

‘AMERICAN OUTSOURCING’ THE IMPACT OF GLOBALIZATION ON THE WAY ORGANIZATIONS CONDUCT THEIR BUSINESS OVERSEAS, THE CASE OF GENERAL ELECTRIC

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Abstract: The concept of outsourcing is not new, especially in the corporate world. It has been going on from the 1900s till date. The basic idea behind outsourcing is to fully utilize one's competitive advantage to gain greater market share, increased productivity and more profits. Globalization is the integration of business activities across geographical and organizational boundaries. Globalization is doing business with a worldwide focus rather than doing business in an international market with the focus from a home-country viewpoint. (Goldin and Reinert, 2007). Globalization is a mixture of international, offshore and global activities and involves a general progression from the domestic to the global. (Cable, 1999). Thus countries like America and other developed countries outsources many of its white and blue collar jobs to third world countries in hopes of gaining greater amounts of profit and market share. This report evaluates the strategies adopted by the General Electric during the recession and the primary causes for outsourcing, starting from monetary gains, intellectual rights, political stability, allocation of resources at cheaper rates and so much more.

Key Words: American Outsourcing; General Electric, Strategy, Recession

1. INTRODUCTION

The United States of America experienced a significant decline in economic activity mostly during early parts of 2002 till 2003. The effect of the recession came into U.S from the severely affected European Union during the 2000s and early parts of 2001. Although many of the more developed countries of the world (U.K, Australia, and Canada) managed to avoid the effects of the recession in the early 2000s, Russia along U.S suffered most of the brutal effects of the recession. Although Canada normally moves in the same direction with the U.S because both the country's economy is closely linked with each other, Canada's economy never actually went into recession in the early 2000s. Some of the reasons behind this turn of events were that Canada was never directly affected by 9/11 and the subsequent wars. Also the Canadian government did not engage in any major tax cuts or major expenditures during that time. America along with the rest of the world fell into now what is known as the great recession from mid of 2007 till 2009 and early parts of 2010. (<http://en.wikipedia.org>)

The housing-related financial assets of the U.S collapsed along with a global financial crisis. The U.S economy suffered severely with food and oil prices reaching new heights, the major financial institutions collapsing like a house of cards and unemployment rates were soaring. This affected the economy of the European Union, Canada and other first world countries in a similar fashion leading to global recession. Ultimately the U.S government responded with a \$700 billion bank bailout and another \$790 billion fiscal stimulus package to help the country come out of the recession.

2. GLOBALIZATION OF THE CORPORATE WORLD

Globalization of business has completely revolutionized the manner in which organizations conduct their operations. The traditional methods have all but disappeared, especially for the global giants. *'Though globalization today primarily covers the economical side, the impact is not limited to the economy only. It actually affects every aspect of life, like cultural, social, psychological and of course, political'*. (<http://lifestyle.iloveindia.com>)

Globalization has caused massive changes in many aspects of life, both positively and negatively. The impact of globalization is immense and diverse to say the least. People all across the globe now have access to information, products and service, which was an impossible scenario 20 years ago. With the advent of the Internet, the concept of globalization has reached completely new heights. With ever improving technology, accessibility to any and all sort of information has caused the market more competitive and fierce than ever before. Organizations now have to constantly adapt and mesh with the ever-

changing business landscape to survive in the cut-throat corporate world. The business organizations are not only competing with their rivals within national boundaries but also with corporate giants from all across the globe. With such fierce global competition, it is only natural that organizations are looking for ways to make its products and services cheaper to stay alive in the market. Outsourcing was a natural outcome that corporations had to adopt to remain competitive (<http://www.n2growth.com>).

Globalization of businesses worldwide has caused corporations to become more aggressive in nature and more proactive in dealing with any components of the business. Due to the ever-changing scenario of the corporate world, organizations have become more ruthless and profit-oriented. The general tendency with big multinational corporations is that they want to gain more profit, and while doing so they end up exploiting resources of the less developed countries (<http://business.mapsofindia.com>).

