful for managers to be able to provide a sense of satisfaction for employees. About the changing values of American workers, Wuthnow (1996) writes, "Throughout much of our nation's history people pursued the American

Dream by trying to attain high-paying jobs, working hard to become materially successful, and striving for an economically comfortable life. But to a growing number of Americans, the life envisioned in this dream is no longer enough" (18). In modern times managers have much more to worry about than demanding productivity and disciplining employees. Hochschild (1995) identifies several, common ideals among working Americans in modern times:

- Planning your life a good way ahead rather than relying on luck,
- The key to success lies in one's own hands,
- No weakness or difficulty can hold us back if we have enough willpower. (p. 55-8)

Through the use of observation, interviews, and surveys with employees at various levels within organizations, Maddock and Fulton (1998) put forward five categories of human motives: Orientation, Survival, Adaptation, Expectation, Play (p. 21). Based on their acquisition of data pertaining to both conscious and subconscious human motives, they regard leadership as very intricate balancing act that requires deep understanding. A generally sound organizational structure of leadership is insufficient; employee motivation requires a somewhat artful application of wisdom and interpersonal skill. Maddock and Fulton (1998) explain, "Leadership involves the constructive use of emotion, which is already prevalent in organizations and in businesses but is suppressed, disguised and camouflaged" (p. 43).

Maddock and Fulton (1998) conclude that, "Effective leadership introduces nothing new or unique, but makes use of motives, emotions, features and benefits that are already in place" (p. 43). Nothing necessarily must be introduced in order to heighten morale, productivity, and enthusiasm among employees; all that is necessary to motivate employees is already accessible. Motivation is achieved through the fulfillment of needs, and everybody has needs prior to entering the airline industry.

Some needs cannot be fulfilled simply with monetary rewards – and these are the emotional needs. Employees want to feel as though their efforts are being appreciated, and that the appreciation they desire should be expressed by someone whom they admire and whose approval they seek. When needs remain unfulfilled, employees may succumb to feelings of apathy. Gellerman (1963) describes research by Abraham Zaleznik, for example, in which the needs of factory workers were analyzed and explained:

> While they often have desires for self-development and growth, these desires are much more likely to be frustrated for such workers than for professionals. Partly as a consequence of this frustration, attitudes of futility and disinterest appear which effectively prevent both self-development and efficient job performance. (p. 56)

Modern leadership principles that cater to employees needs for appreciation are wise, because happy employees are more productive. "Management is not, in other words, simply a process of making the right decision and seeing to it that the decision sticks. When the decision affects other people, it may not be right" (Gellerman, 1963, p. 62).

The "American Dream" symbolizes the motivating forces that are at work in the minds of American laborers. Hochschild recognizes three different expressions of the

American Dream as it comes into view in the workplace. First, she notes an *absolute* kind of dream, which is an American dream of gaining some preconceived level of material comfort and prosperity. Next, there is the *relative* dream, which involves keeping up with one's neighbors and colleagues with regard to prosperity and success. This "relative" dream requires the ability to measure up to the successes of others. Finally, there is a *competitive* dream, which is like the ambition inherent in democracy's free enterprise; this is a desire to succeed by defeating others.

HR managers must guard against lingering notions, leftover from the old paradigm, that employees will be satisfied with mere financial compensation. Wuthnow (1996) writes:

> Working harder just to climb the corporate ladder and acquire more economic resources no longer seems as appealing as it once did. Instead, concerns are being expressed with increasing frequency about the ill effects of working too hard, of subjecting oneself to relentless job pressures, and of becoming focused so single-mindedly on material pursuits that other human values are neglected" (Wuthnow, 1996, p.18).

The principles expounded above demonstrate the characteristics of modern workers in the developed world – the people who are likely to be offended by a decision to cut jobs by offshoring labor. Modern HR professionals must understand the implications of offshoring with regard to these longstanding values. The new paradigm of management requires real finesse in attending to employee relations. Employees need to feel good about the company that employs them.

The New Paradigm and Controversy about Offshoring: Compensatory Ethics

In 2003, the Society for Human Resource Management (SHRM) joined the Ethics Resource Center (ERC) in conducting a study that demonstrates the way in which unethical policies translate directly into negative perceptions among employees. When asked about the most common sources of pressure to compromise ethical standards, study participants from SHRM most often indicated the “need to follow boss's directive” (cited in Vickers, 2005, p. 27). This shows that employees are vulnerable to pressure to compromise their own ethical standards when directed to do so by the company via a boss. More importantly, it shows that people at every level of the company are affected by ethical decisions made by upper management.

