COMMENT

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Don't resist offshoring, exploit it

The political storm around the accelerating movement of US jobs offshore is gathering strength as the presidential election approaches.

Many resist the offshoring trend. But a wiser and more lasting response would be to exploit it. This will not be easy. The fundamental innovation required will produce wrenching changes at US companies.

Most still view offshoring as a form of wage arbitrage for low-skill work. Their focus is short-term cost reduction. A few sophisticated companies, largely in the technology and retail sectors, have begun to realise that offshoring is a powerful way to gain access to unique skills and to learn faster. As this realisation takes hold, we are likely to see a much broader range of jobs move offshore in industries as diverse as financial services, medicine and industrial equipment.

Of course, it will continue to be unfeasible to move some high-value jobs offshore. But will there be enough of these jobs, especially as the offshoring trend spreads? If not, where will the new jobs come from? At a macroeconomic level, we understand that the money saved by offshoring can be reinvested to build new capabilities at home. At a micro-economic level, though, it is not clear how that will happen, and whether it will happen at the pace necessary not just to maintain jobs but to continue to create new ones. More fundamentally, how will companies in the US – or in any developed economy – maintain their advantage relative to offshore companies that are rapidly upgrading their capabilities in core processes such as manufacturing and product development?

Remember the Red Queen from *Alice in Wonderland*? If we continue on the same course, we face the dismal prospect of having to run faster and faster just to stay in the same place. It is the natural consequence of intensifying competition and, as consumers, we shall all benefit from higher value at lower cost. But as producers, we must try a new response to the Red Queen effect. Rather than working harder, we must master new ways of working smarter.

Companies will still need to come up with innovative new products and management approaches. But they must dig even deeper and challenge the institutional underpinnings of their business. They will need radically to simplify operations and specialise only in areas where they can truly distinguish themselves from competitors. Electronics companies, put under enormous pressure by the latest downturn, are leading the way. They are rapidly shedding manufacturing and logistics operations, long regarded as core parts of their business. Specialised third parties even provide product-design services, especially in more price-sensitive commodity areas. Cisco and others now brag that they never touch many of the products they sell.

Companies in other industries are beginning to follow this example. They are questioning what is really central to their business. As they simplify their operations by shedding them, these companies will need to master more flexible ways of connecting with other companies to gain access to their specialised skills. The real winners will be those that can bring together different specialisations from a number of companies and help all participants to get better, faster. For instance, Li & Fung, the Hong Kong-based company that orchestrates clothing production from a web of 7,500 business partners worldwide, pinpoints the performance gaps in its network and then organises meetings among the relevant partners to help them work out how to refine their practices.

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New, more flexible ways of organising information technology will help companies to innovate in this way. In addition, "social software", aimed at making the most of human capital, will help people "collaborate on demand". Such software will enable companies to assemble the people with the right skills quickly, and help them find the tools, resources and workspaces to improvise solutions to pressing business problems. To take just one example, sales teams and logistics co-ordinators are now using instant messaging, popularised by teenagers, to connect with their counterparts in other companies and, for the first time, resolve business issues as they arise. IT can be a powerful enabler, but it is only an enabler. The real challenge will be to align senior management teams, and then broader organisations, with a common innovation agenda.

Those who diminish the offshoring challenge, calmly suggesting that companies in developed economies will simply focus on higher-value work, do us all a disservice. This complacent response risks making the transition even more prolonged and painful than it might otherwise have been, adding fuel to the fire of opposition to offshoring. If we take advantage of these changes, on the other hand, we shall reap significant economic rewards.

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