3. IMPACT OF GLOBALIZATION ON THE DEVELOPED COUNTRIES

The major impacts of global outsourcing are as follows:

With higher levels of outsourcing, the more developed countries is getting more access to cheaper labor, flexible rules and regulations and increased productivity. The labor rate is much cheaper in countries like India, China, and Bangladesh than compared to America. The rules and regulations relating to FDI and working conditions in the third world countries are much more relaxed and flexible than the developed countries. In addition the productivity also increases by outsourcing jobs to countries like India and China because of the 24-hour workday concept. This in turn means countries like U.S have access to products and services at a cheaper cost. This gives rise to additional business opportunities and more growth for the economy (<http://www.drummajorinstitute.org>).

However the downside is also there with increased outsourcing, massive job cuts for the American skilled and semi-skilled work force. Thousands of jobs are being outsourced from the developed countries to third world countries equating to massive unemployment rates. This in turn becomes an additional cost and expenses for the government, which offsets some of the positives of outsourcing. The impact of globalization especially through outsourcing is having quite an effect on the home countries. As in the case, the more developed countries of the world (i.e USA and European countries) are outsourcing many local jobs to third world countries (i.e China, India) for cheaper wage rates in exchange for cheaper products and services. Taking U.S.A as an example, the initial impact of such 'right-sourcing' is countless U.S workers losing their jobs to cheaper counterparts in the less developed countries. In return America is hoping to retain more high-paying jobs for themselves.

4. ANALYSIS: ADVANTAGES AND DISADVANTAGES OF GLOBALIZATION IMPACT

Globalization of the corporate world has brought about many advantages and disadvantages with. They are analyzed in the next section.

4.1. Advantages

With more globalization, the market place is transcending borders, giving companies access to a greater market size, more options for the consumers to choose from. Globalization induces greater productivity and efficiency, which is causing the companies world-wide to produce quality goods and services at a reduced price. This in turn keeps the prospect of inflation to a low considerably. This allows countries to be competitive in specific sectors which mean no single country can remain the power head. With a broader focus, the decisions taken at top levels are for the greater good of the general people (<http://www.darkseptemberrain.com>).

4.2. Disadvantages

Increased globalization is causing jobs to be shifted to from locations where the cost of labor is relatively higher to locations where it is cheaper. This is primarily affecting the developed countries of the world, because in places like U.S. and Europe the cost of labor is significantly higher than in places such as India, China, and Thailand etc. This phenomenon is causing massive unemployment in the developed nations. Also the prime focus is keeping the costs lower, which is causing the poor countries to be exploited by the cash rich global organizations. Also there is the constant threat of the global companies trying to rule the less developed countries by investing obscene amounts of money (<http://www.buzzle.com>).

5. NAFTA - HOW DID THEY AFFECT USA DURING RECESSION?

NAFTA (North-American Free Trade Agreement) came into implementation on January 1st 1994 between Canada, U.S and Mexico. During the U.S recession in the early 2000s, almost 3700 maquila plants were being operated in Mexico. The textile and apparel sectors were mostly outsourced to Mexico during the recession. Due to the cheaper wage rates, many U.S organizations survived the pressure from the recession by outsourcing thousands of jobs to Mexico (<http://www.mackinac.org>).

During the great recession (i.e financial crunch), many U.S companies outsourced thousands of white collar jobs to Mexico to stay alive in the market. NAFTA is the main reason behind Mexico's development with the inflow of FDI, the infrastructure of the country also improved significantly.

The downside of NAFTA, according to experts is that it caused the majority of the outsourcing of semi-skilled and skilled jobs from America. During the recession, the outsourcing of jobs complicated the problems for America. The American people were left jobless, with increasing prices and inflationary pressure, the local economy of many states crumbled. Also the additional expense for the Federal Government to support the thousands of unemployed citizens became an unbearable burden during the recession. The additional payments from the government, reduced spending by consumers due to job cuts, all contributed to the problems during the recession.

