

Comprehensive Question Two

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Comprehensive Question #2

Analyze the ethical impact that Outsourcing has on indigenous populations while answering the following questions. What effect does outcome have on the economic conditions of the local population? Do Corporations have an obligation to provide a certain standard of living or wage to the employees? Is there a moral or ethical responsibility to support employees for a period of time, or can corporations continue the practice of moving jobs as labor prices fall in a different location? .

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Executive Summary

This response to the comprehensive question will focus on defining the current trend of "outsourcing", or shipping labor pools to a foreign shore, from the home country of the corporation and the impact it has on the home population and the new host population.

The global economy is often coined as a term that fosters the belief that all people live in one "big happy world". One perception is that corporations owe no allegiance to a single nation, nor does a company have a social responsibility to the government or citizenry that authorized their existence. While this may be true in the purest legal definition of world economics, does it ethically hold true for the company in practice? The exploration of corporate practices and the effects that such practices bring upon local populations; both in the originating country, and the current host country brings with it controversies in and of themselves. What is truly meant by outsourcing of labor? What nation does a country owe allegiance to? Does a company operate on ethical principals when it shifts employment to an offshore location, other than the location the work was created. What rights do workers have globally to a job with a given company, and for how long?

These questions barely delve into the problems caused from an ethical point of view to the global economy, and the current perception of "outsourcing jobs". The location that a company chooses to produce products, goods or services is often limited or influenced by factors other than money. Operational considerations cost of goods sold, shipping, natural resources and a wide variety of general business concerns all play into the scenario of a decision to ship labor or human

resources to another location. The world has faced this dilemma before, and it is proven that migrations of peoples, corporations, technology and other national developments are part of the natural course of human events. While this paper does not focus on general history, but more so on the current research on the matter it is interesting to note that we tend to forget the similar feelings during the Colonial Period of history, the Victorian Era of the British Empire and even more recently during the Post World War II reconstruction of Germany and Japan. All caused a change in the locations of corporations, production, and workforce distribution and are obviously both positive and negative depending on what side of the issue or ocean you are on. Is it so different that today we send jobs to India, Ireland, South Africa, as part of the growth, consolidation and corporate practices, than it was when Mercedes or Toyota opened their automobile plants in the United States?

“It’s natural for ‘back office’ jobs to move overseas, just as factory jobs did before them, but the growth of research and development in emerging global centers like India and China has far greater implications for U.S. competitiveness than the movement of these jobs,” said Singh.

“What if U.S. companies, by pursuing short run cost advantages, are creating future competitors in knowledge and innovation?” (Singh, 2004)

<http://currents.ucsc.edu/03-04/04-19/outsourcing.html> (retrieved 1 May 2004).

Dr. Singh's comments at the recent UCSC-Silicon Valley workshop held on 30 April 2004, are only prophetic, but substantiate my previous comments as to the natural migration of work force capabilities to foreign shores, but with implications of far greater consequences. The competitive nature of IT innovation adds substantial concerns to not only the long term effect on our creative

and innovative development of cutting edge technology but on our graduating fewer nationals in the Information Technology Sector at the graduate and doctoral level.

Singh also offers the followin

Introduction

The phrase "outsourcing of jobs overseas" is often confused with the internationalization of a corporation. In short, "outsourcing" is the hiring of an outsider to complete the work that was normally accomplished by internal employees. The locale of employment, if the employee is still an employee of a parent company, is not the same as outsourcing.

Outsourcing: *An arrangement where one company provides services to another company that would otherwise have been implemented in-house.*

<http://www.lsoft.com/info/default.asp?item=glossary> (retrieved: 17 April 2004)

In short, there is a misconception, or understanding generally about the practice of a company relocating its workforce. This is not the same as outsourcing, but is more often today being used interchangeably. For example: a call center operation is being relocated to accommodate a lower wage workforce, but still is part of the parent company, this is not outsourcing. The same scenario, relocating a call center to another country, by hiring a company located in that country to perform the call center operations, is in fact outsourcing.

