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IBM Now Plans Fewer Layoffs From Offshoring

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International Business Machines Corp., adopting new policies to take some of the sting out of job-offshoring, expects to lay off fewer U.S. employees this year because of work being transferred overseas.

IBM became a lightning rod for critics of offshoring earlier this year after internal documents revealed plans to send nearly 5,000 jobs to India, Brazil and other developing countries over two years to save on labor costs. Many of the jobs were high-skilled programming positions that pay 75% less abroad.

Now, according to new internal documents made available to The Wall Street Journal, the company has adopted new internal-transfer policies aimed at filling more open positions at IBM with employees who would otherwise get a pink slip due to offshoring. IBM Vice President of Learning Ted Hoff confirms the changes and called them a major policy personnel shift.

Mr. Hoff wouldn't say how many fewer offshoring layoffs IBM expected in 2004 as a result of the changes. But a person familiar with IBM's plans says it now expects 2,000 U.S. workers will lose their jobs as a result of offshoring, down from the 3,000 the company predicted in January.

The actions are in part a continuation of IBM's long-term efforts to retrain workers for new jobs in the evolving computer industry, Mr. Hoff says. But he adds that concern over "offshoring was absolutely a part of it."

IBM isn't unique in trying to mollify its work force, says Stephanie Moore, an analyst at market-research firm Forrester Research in Cambridge, Mass. More companies that send jobs offshore are finding new work for some of the affected U.S. employees. "Some people say they don't believe it," she says. "But the fact is it's less expensive to repurpose the people than it is to fire them and hire different ones."

With the economy starting to recover, IBM is increasing employment for the first time in three years. Earlier this year it said it expected to boost world-wide employment by 15,000 to 330,000 in 2004, including a net U.S. employment boost of up to 2,000, despite offshoring. IBM won't say whether those expectations have changed.

IBM says it expects the new policy will save money overall by reducing costs associated with hiring and firing. A spokesman says moving an IBM worker would be 20% to 30% cheaper in the first year than hiring an outsider.

While most companies have stopped disclosing the offshoring of jobs in the wake of the political outcry

over the issue last winter, analysts say there's no sign the trend has abated. Economic forecaster Global Insight recently estimated that U.S. companies' spending for global sourcing of computer software and services will grow to $31 billion in 2008 from $10 billion in 2003, although its analysis also predicts increases in the total number of U.S. information-technology jobs.

Microsoft Corp., for one, is being targeted by a labor group that contends the company is relying on contractors in India and Russia for more software development than the company has admitted. WashTech, a Seattle affiliate of the Communications Workers of America that has been trying to unionize Microsoft employees, says internal company documents show Microsoft is increasing use of offshore firms for work on key products. Microsoft disputes the notion, saying it doesn't use outside companies for core product development.

Even when companies try to find new jobs for employees whose work is sent abroad, the employees don't always land similar positions. At IBM, some transfers may mean lower pay. In a script that managers are given, a question-and-answer section says that workers are expected to take a "comparable job" if it is offered. As IBM defines it, a comparable job may be work at a lower employment classification, with up to a 10% pay cut and a shift or schedule change. If workers don't take the comparable job, the Q&A says, it's expected that they "will be separated from the company without separation pay," meaning they are fired. IBM's severance is typically two weeks of pay for every year worked.

IBM says it will pay for retraining and give employees threatened by offshoring more time to find an in-house job. Those facing the possibility of a layoff will get at least 60 days' warning and often more, rather than the 30 days of the past. IBM also is developing software to automate the process of matching employees' skills to job openings, going beyond the online job postings it has used. As reported earlier, IBM is putting $25 million into a two-year retraining program for threatened workers.

In addition, IBM has issued a new policy called "Global Redeployment Principles" that prohibits managers from hiring from the outside if an IBM worker whose job has been moved and is therefore "surplus" could do the job. The policy also urges managers to replace contract workers with IBM employees whose jobs have been moved, according to the internal documents.

Some critics praised the moves. "It's a turnaround in their philosophy," says Lee Conrad, national coordinator of Alliance@IBM, a Communication Workers of America affiliate that has been trying to organize IBM workers for years. But "it remains to be seen" how many IBM workers offered substitute jobs remain employed, he says.

Late last month, IBM notified hundreds of people in a 5,000-person group that develops in-house application software that their jobs might be moved abroad, and that they should start evaluating their skills and looking at options. One person in the group says the notifications had "a devastating effect on morale."

One programmer at a New York state facility, who asked not to be identified, says that even though she is a 20-year veteran she constantly is scrambling to lock in future assignments. "Every job I've been on has moved to India and my job now is going to India" in the fall, she says.

Yet the new policies have already made a difference for a group working in Fort Wayne, Ind., under IBM's contract to run **Lincoln National** Corp.'s computer operations. Douglas McBride, an IBM development manager there, learned earlier this year that his job and that of 16 other workers would be moved to India by November because Lincoln demanded lower prices when it renegotiated its contract with IBM. So far, eight of them have found new jobs within IBM, including three who were experts on running a mainframe database program -- they took courses to transfer that skill to midrange computers.

Notified in March, Mr. McBride found new work: managing from home three programs that are scattered around the country. Without the long advance warning, he says, he doesn't know if he would have had time to find other work at IBM.

Mr. McBride says that having IBM headquarters pay for retraining is important, because most managers won't tap their own budgets to help their workers gain skills for their next job. Mr. Hoff says helping managers "reskill" workers is cheaper than paying them severance.

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