6. IMPACT OF GLOBALIZATION AND EXCESSIVE OUTSOURCING ON THE U.S ECONOMY

The proponents of outsourcing have to say that outsourcing is creating more business opportunities and increasing the country's overall productivity, which in turn is increasing the GDP. However the opponents argue that stripping thousands of American jobs is causing a relatively permanent damage to the economy. The arguments are about America losing its technical-edge and competitive advantage to other countries is not short-term and will cause irreparable damage to the economy (<http://www.dirjournal.com>).

The numbers are there to support both sides of the argument more or less but the more visible impact have been the loss of American jobs due to outsourcing. The official statistics illustrates that the economic output of America has grown by 3.3% annual rate after 2003, in a period when the imports from third world countries have increased. The positives of outsourcing are that U.S consumers are getting products and services at a cheaper rate which in turn raises the standard of living (<http://www.rttswb.com>).

Also the money saved from outsourcing white-collar American jobs is used to create and more business opportunities and create more jobs for America. *'Another study by Global Insights estimated the U.S. economy will be \$124 billion larger in 2008 if outsourcing continues compared to no outsourcing'* (<http://www.mackinac.org>). These reports clearly identify the positives of outsourcing and the benefits the U.S economy will gain from it.

'Business Week's analysis of the import price data reveals off shoring to low-cost countries is in fact creating "phantom GDP"--reported gains in GDP that don't correspond to any actual domestic production. However according to Business Week: "the underlying problem is located in an obscure statistic: the import price data published monthly by the Bureau of Labor Statistics (BLS)." Due to this erroneous data, the calculations regarding cost cuts and product innovations are done properly. The government uses the erroneous import price data directly and indirectly as part of its calculation for many other major economic statistics, including productivity, the output of the manufacturing sector, and real gross domestic product (GDP)'(<http://www.businessweek.com>).

‘Forrester Research Inc. predicts U.S. employers will move 3.4 million white-collar jobs and \$136 billion in wages overseas by 2015’ (<http://www.moneyallocator.com>).

These studies clearly reveals the horrifying facts of outsourcing and how the government is using erroneous data to calculate the benefits of outsourcing for the US economy. This suggests that unless rapid action is not taken, the economy will fall into a delusional state of well-being and will eventually cause the downfall of the nation.

With the American economy in recession, the effects of outsourcing has been magnified and scrutinized even more. The other direct effect of job cuts is the loss of income by federal governments due to lower tax receipts, increasing outgoing payments for unemployment benefits and lower tax returns.

7. PROBLEMS ASSOCIATED WITH INCREASING GLOBALIZATION AND OUTSOURCING

With increased globalization, the business organizations have become more profit oriented. The multinational corporations always seek new ways to reduce cost in any way possible to increase their profit margins and gain competitive edge. This profit seeking tendency of the corporations put constant pressure on the affiliated companies to deliver. This ultimately causes the workers of the developing countries to suffer the most due to poor working conditions, safety hazards, low pay rates and almost zero benefits. The developed nations such as America started to outsource jobs to third world countries because it was very expensive to employ American workers with all the strict work regulations, benefits and standard pay rates. Thus they started to look for the poorer countries of the world, to outsource their blue collar jobs (<http://www.businessweek.com>).

The majority of the American blue collar jobs were initially outsourced to Mexico, because of its geographical proximity, cheaper labor rates and flexible rules and regulations. However the Maquiladora industry faced a downturn in employment around 2002. One of the prime reasons behind this downturn was the increasing costs of maintaining an average worker in Mexico due to the rising employment benefits which were mandated by law. The American multinationals then turned their sights towards China and India. The wage rates were lower and no employment benefits were mandated by law and hence a huge ‘chunk’ of business was removed from Mexico so that it could be awarded to India and China. Such type of activity sets an example for the rest of the world to follow. The poorer nations of the world thus tries to reduce their labor rate by forcing the workers to work in ‘impossible conditions’, with little or no benefits and no social security and insurance policies to attract contracts from the developed nations (<http://www.globalenvision.org>).