It seems surprisingly mundane to assume that the trends of shipping of labor overseas are a new phenomenon. In fact, there is historic precedence in not only shipping of labor, manufacturing but of technology to another shore, throughout the worlds history.

History provides examples not unlike the situation in the global market today, as evidenced by the following citation:

"In the middle of the seventeenth century, Asia still had a far more important place in the world than Europe." So wrote J. Pirenne in his 'History of the Universe', published in Paris in 1950. He added, "The riches of Asia were incomparably greater than those of the European states. Her industrial techniques showed a subtlety and a tradition that the European handicrafts did not possess. And there was nothing in the more modern methods used by the traders of the Western countries that Asian trade had to envy. In matters of credit, transfer of funds, insurance, and cartels, neither India, Persia, nor China had anything to learn from Europe."

http://india_resource.tripod.com/eastindia.html (retrieved: 17 April 2004)

The heritage of the world's history is enhanced today, by the speed of change and exchange of information at a faster rate of speed than Pirenne's publication in 1950. Business to Business economics, a fact of our technology focused economy have made the world less reliant on Cash transactions than ever before. This has made it possible to have transaction systems based upon computer technology located anywhere around the globe, due to the speed increases in internet performance. Costs of labor are always a concern, but cost of maintaining a server complex are also considerations. Call centers are easily moved, and can be relocated almost overnight, by simply changing the RJ11 port that the line is connected to. It matters little "where" the system is located, but more so, how much it costs to operate a 24/7 system capable of handling global customers. The associated costs of having a multi-lingual center, in the United States for example, may exceed the associated costs of hosting the same center in another continent, due to the level of language comprehension and proficiencies of the local workforce. Companies are

bound to support their target market, and if it includes a "rare" or hard to find linguistic provider to accommodate a certain clientele, then perhaps it is time to relocate it to an area that has this language capability. India for example, has both a wide understanding of the English language due to the influence of the English Colonial period, while maintaining a marvelous pool of technologically savvy employees, some even educated in America.

Is it right or wrong to relocate jobs overseas, or to even outsource jobs overseas? This is a broad question with some key "ethical" considerations that must be addressed, but with whose ethics? For sake of argument, I will present several versions of the "ethical" questions, based upon research, past and present, while supporting them with commentary through the discussion portion of this paper.

Arriving at a short list of representative normative principles is itself a challenging task. The principles selected must not be too narrowly focused, such as a version of act-egoism that might focus only on an action's short-term benefit. The principles must also be seen as having merit by people on both sides of an applied ethical issue. For this reason, principles that appeal to duty to God are not usually cited since this would have no impact on a nonbeliever engaged in the debate. The following principles are the ones most commonly appealed to in applied ethical discussions:

- *Personal benefit: acknowledge the extent to which an action produces beneficial consequences for the individual in question.*
- *Social benefit: acknowledge the extent to which an action produces beneficial consequences for society.*

- *Principle of benevolence: help those in need.*
- *Principle of paternalism: assist others in pursuing their best interests when they cannot do so themselves.*
- *Principle of harm: do not harm others.*
- *Principle of honesty: do not deceive others.*
- *Principle of lawfulness: do not violate the law.*
- *Principle of autonomy: acknowledge a person's freedom over his/her actions or physical body.*
- *Principle of justice: acknowledge a person's right to due process, fair compensation for harm done, and fair distribution of benefits.*
- *Rights: acknowledge a person's rights to life, information, privacy, free expression, and safety.*

Source: University of Tennessee at Martin; Encyclopedia of Ethics

<http://www.utm.edu/research/iep/e/ethics.htm> (Retrieved: 17 April 2004)

In viewing this broad brush listing of principles of applied ethics, the corporation is faced with decisions that will affect people's lives. Where do they draw the line? Do not harm others, is a noble principle to follow, but there will be someone that is harmed if you move their job to another location, while the recipient is excited about the new opportunity. One key principle that corporations are typically rather good at, from the ethical point of view, is to not violate the law, but again, whose laws; host nations, nation of origin, ALL laws? Adhering to all laws seems to be a rather extreme goal and one that is certainly not possible, as some national laws may contradict our own.