One new concept introduced in this paper is “compensatory ethics.” The ethical conflicts described above directly affect productivity, efficiency, morale, and so forth, so it is in the best interest of the company for HR management to demonstrate strong ethics during the rocky transition that comes with offshoring jobs to India. In light of the fact that poor ethics, actual or perceived, deeply affect everyone in the company, steps should be taken to demonstrate high ethical standards. Compensatory ethics can be considered a sincere gesture and honest effort by management.

In a way that is almost similar to the “carbon offset” money that is paid by some airline passengers in order to justify harmful greenhouse gas emissions from their flights, compensatory ethics are real investments in efforts to support employee morale. The fact that every aspect of a business’s operations is affected by employee morale makes it necessary for companies to attend to that morale effectively. Companies can invest in promotions to highlight efforts being made and money being spent on altruistic endeavors, tax deductible contributions can be made to charities, and additional benefits can be provided for the employees.

Nothing serves as well to make a company appear to be ethically responsible than the practice of actual ethical responsibility. Sincerity goes a long way. If the company is cutting costs in order to make a few rich people richer, and a large number of ordinary people suffer unnecessarily, HR professionals will have a hard time trying to put on a convincing show. On the other hand, when an HR professional knows that the company is keeping high standards of ethical responsibility, he or she will be able to convey this truth to the other employees.

Conclusion

It is interesting to note the writers covering the topic of offshoring skilled labor often express the gravity of the decision by referencing the Shakespearean question, "To be, or not to be?" as spoken by the character Hamlet while contemplating suicide. *Human Resource Management International Digest* (2005) observes that, "Many of today's business leaders probably imagine that they feel some empathy with Shakespeare's troubled prince ("Should HR Play Home or Away," p. 9). Another source, Schultz (2007), actually twists this quote into the title of her article: "To outsource or not to outsource [. . .]." When did hiring human resources become such a delicate matter, and why is it being likened to a question about the value of life itself?

The seriousness of the subject comes in part from the public outrage that occurs when the owners of a company allow their countrymen to remain unemployed so that the company can save money by hiring abroad. This argument is not entirely fair, though, when it comes from people who appreciate capitalism and understand the nature of the inherent competition. One cannot even argue that the country itself is being injured, because a nation whose companies use offshoring has advantages that compensate for the displacement of workers.

Everyone must rise to the occasion in order to accommodate a new level of efficiency that has been reached by humanity. Proponents of the practice of offshoring explain that it is a natural result of modern technology. Those who are poor will work for less, and they have the opportunity to do so as advances in communication and transportation even the odds on the global playing field and people are reminded just how artificial national borders really are. From afar, the process must look like a kaleidoscope turning.

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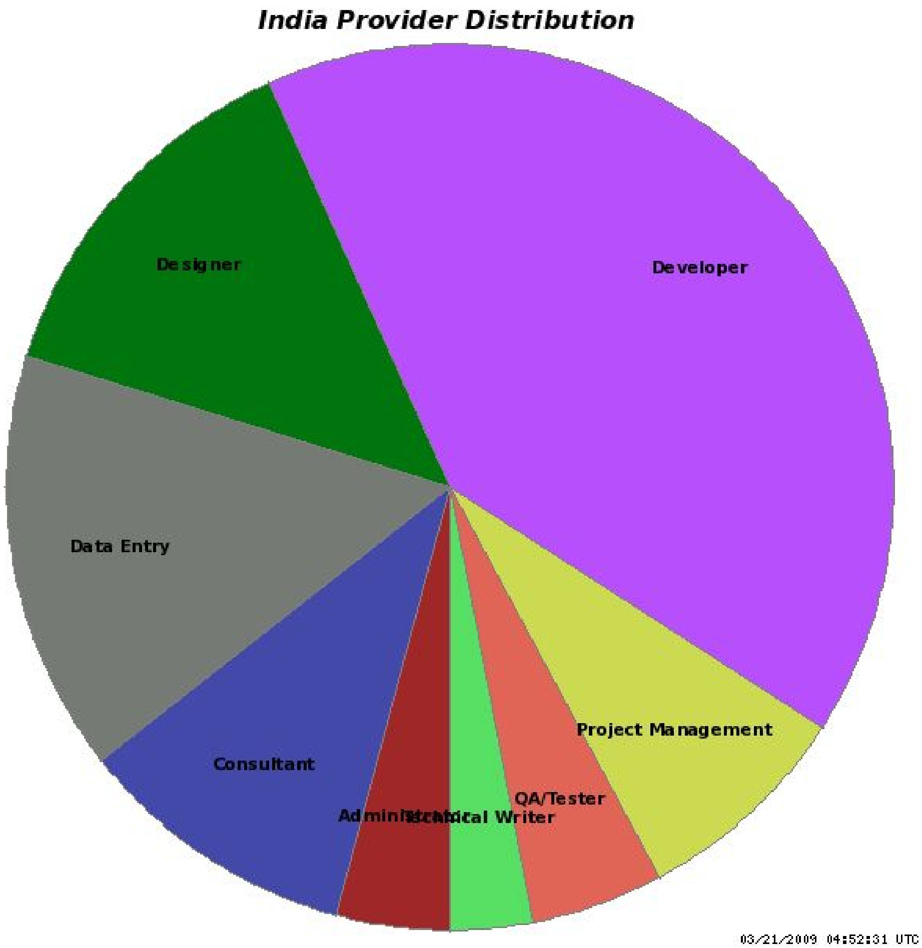
APPENDIX A:

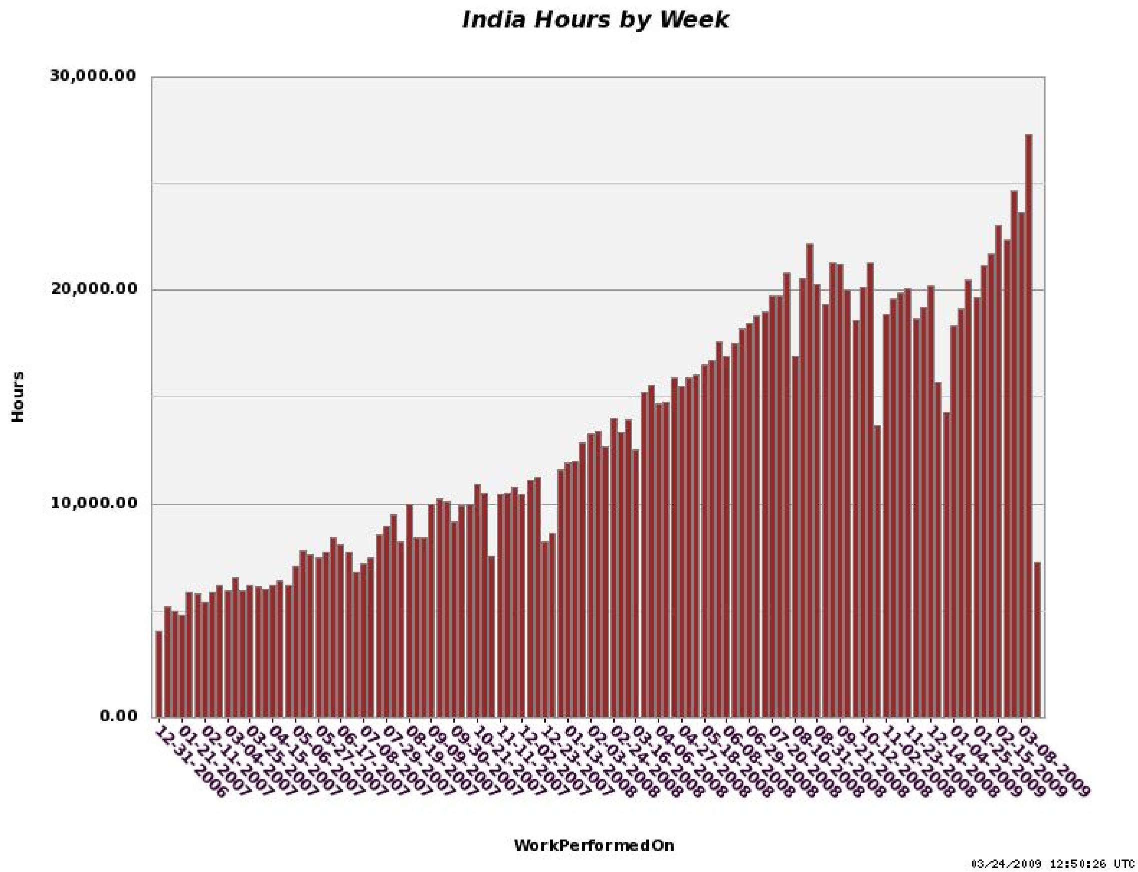
Services Provided in India



(O-Desk, 2009, available:)

