

IS OUTSOURCING THE END OF UNIONISM? EXPLORING THE IMPACT OF OUTSOURCING ON LABOR UNIONS IN THE U.S.

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Over the past few years, there has been a steady decline in the labor union membership across the United States. A majority of labor unions have been experiencing loss of membership, decrease in union density, and low bargaining power. One of the main reasons cited for this declining trend is increased outsourcing of jobs to other countries such as India, China, and Philippines. Business organizations are outsourcing all types of jobs to low-cost offshore locations for competitive advantage. This surge in outsourcing has impacted not only the U.S. labor market, but also the management-labor relations process. Outsourcing, in the U.S., has been linked to decline in unionism, massive job losses, and less bargaining power for the unions. On the other hand, a number of reports suggest that the negative impact of outsourcing has been overstated. The purpose of this study was to understand: (1) the impact of outsourcing on U.S. labor unions and (2) major issues confronting the unions and the management. A review of current literature suggests that outsourcing has significantly influenced the U.S. labor market. The bargaining power of unions is eroding and union-management relations have changed. In future unions will have to adopt innovative strategies to meet the challenges posed by outsourcing.

Keyword: U.S. labor unions, outsourcing, declining union trends

1. INTRODUCTION

Labor unions have been a part of American life for about 150 years now. Since the formation of first national union in 1866, the Nation Labor Union, labor unions in the U.S. have experienced many ups and downs. For example, labor unions witnessed substantial loss of membership during World War I, but grew significantly in the post World War II era. The period from early 1950s to 1960s is considered to be the 'golden period' of labor unionism in the U.S. Many important laws were passed during this time such as the Work Hours Act of 1962, the Civil Rights Act of 1964, and the Occupational Health and Safety Act of 1970. As a result, labor conditions started to improve, unions began to enjoy high bargaining power, and union membership continued to grow.

This growing trend of labor unions continued till the 'oil crisis' of 1970s that had a major impact on the U.S. economy. The oil crisis was followed by globalization, and increased competition from foreign manufacturers. This forced many U.S. companies into laying-off employees to cut costs. By 1980s, a large number of U.S. multinationals had started shifting their manufacturing operations to low-cost countries. This resulted in massive work reduction and job losses that significantly impacted labor union membership in the U.S.

In the last two decades, labor union membership has declined significantly. This decline in the union membership has been attributed to several factors such as globalization, trade agreements, economic slowdown, and outsourcing. Unions contend that massive outsourcing has resulted in unemployment and job-loss that, in turn, has eroded union membership. Union leaders have been trying to find ways to negotiate with their employers over the issue of outsourcing. Consequently, the dynamics of management-labor relations have also changed. The unions and the management also face certain legal and economic constraints with regard to outsourcing. In this study, I explore some of the issues facing the labor unions and the management.

In this paper, I discuss the declining trend of labor unions, outsourcing motivation and trends, implications of outsourcing for unions and management, unions' responses to outsourcing, major legal and union issues of outsourcing, and implications of conclusions for research and practice.

2. DECLINING LABOR UNION TRENDS IN THE U.S.

It has been accepted now that unionism in the U.S. is on the decline. Private sector union density fell from 35.7 percent in 1953 to 9.4 percent in 2001. In terms of membership, private sector unions had about 17 million members

in 1953 compared to around 9.4 million in 2001 (Potter, 2001). Private sector unions lost 1,117,600 members between 1989 and 1999 according to Bureau of Labor Statistics. Union penetration in the industry is also going down. For example, United Auto Workers' penetration in the auto industry went down from 60 percent in 1980s to around 30 percent in 2004. Wage premiums enjoyed by private sector union members over nonunion members also fell from 40 percent in 1983 to 24 percent in 1999 (Potter, 2001). Where unions always settled for wage increases during 1945 to 1980, they generally had to make concessions on both wages and benefits after 1980s. The declining trend is also evident in the drop in the number of certification elections, share of union wins in NLRB elections, and the average size of bargaining unit.