The multinational corporations are mostly responsible for the existing hazardous working conditions in factories of countries like China, Bangladesh, and Bangkok. The

simple fact is that multinational corporations are looking for countries that can ‘get the job done’ in the shortest possible time, at the cheapest possible rate and as efficiently as possible. These factors combined together results in hazardous working conditions with no regard to safety and benefits of the workers because these will increase the overall expense. The organizations are looking to reduce their costs at the expense of offshore workers. This concept is highly unethical and unjust. For such reasons, the anti-global movement was initiated, to reduce the power that corporations have gained.

8. EVALUATION OF THE STRATEGIES ADOPTED BY GENERAL ELECTRIC DURING RECESSION

General Electric is one of the largest American multinational conglomerates operating in over 160 countries all over the world. The four segments of the company are: Capital Finance, Energy, Technology Infrastructure and Consumer & Industrial.

G.E has operations all across the globe and one of its main strategies is to outsource jobs to developing countries.

8.1. G.E Mexico

The strategies adopted by G.E Mexico are very simple and clear cut. G.E looks at Mexico and its maquila plants to manufacture their products. Due to the close geographical proximity of the country, Mexico became an ideal choice for the thousands of blue collar jobs to be outsourced because of cheap shipping costs and short travel time. G.E management used the relatively cheaper Mexican labor rate to great effect for producing capacitors, lighting products, electric motors and so on (<http://www.nydailynews.com>). This helped to reduce the cost of production significantly and maintain a healthy profit margin. G.E also utilized the weak financial situation of Mexico to establish their real state sector. As mentioned in the case, this sector was incredibly profitable and became the top real estate lender in the country.

The strategies implemented by G.E for Mexico worked brilliantly for the company and its stakeholders. The organization profited from the reduced cost in labor for their manufacturing sector and due to Mexico’s geographical location it was extremely cost effective to source goods in and out of the country. From G.E’s perspective, the strategy of expanding into the various regions of Mexico was highly successful. This also helped Mexico in more ways than one. Starting from employing thousands of workers, help building the infrastructure of the country and also improving the real estate sector by investing huge amounts of money, all contributed to the eventual growth of the nation as a whole. The partnership between G.E and Mexico was a win-win situation and it helped the causes of both the parties involved (<http://www.economist.com>).

8.2. G.E China

G.E China has become one of the most important sectors for the multinational conglomerate in the last decade or so in the quest for its global dominance. China has proved to be immensely resourceful for the company in terms of cheap labor, land, raw materials, and flexible government regulations and not to mention the sheer size of the population. G.E's strategy for China has evolved with time. G.E looked at China as a source for cheap labor for its manufacturing arm (<http://www.manufacturingnews.com>).

However in the last two decades, G.E has heavily invested in China in various sectors to tap into the massive Chinese market. As in the case, G.E is looking to build the 'One GE' in China, meaning that it would 'manufacture products, build distribution channels for selling and build up its services'. G.E plans to utilize the cheap factors of production in China to manufacture and produce goods to distribute across the globe and also sell to the huge Chinese market.

The partnership between G.E and China has proved to be one most dominant force in globalization. G.E is benefiting in numerous ways by investing in China and vice versa. From the company's perspective, the increase in investments in different business sectors in China is the right move. China as a nation is growing very rapidly and is on its way to becoming a global super power. G.E massive investments in the country means that they have the first mover's advantage and can exploit the conducive business environment. This strategy by G.E is helping China's economic conditions to grow outwards exponentially. The employment rates have gone up causing a better standard of living, more multinational companies are investing in China causing trade barriers to disappear and help the growth of the nation as a whole. Some of the downsides of G.E strategies in China are:

Critically analyzing G.E's strategies, it would fair to say that by outsourcing so many blue-collar jobs and establishing production and R&D plants in China, it is giving away valuable technical expertise and hampering the U.S economy. China is basically buying out the manufacturing plants from GE and USA by offering conducive business environment to attract FDI. The long term effects of such commitment with the Chinese and other developing nations will have a permanent detrimental effect on the U.S. Consequently this will bring about an adverse effect on the company's image and reputation in the home country. GE must look to resolve these issues as soon as possible to strengthen their position as a global giant.

