Outsourcing at Any Cost?
Do corporations ever have a moral obligation not to outsource?

By Julian Friedland, Ph.D.

In 1997, when Galaxywire.net, a successful Internet service provider, was looking for a new central office location, it found a very receptive community in Green Fork, Ill. With the unemployment rate hovering at 16 percent, the city was ready to offer the company a great deal in return for moving there. Galaxywire planned to hire 3,000 in its first year, primarily in customer service, software engineering, and Web design.

City development officials offered a $300,000 low-interest loan for employee training, a 50 percent tax abatement for the first 10 years, and even landed a federal grant to construct a new $2.3 million secondary building for day care and executive suites. With Green Fork only about an hour's drive from Chicago, it seemed this small city of 30,000 with plenty of willing and able workers was the perfect spot for Galaxywire’s home office.

The company accepted the offer and at the official announcement ceremony, CEO Dale Horner predicted a bright future. For 35 years, Green Fork's largest employer was Freedman Steel, but the company left town after a lengthy and bitter labor dispute. Since then, locals had grown distrustful of large corporations. Acknowledging this, Horner made a substantial commitment to the residents: “We plan to stay and be an integral part of the community,” he promised. “Our employees are really a family. Across the board, everyone is considered as important as the highest executive. Lots of companies say that, but as I hope you’ll come to see, we’re rather different from most companies.”

Seven years later, Galaxywire was thriving. Not only was the home office extremely productive, the company had expanded considerably, opening dozens of offices across the country. Nevertheless, top management was considering closing the Green Fork office and moving its customer service, software engineering, and Web design units to India. The company stood to save at least $10 million a year by doing so. Customer service employees earning $10-15 an hour in the U.S. earn only $2-4 in India. Similarly, Web designers and software engineers earning $60-70 an hour here earn only $6-8 an hour there.

Furthermore, new research by the Software Engineering Institute (SEI) at Carnegie Mellon University had shown that 85 Indian software companies had received a level 5 Compatibility Maturation Model Rating (CMM) which is the highest rating of engineering excellence. By comparison, only 42 other organizations worldwide had achieved that rating. So management realized that India offered a highly skilled, English-speaking workforce particularly competitive in information technology at a bargain-basement price. And to top it off, the company could deduct the cost of moving from its taxable income as a business expense. As a result, most of Galaxywire’s competitors were already outsourcing to Southeast Asia. This trend was making it more difficult for American customer service agents and IT professionals to find work. Many were seeking new careers in non-outsourceable service sectors such as restaurants, retail sales, tourism, construction, and teaching.

Galaxywire decided to let its employees know immediately of its intention to close the home office before the media could get hold of the story, giving the workers 10 months notice—8 months more than federal law requires for mass layoffs. It also provided severance packages of a month’s full pay and extended health insurance coverage for five months. However, none of the top executives based in Green Fork would be laid off. They would move to smaller offices in California and were likely to receive particularly high year-end bonuses as a result of the savings outsourcing would bring.
Upon hearing the news of the closure, the workers and the city tried to find a solution that would have allowed the company to stay and still recoup most of the money it hoped to save by moving. With the unemployment rate still at 10 percent, the town simply could not afford to lose its largest employer. Negotiators proposed a deal that would save the company $7 million in the first year, $8 million the second, and $9 million yearly thereafter. The city extended the tax abatement for another decade, increasing the yearly reduction to 60 percent.

The employees agreed to a 15 percent pay-cut and a considerable reduction in benefits. But still, the company would not stay. So the workers went back to the drawing board, cutting another 5 percent of their wages, slashing a third of their vacation days and doubling their health insurance premiums. The city increased the tax reduction by another 5 percent. The resulting deal saved the company $10 million in the first year, $11 million the next, and $12 million yearly thereafter. This time, the company took several days to review the offer seriously.

The top executives met the next day to discuss this new offer. They realized that this deal did have a number of advantages:

1. Deciding not to move would increase employee loyalty and make good on the promise they initially made to stay.
2. There was already a highly skilled and dedicated workforce in Green Fork.
3. The workforce in India had not been fully tested. And several companies had already brought their customer service centers back from India, where the agents did not always master American colloquialisms, frustrating many customers, especially those hostile to outsourcing.
4. If they accepted this offer, they might be able to influence other cities where their offices were located to give them similar deals and thus avoid the risk and hassle of moving altogether.
5. If they decided not to move, they might be able to save a good deal on marketing since staying could provide a lucrative advertising angle such as: “Galaxywire.net is working to keep jobs in America.”
6. They could still move their executive suites to sunny California.

But there were also some potential negatives to accepting the offer:

1. There might be growing resentment in the community about Galaxywire forcing its employees and the city to bend over backwards, creating a dangerous precedent that could further strip the community of tax support from other businesses and lower the salaries and benefits of employees elsewhere.
2. It seemed unlikely that the employees and city would be prepared to continue making such extensive sacrifices indefinitely. Eventually, the workers might unionize and make things more difficult.

These negatives made one executive suggest rejecting the offer, but make amends for breaking the promise to stay in the community by covering tuition for employee retraining. Another suggested exploring the possibility of staying in Green Fork, but in order to stem the tide of negative press and morale, to accept the original offer, which seemed to preserve most of the advantages of the second offer but without the disadvantages. The first offer would save them close to as much as the second but also allow them to retain a truly appreciative and non-resentful staff, and even provide the company with a potentially potent advertising campaign that could keep Galaxywire in a leadership position in a competitive market which had suffered negative press over outsourcing.

But by then it was time to go home and think about all the options. How should the board decide?

**Discussion Questions**

1. Does Galaxywire.net have a moral duty to keep its promise to stay in Green Fork so long as it can do so profitably? Why or why not? If so, is accepting even the first offer from the city and workers too much to ask?
2. Could entire white-collar professions be lost to lesser-developed countries if the outsourcing trend continues? Would this be fair to Americans?