Several reasons, both union and environment-related, have been cited for the decline in unionism. Clawson and Clawson (1999) described five categories of factors influencing union decline: (1) demographics factors, (2) union related factors, (3) state and legal system, (4) globalization and neoliberalism, and (5) employer offensive. Potter (2001) also mentioned several reasons for decreasing union membership such as industrial and occupation shifts, changing economic and demographic environment, global trade, and employer opposition.

Recent industrial shift has been commonly associated with decline in unionism. Over the last two decades, there has been an industrial shift from manufacturing to service jobs. In 2001, only 20 percent of labor was employed in goods-production compared to 42 percent in 1953. The trend is expected to continue. During 1998 to 2008, employment in durable goods manufacturing was projected to grow by a meager 1 percent; employment in non-durable goods was expected to decline by 3 percent, and employment in mining was expected to decline by 20 percent (Potter, 2001).

Another reason for union decline is the occupational shift in employment. Employment growth has been faster in less unionized occupations such as executive, managerial, and service occupations. From 1983 to 1998 employment in service occupations grew by about 68 percent, compared to about 16 percent for operators, fabricators, and laborers.

Improved economic environment and low unemployment are also cited as reasons for union decline. A strong economic environment has reduced the perceived instrumentality of unions in providing job security and wages and benefits. Workers attitudes have also changed from collectivism to libertarianism (Lipset, 1986) and there is a decline in demand for union services (Farber & Krueger, 1992). Thus, low unemployment coupled with a robust economy has weakened the unions' role in providing job security and wages and benefits.

Demographic changes in the work force such as increased participation of women have also affected the union membership. In 2001, women participation in labor force was over 60 percent compared to 38 percent in 1960 (Potter, 2001). Women are less likely to join unions compared to men. Unions are seen as reflecting predominantly male values and female membership has not been traditionally encouraged in the unions.

Unions themselves have also been blamed for their decline. Decades of monopoly and power have made the unions passive to organizing new work force. The percentage of union dues contributing to organizing efforts has come down to 2-4 percent recently compared to over 40 percent in the 1950s. Unions are also held responsible for pursuing a shortsighted strategy of protecting existing contracts rather than organizing new memberships. As a result, unions ignored some of the fastest growing sectors of economy, neglected women in workforce, and overlooked the growing diversity of the U.S. labor market.

Employment legislations such as Right-to-Work law enacted by certain states and several other laws have decreased the demand of unions. Many protections and benefits that were previously provided exclusively through collective bargaining agreements are now provided under new laws. Employees now are not required to join a union for the sake of employment or benefits. Non-union employees also enjoy majority of the rights extended to the unionized workers.

Globalization and increased outsourcing have also been cited as primary reasons for decline in unionism. Globalization has been associated with increased trade, global competition, use of new technology, and significant occupational shifts in the U.S. labor market. Growing competition forced many employers to outsource their business operations and lay off employees. For example, U.S. automobile industry experienced several mass lay-off events and bankruptcies in the 1980s. This affected the union membership significantly. According to labor reports globalization led to a weakening of union power in almost all advanced industrial nations due to fragmented labor markets and moving of bargaining from the industry to the plant level. Ironically, it is the unions that have been often blamed for the decline of U.S. manufacturing industry. It is alleged that high union wages and benefits extended to union members eroded the cost-competitiveness of the U.S. manufacturers. The threat of foreign competition resulted in increased opposition of management to the unions. Employers became less receptive to union demands and unions had to settle for lesser

wages and benefits, leading to their further decline.

Recently, the phenomenal growth in global outsourcing has shifted the attention of unions and researchers to its impact on labor unions. Outsourcing is being cited as instrumental in bringing about the decline of the U.S. labor unions. A vast majority of business organizations in the U.S. are either outsourcing already or plan to do so in near future. This may have serious implications for the U.S. labor movement. Generally, outsourcing is being seen as detrimental to the growth of labor unions. But the specific impact of outsourcing on the unions and the management is still debatable. In the next two sections, I describe outsourcing trends, and discuss its impact on labor unions.

