Business English News 06: Offshoring

Anxiety over Offshoring ‘overblown’

Growth in outsourcing of service jobs from rich countries is likely to be constrained because only one in seven workers in low-wage nations has the skills needed to work for multinationals, according to a McKinsey study published on Thursday.

“Offshore employment in the service sector will grow gradually, making no sudden impact on labour markets overall in developed countries,” says the report by the McKinsey Global Institute, a research arm of the strategy consultancy.

It says the trend will have “little effect” on wages in rich countries, scotching the idea that offshoring could help hold down inflation in those nations.

The McKinsey report is the first to come up with authoritative estimates of how many service jobs could move from rich countries to poor ones. McKinsey estimates this figure could reach 160m by 2008, or 11 per cent of the world’s projected 1.46bn service jobs.

But the study says only a fraction of this potential will be realised. In 2008, there will be 4.1m service jobs offshore, or 1.2 per cent of service jobs in rich countries.

One reason for this is multinationals’ attitudes to recruitment, McKinsey says. The consultancy conducted 83 interviews with human resources managers working for multinationals and found that, presented with workers from emerging economies with appropriate academic qualifications, they were likely to reject 87 per cent on other grounds.

The main reasons for the low likely take-up were poor language skills, “the low quality of significant portions of the educational system [in developing nations]” and cultural differences. Diana Farrell, director of the institute, said multinationals often failed to take up offshoring because of initial costs and other hurdles.
Background

This Business English News podcast examines the topic of offshoring jobs. ‘Offshoring’ means to move part of a company’s operations (usually supporting functions such as finance or HR) to another country - literally ‘off shore.’ Another commonly used term related to this topic is 'outsourcing' - this means to use a different company to handle some supporting tasks. The key difference is that outsourcing doesn’t necessarily mean the work is done in a different country.

The topic of offshoring, or outsourcing work overseas, is certainly a popular one these days, and many people in Western Europe and North America are quite concerned that this practice will lead to less job opportunities in their countries. However, our story details a report from a well know management consultancy that concludes these concerns may be exaggerated or 'overblown'.

Vocabulary

1. **offshoring**
   Moving (or outsourcing) jobs to another country, usually to save money.
   **Example:**
   Companies have been offshoring back office jobs at a higher rate than before.

2. **overblown**
   To exaggerate, make something seem more important than it really is.
   **Example:**
   The finance minister said concerns about inflation are overblown.

3. **outsourcing**
   To use a different company to handle some supporting tasks (Admin, Finance etc).
   **Example:**
   Outsourcing has become more popular as companies seek to lower costs.

4. **constrained**
   Limited – restricted in size, amount or extent.
   **Example:**
   Investment in new technologies has been constrained by the company’s poor performance.

5. **gradually**
   To change slowly.
   **Example:**
   Demand for large LCD TVs will gradually increase as prices drop.
6. **sudden impact**  
To have a strong effect on something very rapidly.  
**Example:**  
The new marketing campaign made a sudden impact on sales.

7. **research arm**  
Department or division of a company responsible for conducting research.  
**Example:**  
Bloomberg has established a new research arm to provide information and market insights to companies around the world.

8. **scotching the idea**  
Idiom meaning to decide not to do something.  
**Example:**  
We’re going to have to scotch the idea of a 30% rebate to customers because we can’t afford it.

9. **hold down**  
To limit the growth of something.  
**Example:**  
Increased demand for Flash RAM will help hold down prices.

10. **inflation**  
Economic term, meaning the rise in prices for goods and services.  
**Example:**  
Inflation has been relatively stable in the UK this year.

11. **authoritative**  
Convincing, dependable – backed by deep knowledge or experience.  
**Example:**  
Cambridge University has produced an authoritative report on the effects of global warming in Europe.

12. **service (industry)**  
Service is the action of helping or doing work for someone. The service industry is the name we use to describe companies that provide services (banks, restaurants, shops etc.) to other companies and individuals.  
**Example:**  
The service industry is now the biggest contributor to the US economy.

13. **only a fraction**  
A small amount.  
**Example:**  
Sales in Africa amount to only a fraction of our total.
14. **emerging economies**
   Used to refer to developing countries – we can say their economies are emerging or starting to develop.

   **Example:**
   Vietnam is one emerging economy that has benefited from moves to outsource manufacturing.

15. **academic qualifications**
   Qualifications such as university degrees or high school diplomas.

   **Example:**
   You usually need good academic qualifications to work for a bank.

16. **other grounds**
   To have other reasons to do something.

   **Example:**
   Although the tests went well, we decided not to develop the product on other grounds, particularly the lack of customer interest.

17. **significant portions**
   Large parts.

   **Example:**
   Significant portions of the manufacturing industry in Asia rely on exports.

18. **cultural differences**
   The differences between the customs, behaviors and ways of communicating of one country and another.

   **Example:**
   Cultural differences are often blamed for difficulties in communicating with customers in foreign countries.

19. **hurdle**
   A barrier or difficulty.

   **Example:**
   Government regulations are a hurdle to investment in some emerging economies.