Literature Review

Dawn Moore, of the Intel Corporation, a rather powerful voice in the technology arena due to their market share of "Intel Inside" chips on PC's around the globe, delivered the following presentation that sheds some light on at least one corporation's views on outsourcing, as well as in sourcing or keeping of work in-house.

Factors Supporting In-Sourcing

- Cost considerations for the buyer
- A need or desire exists to integrate internal plan operations
- Excess plant capacity exists to absorb overhead costs
- A need exists to exert direct control over production and quality
- Product design secrecy
- A lack of reliable suppliers
- Firm desires a stable workforce in and unstable market
- Items or product is part of the firms core competency (s)
- Item or technology is strategic to the firm
- Union or other considerations discourage outsourcing

Moore, D. Global Outsourcing Presentation (Retrieved: 17 April 2004)

<http://www.ism.ws/ConfPastAndOnlineDaily/Files/May01/DD-Moore.pdf>

The preceding ten points reflect a corporations, albeit only one corporation, viewpoint as to a metric or threshold that favors keeping work in-house, and presumably in the country of origin. Based upon the applied ethical principals addressed earlier, there are no violations to the standards of ethics applied to the internal delivery of services from labor. Point for point they are within the realm of accepted ethical principles from a western point of view. The questions that another firm may need to ask are based upon whether the firm is multi-national in its existence. Using the United States as the host country seems simple to comprehend, but what if the majority of a company's work force is housed outside of the Continental United States (CONUS).

In addition, the plan by Intuit, does not take into account the provision of providing a guarantee of work, based upon 360 degree loyalty to the work force, and on the contrary, other than adhering to the Union or legal issues, sets criteria for taking corporate loyalty out of the scenario in its entirety.

Of greater note from the presentation are the criteria established for outsourcing the work force to another location, be it in CONUS or outside of our borders.

Factors Supporting Outsourcing

- Cost considerations favor the supplier
- Supplier has specialized research, and know-how

- Buying firm lacks resources to build an item
- Buyer has small volume requirements
- Buying firm has capacity constraints, while seller does not
- Buyer does not wish to add permanent workers
- Future volume requirements are uncertain
- Item or service is routine and available from many suppliers
- Short product life-cycle precludes investment into the goods or services
- Adding capacity adds high start up costs to the buyer

Moore, D. Global Outsourcing Presentation (Retrieved: 17 April 2004)

<http://www.ism.ws/ConfPastAndOnlineDaily/Files/May01/DD-Moore.pdf>

Ms. Moore's viewpoints as presented to Intel Employees are indicative of a policy that follows the theories of economics, sociology and political sciences of such scholars as Max Weber, and the "Value-Rational Action". The value-rational action is one of "being grounded in the logical assessment of the most efficient ways to achieve a valued goal or end" (Ferrante, 2000).

As Ferrante discusses further the concerns of Max Weber (1864-1920), there are adverse consequences to such rationalization. People will tend toward finding the most efficient means to an end, without considering alternative solutions to problems first. Profit being a sound motivator in our capitalistic society, may drive this efficiency toward the so called "bottom line".

This can be deceptive, as the tendency to drive business based upon short term gains, albeit, the most efficient means at the moment, may lead to long term crisis of an unforeseen nature.

(Ferrante, 2000)

Local events can be influenced by events taking place in foreign countries and are often caused by a combination of factors (Giddens, 1990). The effects of a monsoon on production in the far corners of the globe will have an impact on the U.S. economy based upon the industries affected by the disaster. There is also the "undeniable global extensions of social life" forcing people to engage with others outside of the confines of their countries (Martin and Bettel, 1998).

The global "exchange of goods, services and influences on a global scale is uneven with some countries (Ferrante, 2000). This dominance is also indicated in the presence of the United States military in 140+ countries in every region of the world (U.S. Dept of Defense, 1996).

Multinational corporations, international organizations and special interest groups are significant in structuring social relationships that transcend national boundaries (Harvey, Raul, and Thibalt, 1996).