3. OUTSOURCING: MOTIVATION AND TRENDS

Outsourcing is defined as the process of transferring the responsibility for a specific business function or a set of related business functions to an external agent. It is a management approach that deals with delegating the operational responsibility of processes or functions that were previously delivered internally, to external agents (Franceschini et al., 2003). The two main parties involved in outsourcing processes are the “outsourced or client,” and the “outsourcer or vendor” (Saunders & Gebelt, 1997). The clients outsource the processes or functions and the vendors deliver them. The statement by Grossman and Helpman (2002b) that we live in an age of outsourcing clearly indicates the extent and importance of outsourcing. Organizations are increasingly relying on external partners to carry out a myriad of their business processes. In some cases organizations are outsourcing their entire global back-offices including functions like HR to offshore locations to leverage the cost and time advantages (Feeny, Lacity, & Willcocks, 2005). This makes offshore outsourcing a heterogeneous and rapidly growing market with a projected annual growth rate of 60% (Trapper, 2003). Gartner Dataquest (2004) projected that business process outsourcing services would grow from 1.3 billion in 2002 to 4.3 billion in 2007. The growing number of global outsourcing contracts and alliances clearly demonstrate organizations’ belief in the value-propositions provided by outsourcing. The worldwide spending on IT-related outsourcing is also expected to grow (Table 1).

The increasing trend of strategic outsourcing has generated considerable debate as to why firms outsource. In a survey of 176 US firms, Lackow (1999) found that the major reasons for outsourcing included cost savings (59%), improvement of services (54%), focus on core business (45%), and the ability to access outside experts (40%). Traditionally, outsourcing was a means to lower the costs of production and processes, and even today, economies of scale are cited as a major motivation for outsourcing (Kakabadse & Kakabadse, 2005). For example, cost effective access to specialized skills (Finlay & King, 1999) and savings on overheads through short-term cost savings (Klein, 1999) have been mentioned as critical reasons for outsourcing.

Thus, outsourcing is not just a fad, it is a strategic option that organizations are selecting to reduce costs, develop capabilities, and focus on core activities. A significant growth in outsourcing is predicted in the coming years. Organizations will increasingly adopt outsourcing as a competitive strategy even in face of resistance from current employees. The fact that outsourcing is an ever-growing, global phenomenon that significantly influences business has serious implications for both the management and the unions.

The momentous growth of outsourcing has impacted the labor unions significantly in the last few years. In the next section, I discuss some of the areas where outsourcing has influenced the labor unions and the management.

4. OUTSOURCING: IMPLICATIONS FOR UNIONS AND MANAGEMENT

The major areas where recent surge in outsourcing has influenced unions the most include decreased union membership due to job loss, low of bargaining power, compromised wages and benefits, increased lay-offs, and loss of job security.

4.1. Job loss

Increased outsourcing has been linked to increased job losses. According to Forrester Research (2002), 3.3 million U.S. service sector jobs would be lost to outsourcing by 2015. Additionally, Deloitte Research predicted that by 2008, world’s largest financial companies would have outsourced about 2 million jobs to low-cost countries. According to Goldman Sachs, 300,000 to 400,000 service jobs were outsourced during 2001-2003 and more will be outsourced in future. About 14 million workers in the U.S. might loose their jobs to service outsourcing. Thus, there is evidence that outsourcing has resulted in significant job losses for the U.S. worker. So far the risk of job loss has been more in manufacturing compared to the service sector.

4.2. Union density

Though intuitively it seems that outsourcing would be negatively linked to union density, there is no evidence to prove the relation. Overall, union density has declined due to a number of reasons. Outsourcing might be one of the factors that have influenced union density due to job loss, and occupational and industrial shifts. Union density has declined significantly in the last two decades and continues to slide down.

4.3. Low bargaining power

One of the major implications of outsourcing for the unions has been the weakening of the bargaining power. Before 1980s, unions enjoyed considerable bargaining power. But due to globalization and outsourcing, unions have been forced to accept decreased wages and benefits. Increased competition, unclear laws and government policies, and threat of outsourcing have all contributed to the decreased bargaining power for unions. Another major reason is the fragmented labor movement. The collective bargaining process has moved from the industry level to the plant level. On several occasions, when the work is shifted to a different location or plant within the country (domestic outsourcing), workers end up fighting against another unions within the same industry. This also erodes bargaining power of the unions that were more powerful when dealing with multiple employers at the industry level. Bargaining power is also influenced by unions' financial standing that is a direct outcome of the membership. Declining union membership has negatively influenced union bargaining power in the U.S.