8.3. G.E India

G.E's continuous persistence with India has paid large dividends to the company's overall profitability and growth over the years. The multinational organization has utilized the masses of 'cheap educated labor' of India to great effect over the last decade. G.E's strategy for India has been to source intellectual talent for its global business by investing in vast training programs, setting up of development centers and technology centers (<http://www.manufacturingnews.com>).G.E also used India to source products and services

for its manufacturing and financial arms to compete in the global market. G.E India offered highly qualified educated work-force at a substantially reduced cost. This huge talent pool is used for finance and accounting services, collection and insurance services and logistical and IT support.

G.E's strategies for India have been implemented and executed quite efficiently so far. However, the multinational organization should not look at India primarily for sourcing local talent for white collar jobs only but also expand their horizons. India, similar to China is also on the path of becoming a dominant force in the world which gives G.E all the more reasons to tap into the massive Indian market as well. The Indian market is ripe for both industrial and consumer products from G.E, with the economy of the country growing at a rapid pace. The infrastructure of India is developing and G.E should look to capitalize on this fact sooner than later. India can be utilized as an export hub for the rest of Asia for many industrial products because of cheaper input costs.

9. GENERAL ELECTRIC STRATEGIES

G.E strategies for India, Mexico and China are quite similar to some extent. The commonalities between the three countries are cheap factors of production, flexible and attractive government regulations for FDIs and large untapped markets. G.E has been involved with all the three countries from the start of the 1900s and has been slowly expanding their 'grip' throughout the century. The company's strategy has changed with time for all the three countries in question but the underlying concept has remained the same for choosing these countries. These nations did not sufficient resources to improve their economy on their own and hence required the help of FDIs and G.E obliged. This gave the company the opportunity to exploit and utilize the resources offered by these nations for their own profitability. However G.E's involvement in these countries over the last hundred years or so has certainly helped the economy of these nations to prosper. Over the last couple of decades, G.E has started to clearly segment different strategies for Mexico, India and China. The organization has identified the key sectors in all three nations and has started to act accordingly.

10. CONCLUSION

Evaluation of Globalization through increased outsourcing- Globalization is the way forward in the 21st century. Outsourcing is one of the many branches of globalization and will remain to be a very effective tool for business organizations to stay competitive in the market place. Outsourcing is inherently not an evil concept for either the home or away country. It

all depends on the proper and amount of utilization in the given context. Over-doing anything will have its side effects and outsourcing been no exception for the more developed nations in the last couple of decades. The governing bodies of the more developed nations will have to be prepared to play a more active role in regulating outsourcing jobs and contracts to other nations to ensure fairness in the distribution of wealth. The moral issues associated with globalization and outsourcing have to be addressed by the governing bodies and the multinational organizations together. By focusing on the monetary aspect only, the multinational companies have pressurized the developing nations to let their labor force to work in 'inhuman' conditions to reduce costs. Such unethical practices have given the concept of outsourcing a very bad name. The multinational corporations have to take responsibility for their involvement in foreign countries to ensure fair working conditions and payments. The governing bodies also has to ensure that the corporations outsourcing the contracts and jobs, reinvest a portion of the profits gained, to train and facilitate the unemployed people of the home country. All the stakeholders in question have to take responsibility for their actions and work as a cohesive unit to ensure that the benefits of globalization are received equally by all the parties involved.

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