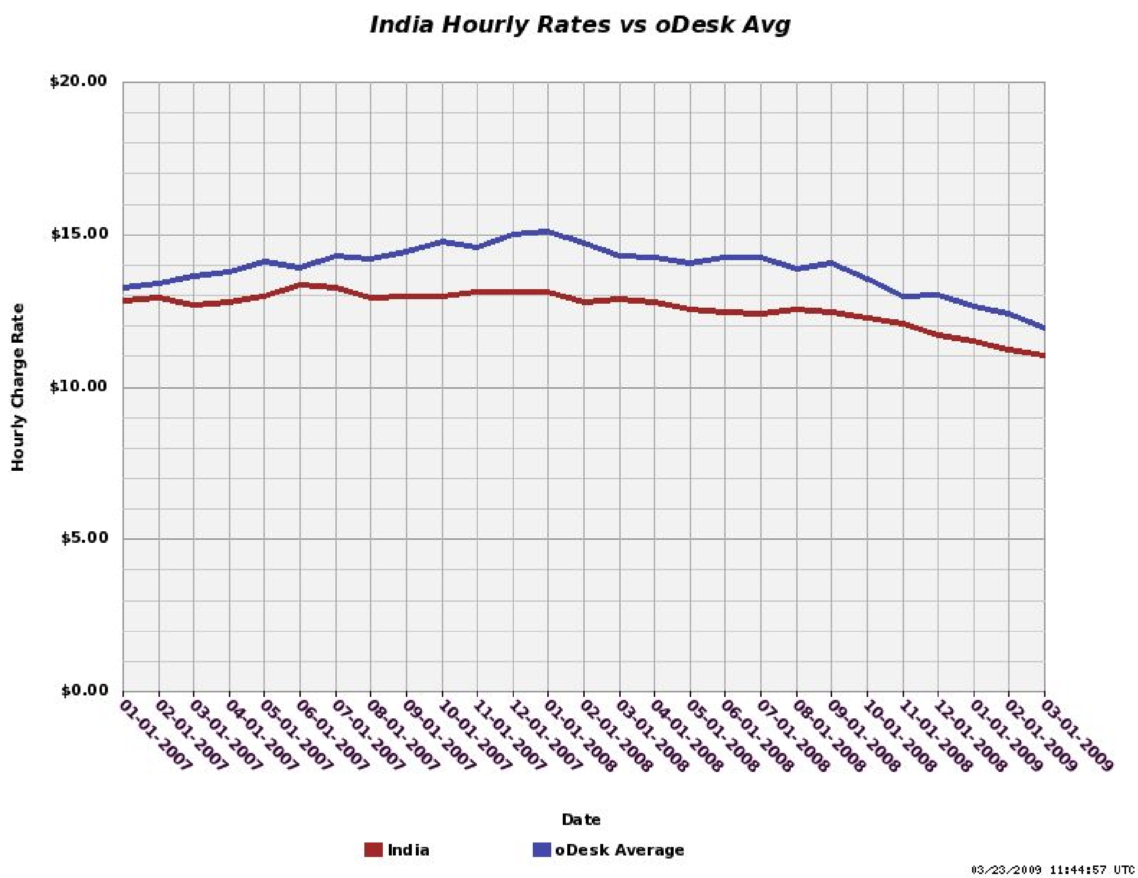
APPENDIX B

India Work Hours



(O-Desk, 2009, available:)

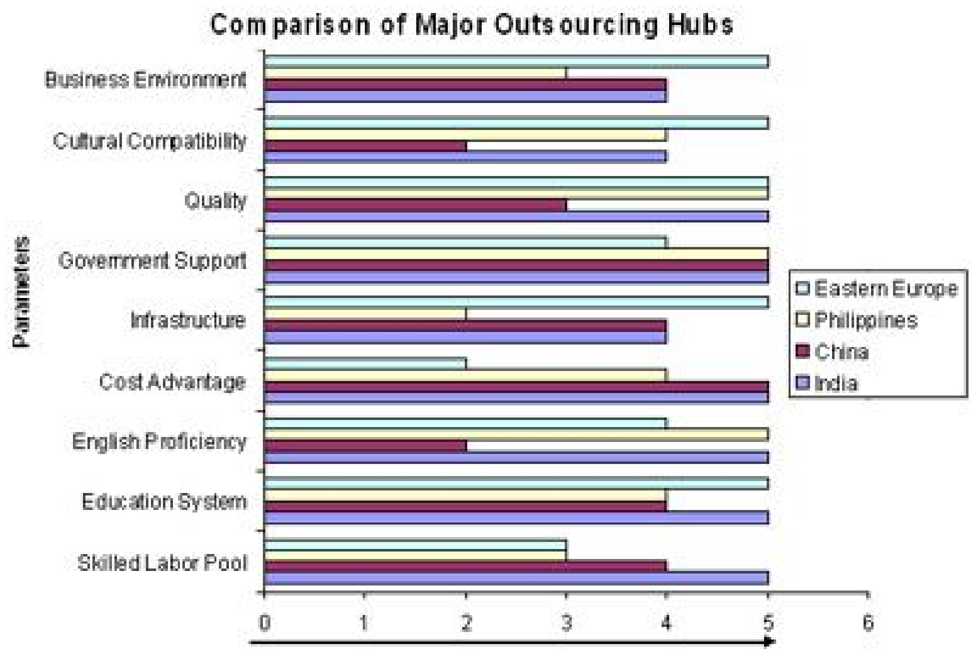
APPENDIX C



(O-Desk, 2009, available:)

APPENDIX D

Point-by-Point Comparison of Alternatives



("Outsourcing Leadership")