4.4. Declining wages and benefits

Outsourcing has ended an era of increasing wages and exceptional benefits for trade unions. Union members have had to compromise substantially on wages in return for job security. Employers are not ready to give in to union demands since they have the alternative of selecting an outsourcing partner on cheaper terms.

4.5 Implications for the Management

For the management, outsourcing is an attractive option since it helps them reduce their costs substantially. Organizations have been outsourcing their production functions since late 1970s to reduce costs and increase efficiency. Recently, competitive pressures and the need to focus on core activities and develop unique capabilities have driven business organizations to outsource. The impact has been largely positive for the management. As a result, the bargaining power of management has increased substantially since 1950s; outsourcing has brought higher profits and greater global presence through mergers and joint ventures. There have been some negative outcomes though such as labor problems and legal issues. Many organizations were even driven to bankruptcy as a result of outsourcing and couldn't survive. But overall, outsourcing has brought more benefits than costs for competitive firms.

5. Labor Unions' Reactions to Outsourcing

In order to counteract the detrimental effects of outsourcing unions are getting actively involved in labor movement in the United States.

5.1. Increased spending on organizing

Unions have increased their spending on organizing activities with the aim of mobilizing new memberships. With an objective to add one million new members annually, AFL-CIO has doubled its spending on organizing efforts from 1997 to 2001. Similarly, Service Employees International Union spends half of its budget on organizing activities (Potter, 2001).

5.2. Hiring and training of union organizers

Unions are also focusing on hiring and training more union organizers to boost their organizing efforts. In 1999, AFL-CIO Organizing Institute trained about 2000 organizers. The federation is also seeking active involvement of students, females, and the unorganized work-force in union organizing efforts. For example, through its "Union Summer" initiative the AFL-CIO is trying to get student attention. The agency has also been trying to mobilize white-collar workers that make a substantial portion of work force today.

5.3. Gaining political influence

Unions are also trying to gain grounds in the political arena. Union contributions to political campaigns have risen in the last few years. The AFL-CIO aims to garner political support for issues important to labor such as outsourcing. The federation has been seeking legislation restricting outsourcing of jobs to other countries. For example, legislative initiatives in Maryland, Washington, Connecticut, Missouri, and New Jersey regarding ban on outsourcing of public-sector projects have been supported by the unions.

5.4. Mergers and reorganization

Recent mergers and reorganization of the labor unions is also a response to the declining union trend. The split of Change-to-Win federation from the AFL-CIO and the increased merger activities of several other unions are political moves to win back the power once enjoyed by the unions. In 1990, about 39 mergers took place as compared to 24 in 1960s. The newly formed Change-to-Win federation has the objective of increasing membership significantly by working at the grassroots and increasing the participation of conventionally un-represented sectors and occupations.

5.5. Resistance and disputes

Outsourcing has given rise to a number of legal and social disputes. Unions typically show strong resistance to outsourcing, but usually with no results. Management is generally able to implement outsourcing decisions since it is not a mandatory bargaining issue. This leaves the unions with lesser bargaining power and low union strength. The legal aspects also do not favor unions. Globalization is considered to be essential for capital gains and the socialistic values of protectionism and restrictive trade are no longer appreciated. But unions are appealing on the basis of corporate social responsibility and sentiments of nationalism. Generally, the demands include ban on outsourcing, compliance of ILO guidelines in outsourcing countries, and retraining people who suffer job loss. This has led to an increased opposition of management to unions. Employer resistance to unions has risen over the years and multinational organizations are successfully employing various union-busting tactics to weaken the union hold. For example, global auto manufacturers such as Toyota and Mitsubishi have successfully busted several union attempts in their Asian operations.

