

March 8, 2004

New IBM Jobs Can Mean Fewer Jobs Elsewhere

By **WILLIAM M. BULKELEY**
 Staff Reporter of **THE WALL STREET JOURNAL**

Last month, **International Business Machines Corp.** said it would add 5,000 workers in the U.S. this year, an announcement partly aimed at blunting criticism of its plans to move thousands of jobs abroad in 2004.

But a closer look at IBM's hiring and layoff practices shows it may actually wind up extinguishing more U.S. jobs in the economy at large than it creates this year -- even while adding a little to its own payroll.

To explain that anomaly it helps to understand the company's big business in "outsourcing." Although the term has come to mean shipping U.S. jobs abroad, it also describes the practice of companies hiring IBM and others to take over their computer rooms, payroll departments or other work.

Under such contracts, which have been common for years, IBM promises to cut the client's cost of technology spending, or at least make it more predicable. As part these agreements, IBM usually hires the employees of the client company -- sometimes thousands of them -- who handle the work being transferred. Such outsourcing now brings in about \$15 billion a year for IBM, representing 17% of its revenue and much of its growth prospects.

Only a small part of this kind of outsourcing typically results in jobs being exported to other countries -- a trend known as "offshoring." But it does result in another kind of job loss: Often, IBM ends up laying off some of the workers it hires from outsourcing clients as it makes the acquired operations more efficient. Meanwhile, the workers from the client companies who remain on the IBM payroll often suffer cuts in pay and benefits.

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The pattern worries many IBM workers, both longtime employees and those who joined Big Blue as part of an outsourcing agreement. And it helps explain, in part, why U.S. hiring has been anemic even as the economy expands by other measures.

"IBM is a microcosm of a trend that is catching on very rapidly," says Stephen Roach, chief economist for Morgan Stanley & Co. He says companies increasingly want to take "functions that aren't central to their core competency," and outsource them.

In a further step, some of these jobs are moving abroad. "What's pushed the outsourcing to offshoring is the growth of [technical skills] in India" and cheap, fast communications, Mr. Roach says. The result is "a significant shortfall of jobs creation" in the U.S.

IBM won't say how many workers it has hired under outsourcing agreements, how many of them it laid off or how many of their jobs were moved offshore. But the company acknowledges that job guarantees for such employees are relatively brief. Consultants say usually no more than one year.

BIG MOVES

Some of the workers outsourced to IBM

	Customer	Year Transferred Workers
AT&T	1998	2,000
Astra-Zeneca	2001	1,000
American Express	2002	2,000
J.P. Morgan Chase	2003	4,000
ABB	2003	1,290
Qwest	2003	600

Source: IBM announcements

"The overall impact of IBM's strategic outsourcing business on U.S. jobs continues to be grossly exaggerated and has to be kept in context," said IBM spokesman John Bukovinsky. "IBM's U.S. voluntary attrition last year far exceeded the total number of jobs eliminated through outsourcing or shifted to emerging nations."

Offsetting the 5,000 jobs IBM announced as its U.S. hiring plan this year, the company has confirmed it will move 3,000 U.S. jobs offshore this year. So its U.S. work force, 141,000 at the end of 2003, is expected to climb to 143,000 at the end of 2004. World-wide, IBM says employment will rise 15,000 this year to 330,000.

If IBM adds 2,000 net U.S. jobs this year, how could its activities result in fewer domestic jobs in the economy at large? For an explanation, take a look at

just a few of the outsourcing contracts IBM announced in 2003. As part of these agreements it said it hired 4,000 computer professionals from **J.P. Morgan Chase**, 250 from construction giant **Fluor Corp.**, 300 from **ING Groep NV's** U.S. Financial Services unit, and 600 U.S. workers from **Qwest Communications International Inc.** Separately, IBM added 2,300 U.S. workers through its acquisition

of Rational Software Inc.

That totals 7,450 jobs. But by the end of last year, IBM's U.S. employment was up just 2,000, about what it expects to add this year. Where did the rest of the jobs go? Ex-IBM workers and analysts cite job cuts from previous outsourcing deals, including moving some of these jobs offshore.

"I laugh every time IBM says it's going to add 15,000 jobs," says David A. Anthony, an Alpharetta, Ga., Web programmer laid off by the company last June. "I scream at the TV: 'How many are you going to fire?' "

Mr. Anthony had worked for **AT&T Corp.** before he was outsourced to IBM in 2000, after IBM took over many of the phone giant's computer operations. He says his bonus was cut to \$5,000 from \$9,000 after the first year, and he had to start paying for health-care coverage. "I went from \$63,000 to the low 50s" before being fired, he says. Mr. Anthony hasn't found a new job.

In Brick, N.J., Ralph Lewry, a 49-year-old software tester who also was outsourced to IBM by AT&T, says he knew his days with IBM were numbered when "the people from India came in" to be trained. "That's the real kick in the pants. Not only are you being fired. You know the work isn't stopping," he said.

Bonny Berger, a computer programmer in Elizabeth, N.J., had worked for AT&T for 21 years when she likewise was moved to IBM in 1999. Within four months, the project she was working on was moved to Canada and she was put to work updating software used to collect unpaid bills. After five months, she says, she was told that work would be moved to India and that she would train a replacement. Ms. Berger moved on to yet another IBM task. But in March 2002 she was told to retrain a replacement from Canada, after which she got a layoff notice.

IBM declined to comment on these former employees' statements. It did say it no longer asks employees to train their replacements from overseas unless the U.S. workers have an offer of another job inside IBM.

"It sometimes looks as though IBM is hired to be the hatchet man," says Michael Smith, an attorney with Ramirez & Smith in Washington, D.C., who is representing high-tech workers in a lawsuit that seeks the same retraining benefits from the government that manufacturing workers get when they lose their jobs to offshore competition. An IBM spokesman declined to comment on Mr. Smith's characterization.

Earlier this year, as questions about offshoring grew, IBM's vice president of human resources, Randall MacDonald, told employees in an internal communication that 3,500 to 4,500 IBM jobs "could be relocated from developed nations to emerging countries this year." He stressed that was fewer than 2% of full-time positions.

Unlike other companies, IBM seldom makes big, one-shot layoffs -- partly because the gradual nature of outsourcing efficiencies leads to steady reductions of 200 or 300 employees at a time. It often describes these reductions as "skills rebalancing," or shedding those whose training hasn't kept up with

technological changes.

Worker anxiety at IBM appears to be rising. Paid membership in Alliance@IBM, a Communications Workers of America affiliate trying to organize IBM's work force, has grown to 6,000 from 5,000 in the past six months, says Lee Conrad, its executive director. Workers "are scared to death of being outsourced to IBM because they expect in a year or two they'll be offshored," Mr. Conrad says.

Write to William M. Bulkeley at bill.bulkeley@wsj.com⁷

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Updated March 8, 2004

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