Globalization has been characterized into two distinct categories (Ferrante, 2000), from above and from below. Globalization from above is the interaction between peoples from around the globe with educational, economic and political advantages, sometimes at the expense of pushing those aside who may not have such an advantage. Globalization from below is characterized by the interdependence at the grassroots level that aims to protect, restore, and nurture the

environment and to enhance ordinary people's access to the basic resources they need to live a dignified existence. (Brecher, Childs, and Cutler, 1993).

Discussion

Globalization is not a new phenomenon, as indicated by Ferrante, and perhaps can be traced most recently to England around the year 1850, and soon spread to Europe and the United States.

Outsourcing, a rather new term for the relocation of jobs to a cheaper labor market is also not a new phenomena, although the terminology may change. The basis for corporate decision making is one founded on profit, strategic positioning and of course preferably both. The need to seek lower labor costs in the short term may have far reaching implications on the strategic viability of a company to compete, while also influencing the society that is on either end of the relocation effort.

"In the U.S., we have adopted the idea of entitlement," he said. "We think we're entitled to jobs. In India, it's very different. They have a lot of respect and admiration for people who provide jobs for them." (Millard E. 2003).

This citation is not intended as a characterization or stereotype of two cultures, but to illustrate that there are indeed differences between perceptions of employment, and entitlement to available opportunities to succeed. The paradigm for successful companies is to make profits in the most efficient manner, "being grounded in the logical assessment of the most efficient ways to achieve a valued goal or end" (Ferrante, 2000), which is to paraphrase Max Weber on "Value-Rational Actions.

The key to addressing the global effects lays in the aforementioned field of Applied Ethics as it pertains to globalization. This discussion places the burden on the government (s) and or multi-national corporations to address the key issues as they pertain to localization of applied ethics.

What personal benefits will be derived by the outsourcing of jobs from a multi-national corporation to offshore, foreign locations? Corporations should consider the extent that their actions produce beneficial consequences, while conversely consider any harmful repercussions to their organization, society, and nation.

Social benevolence or the resulting actions that outsourcing or relocating labor pools will have on indigenous populations at the far end of the scenario. When moving a substantial industry with technological infrastructure to a foreign shore, is there an obligation to remain? How long is the company responsible for the population they affect? Consider the training and rehabilitation effects on the local population, if the dynamics of a culture are changed from agrarian society to technologically enhance.

The principal of benevolence, or helping those in need, is almost universal, and companies are encouraged to spread the principle of paternalism, or assisting others in pursuing their interests, when they cannot do so themselves. By the same token, the principle of harm, as in doing no harm to others needs to be considered.

Honesty, founded on the clear intensions of a corporation expressed locally and abroad is a foundation of applied ethics that is often left out of the discussion. Honesty, which is founded on the perception that one is being forthright and forthcoming with information that is truthful, timely and in the spirit of honest behavior, is a principle of applied ethics that is often

overlooked. This should not be vague or implied honesty, which reflects only the letter of the law, but the spirit of the law, and commitment to the local workforce.

Lawfulness, in applied ethics implies that one is complying with the laws of the location in question, which in a global outsourcing scenario, quickly becomes an enormous task. There is no simple solution; however, the practice of honest forthright behavior by corporations generally will comply with most civilized law abiding nations.

Autonomous individuals have a right to live and work wherever they choose. In applied ethics, this may mean that jobs are relocated, and that wages are adjusted to a standard of living that is fair and equitable to a regional standard of living, but that individuals are autonomous in their ability to choose for or against such relocation.

The principles of justice and rights in applied ethical implications on global outsourcing would infer that individuals harmed have the right to be heard and duly compensated when wronged. This principle would apply to either end of a corporations outsourcing initiative and is a basic tenet of civilization. People have a right to fair and honest treatment, and when harmed, hindered or in anyway mistreated, subsequently compensated for such treatment.

The globalization of the economy is a much older situation than the recent headlines on the subject, although the outsourcing of technology brings with it some rather unique and questionable security concerns over just what is being outsourced. The rights of workers in the United States, and abroad, are based upon the laws of the country in question. If there is disparity in the application of these laws it will be up to the host nation of the parent company or international courts to determine what the final course of action is to be.

Conclusions