6. OUTSOURCING: MAJOR ISSUES

Overall, outsourcing has had a major impact on unionism in the U.S. Several issues have emerged that need attention. Outsourcing is not an atypical phenomenon anymore and the question now is not 'whether to outsource', but 'what to outsource'. In spite of this realization, both unions and the government have ignored certain areas that have contributed to the negative influence of outsourcing on unionism. Both the government and the unions need to take significant initiatives to gain from globalization and free economy. A primary issue is the legal framework.

6.1. Legal issues

There are a number of legislations that have contributed to the decline of unions in the United States. For example, many states now apply the employment-at will law doctrine. Also known as the "Right-to Work" law, it is a state statute that bans the practice of requiring union membership or financial support as a condition of employment (Hunter, 2002). Twenty-two states have adopted the statute. This has led to a decrease in union activity in certain states. New employers are motivated to open shop in these states, further weakening unionism in such states. Unions have found it extremely hard to gain a foot-hold in southern states that have adopted the RTW law. The situation is aggravated by the fact that most employers in these states provide good salary and benefits to employees who are not motivated to join the unions.

Trade Adjustment Assistance (TAA) Act

The TTA Act passed by the congress in 1962 also needs to be redefined. The Department of Labor interpretation of TAA denies TAA services to workers displaced from services industries. With an increasing trend of outsourcing of services, the congress needs to redefine the TAA to include displacement of service workers (Kletzer, 2005).

Global level initiatives

Government should include macro level policy changes to protect workers' right on global basis. Governments

should jointly agree on laws to stop labor exploitation across nations (Evans, 2005). Unions, customers, firms, and non-government organizations have criticized current labor standards and their implementation lately. The degrading working conditions, sweatshops, child labor, and low wages- all have been the causes of concern. These are debatable issues with legal and ethical implications for organizations. Currently, the legal status of such issues is unclear.

Role of NLRB

The role of NLRB is also not clear with respect to the definition of outsourcing and under what circumstances it differs from contracting. There have been controversies regarding NLRB rulings on outsourcing issues. This lack of clarity is leading to misuse of laws and exploitation of the labor by management in many cases.

Sarbanes-Oxley Act

Outsourcing trends have been influenced by the compliance requirements under the Sarbanes-Oxley Act, 2002. To improve accountability of corporate leaders, this act was passed for public sector only. But many companies have adopted this act. The compliance requires division of financial and audit reporting departments. This incurs additional costs that can be offset by outsourcing the financial functions. As a result, more and more organizations in the U.S are moving their financial operations to countries like India.

6.2. Union issues

GENERAL PUBLIC'S PERCEPTIONS REGARDING UNIONS

The general public holds the opinion that unions have too much power. An average young American is disinterested in unions and women workers do not see themselves as part of any unions. All this needs to be changed if unions have to survive. Unions should use media and technology to generate positive sentiment among the general public. Specially, there is a need to find a way to reach the youth.

Low participation of young, educated workers and females

As is evident from the growing trend, females are going to be a large part of labor movement in the U.S. Also, education level of workers is also increasing. Traditionally, the educated, white-collar employees and females did not constitute a significant portion of unions. Unions were dominated by males and blue-collar workers and supported a culture that favored this class. Unions will need to offer a favorable environment and open policies with regard to participation of women and educated work force in unionism now.

Ineffective use of technology to reach potential and current members

Though almost all unions have a presence on the Internet, the technology is still not being effectively utilized. Technology could be an effective tool that the unions can use to mobilize support, organize memberships, coordinated efforts at national and international levels, and maximize their reach. It can be a cost effective medium to accelerate the growth of unionism.

Benefits and support to union members

Unions have to rethink what they have to offer to their members. For example, the benefits sought by union members in previous years may not hold any valence today. Union leaders have to address the needs of current labor work force and offer them services they will value.

Global work force and organization

Unions need to broaden their outlook and integrate globally. The boundary-less organizations and virtual workforce has blurred the geographical locations of workers. To gain bargaining power against huge transnational companies, unions would require to reorganize internationally at a massive level.

8. IMPLICATIONS FOR FUTURE RESEARCH AND PRACTICE

This study has several implications for both practitioners and researchers. In this paper, I presented a summary of

recent works and opinions of researchers and practitioners to gain an understanding of the impact of outsourcing on unionism in the U.S. Based on the existing literature, I identified certain issues and trends that have a bearing on the management as well as the unions in the U.S. But the conclusions certainly need to be corroborated by further research.

