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Tech outsourcing: Here to stay

Despite some alarmist talk about moving jobs overseas, outsourcing will remain a hot tech trend.

October 13, 2003: 1:03 PM EDT

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NEW YORK (CNN/Money) - Executives at some of the nation's biggest technology companies have been talking tough when it comes to the touchy topic of losing jobs to companies in other countries.

In a speech in New York [this month](#), Intel CEO Craig Barrett said India, China and Russia were emerging as big threats, due to their strong education systems.

Barrett stressed that the United States needs to improve its own system, adding that the government should spend more on research and development to protect the nation's lead in technology -- which has long been a source of growth for the world's largest economy.

[Intel](#) ([INTC](#): [Research](#), [Estimates](#)) Chairman Andy Grove made similar comments in a speech last week.

And earlier this year, [Cisco Systems](#) ([CSCO](#): [Research](#), [Estimates](#)) CEO John Chambers said if U.S. tech companies were forced to [expense stock options](#) for employees, that could curtail the use of options at home and send skilled workers overseas in search of potentially lucrative options packages.

But U.S. tech companies may be overstating the threat from foreign companies. Many of these same companies are choosing to outsource to take advantage of lower labor costs in other countries.

Laurence Gordon, vice president of marketing at [Cognizant Technology Solutions](#) ([CTSH](#): [Research](#), [Estimates](#)), a software and consulting firm that specializes in offshore outsourcing, said that labor costs for workers in India are often a tenth of what equivalently skilled workers would make in the United States. Most of Cognizant's employees are based in India.

And few see any slowdown in overseas outsourcing, especially since technology is making it easier to have workers in remote locations working together.

"There's no difference sending work from San Francisco to San Jose over the Internet than sending it from Bangalore to San Jose over the Internet," said John Challenger, CEO of

outplacement firm Challenger, Gray & Christmas. "So there is going to be declining pay for technology workers in a global marketplace."

According to tech research firm Gartner, 10 percent of info tech jobs with U.S.-based tech companies will be based in countries in emerging markets by the end of 2004.

Trend is not going away

The trend isn't new and may be overstated.

For example, a spokeswoman for Cisco points out that more than 70 percent of its employees are based in the United States. For its part, Intel has moved about 500 jobs -- less than 1 percent of its domestic work force -- to other countries over the last two years, a spokeswoman said.

Michael Mahoney, managing director of EGM Capital, a hedge fund focusing on technology, said that tech jobs were being shipped overseas during the bull market of the late 1990s but since the overall unemployment rate was much lower, nobody cared.

He thinks that once the labor market picks up, assuming it does, worries about a tech "job crisis" will fade. He notes it's unlikely that Washington will move to limit or ban outsourcing, despite calls from some federal and state lawmakers to do so.

"Anybody who thinks the federal government is going to do anything to reverse the outsourcing trend is smoking dope," said Mahoney.

Jeroen Tas, president and vice chairman of Mphasis, another IT outsourcing firm in India, said his company is sensitive to the issue but adds people need to realize that U.S. firms are choosing to outsource in order to cut costs and retain an edge.

"This is not a zero-sum game," said Tas. "Ultimately, it makes U.S. companies more competitive." ■

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