8.1. Implications for research

The paper highlights issues that can be of interest to researchers in the areas of human resource, law, international business, strategy, and public policy. For example, topics such as the changing management-union relations and their impact of employee morale and output, impact of current laws on unions and profitability of the companies, effectiveness of union tactics to mobilize membership, integration of unions at the transnational level, emergence of transnational unions and their impact on labor, and gender and occupational composition of unions and their success rates – these can all be viable research projects that can further enhance understanding of the issues identified in this paper.

Additionally, the decline in unionism has been attributed to several factors other than outsourcing such as industrial and occupational shifts. It would be worth examining the interrelationships among these factors and outsourcing and their impact on unionism. For example, is outsourcing partially responsible for occupational shifts that have impacted unionism? It is imperative that a healthy mix of qualitative as well as quantitative research methodology is used to gain deeper insights and advance new theoretical explanations. Since outsourcing, transnationalization of unionism, and virtual workforce are relatively new and unique phenomena, traditional theories might be rendered ineffective.

Another area of research can be the use of technology in unionism. Technology is changing workplaces and people. How effective or ineffective is the use of technology by the unions, what are unions doing to improve their membership through technology, how are unions overcoming the technology constraints in developing countries while mobilizing international workforce? These are the issues that need to be explored.

8.2 Implications for practice

The paper highlights a number of issues particularly relevant to the management as well as the unions. The fact that outsourcing is here to stay and it does impact unionism signifies that unions cannot ignore outsourcing. The conclusions imply that unions need to expand refocus to include females and educated youth. They have to find innovative ways to boost membership and adapt to the changing business realities rather than waste more time in denial. Using technology and expanding their scope to include virtual and global labor would be beneficial too.

The management on the other hand needs to understand the legitimate concerns of their union members and work out a mutually beneficial solution. It seems probable that unions would be gearing towards a global presence and getting more technology-savvy in future. Once major unions start organizing globally, multinational firms will not be able to ignore unions even if they outsource completely.

The study also has implications for lawyers and public policy makers who need to rethink the various laws related to outsourcing and make them clearer and more employee-friendly. The NLRB also needs to take initiative in bringing transparency and clarity to the outsourcing issue.

9. CONCLUSIONS

It is predicted that by 2020, almost all the blue-collar factory worker jobs would be eradicated, though U.S. will remain the top-manufacturing nation of the world (Cardinali, 2000) High use of automation and Internet technology would take more jobs to offshore locations.

The trends in outsourcing, declining union memberships, and disintegration of labor movement are expected to continue in future. This shows that unionism in on the decline in the United States. It can be inferred from the above discussion that outsourcing has had a significant impact on unionism in the United States. But at the same time, we cannot lay the blame only on outsourcing. Outsourcing is just one of the reasons contributing to this decline. Several other factors have been influencing unionism such as ambiguous laws, demographic factors, and occupational shifts. Outsourcing has been overstated as a reason for union decline. It has been shown that in spite of job losses, new jobs have been created in the U.S. economy. Outsourcing is also linked with greater returns for the economy and higher wages for workers whose jobs cannot be substituted. Moreover, no link has been found between union density and

outsourcing.

This brings us to the conclusion that the decline in unionism is more due to a paradigm shift in international and national trade. Unions need to adapt to this shift and find their ground. Resistance to the changing patterns of global trade can be detrimental to unionism. On the other hand, by identifying the needs of current work force and understanding the environmental limitations unions may be able to reverse the declining trend.

Thus, is outsourcing an end to unionism? Our conclusion is no, provided unions, government, and management can address the critical issues, and solve them jointly.

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Table 1

Worldwide ITES – BPO spending by region, 2002–06

(Figures in \$ million)

Source: NASSCOM

Region	2002	2006	2002-2006 CAGR (%)
Americas	484,732	647,427	7.5
EMEA	171,303	237,390	8.5
Asia/Pacific	117,622	194,228	13
Worldwide	773,657	1,079,054	8.6