Should Nike continue to offshore their manufacturing operations?

F.L.

IB Business Management SL IA

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Table of Contents: ✓

Introduction

"Should Nike continue to offshore their manufacturing operations?"

My written commentary is about the apparel company Nike, and whether or not they should continue to offshore their manufacturing operations. Offshoring involves relocating business functions and processes overseas. A company normally offshores in order to lower costs and increase profits, however, offshoring impacts much more than just costs and profits. Nike's offshoring affects many parts in the 4 P's of Marketing as well as image. Ethics also plays a big role when examining offshoring and specifically Nike offshoring. A large debate over Nike offshoring erupted after people began to realize why offshoring is so profitable and that Nike continues to increase the amount of operations they are offshoring (Source 2, A). Through focused and comprehensive research I found five sources that cover, in detail, my topic, which I will be compiling information from, for my commentary on this topic:

- ➔ Source 1: "Tax Avoidance: Nike "Just Did It" Again, Moving $1.5 Billion Offshore Last Year"
- ➔ Source 2: "The Nike Controversy"
- ➔ Source 3: "Revealed: how Nike stays one step ahead of the taxman"
- ➔ Source 4: "How Nike Solved its Sweatshop Problem"
- ➔ Source 5: "Pros and Cons of Offshoring"

Somewhat broad

Findings

Nike has been offshoring their manufacturing for decades now. However, controversy over their factories in foreign countries first appeared in 1991 when activist Jeff Ballinger

published a report documenting low wages and poor conditions in some Nike factories (Source 2, B). When reports first came out, Nike suffered from a rain of criticism by the press and the public. This criticism continued and is still happening right now (Source 2, C). There is a continuing debate about the ethical issues of offshoring and if Nike should be allowed to offshore their work.

A big part of the Nike scandal is centered around the treatment of workers and their work conditions in factories. Jeff Ballinger's report shed light on the terrible treatment of workers, many of whom were children (Source 4, B). These countries allowed child labor and in order to continue to manufacture their products cheap and quickly, Nike hired men, women and children alike. Not only did they hire these people they worked them in disgusting, and sometimes unsafe, factories for long hours; they also only payed them minimum wage, which, in these countries, was and still is extremely low. In some cases workers were only paid a couple cents an hour (Source 4, A). This scandal produced a poor brand and company image in the eyes of stakeholders; Nike understood this and began making changes.

In response the the uproar of protests and criticism from the public and the media Nike began to attempt to fix some of the problems in their factories. Nike created departments in order to improve the lives of their international workers (Source 2, D). Although Nike created a department and started to make changes, there was still a big scandal as workers were still not being treated very well. The public became increasingly frustrated and upset when Nike did not make the changes the public wanted (Source 2, E). In response to this Nike began to make changes and also began to start publishing their own reports in order to show transparency and be open about their factories, however they did not start doing this until 2005. Nike continues to

make changes and publish reports in order to keep the public and media satisfied (Source 2, C). Descriptive ✓

This openness restored some of the trust lost after their sweatshop scandal.

Although there was an eruption of criticism after Nike's unethical practices were exposed, offshoring also benefits both Nike and stakeholders. By offshoring many of Nike's manufacturing into foreign countries, Nike is able to reduce some of the most money consuming activities. W.C.? As stated before, foreign countries have low labor costs which; so Nike can pay less to hire workers in foreign countries that do the same work as American workers. (Source 5, A). Not only this, foreign countries have low taxes as well as fewer business regulations that can help Nike save money (Source 3, A). These perks of offshoring is extremely enticing for Nike and Nike continues to increase the amount they are offshoring, even if the public doesn't approve (Source 1, A). In fact, from 2016 to 2017, Nike increased the amount of profits it holds offshore about $1.5 billion from $10.7 billion to $12.2 billion (Source 1, B). These cost saving aspects of offshoring helps Nike save billions of dollars (Source 1, C).

There are other benefits of offshoring besides costs saving. By having facilities in foreign countries Nike can have 24/7 operations. Countries that are in a different time zone than the U.S. have business operations running when operations in the U.S. aren't (Source 5, C). Not only this, by having operations in foreign countries, Nike spreads its influence around the world. It's similar to having advertisements in these countries as Nike's factories will spread awareness about the brand and their product. Also, having operations in foreign countries gives Nike more distribution channels to send out their products from. These benefits, coupled with the financial benefits, entices Nike to continue to offshore, no matter the cons.

Analysis of Findings

By analyzing the pros and cons of offshoring Nike can come to a decision about if they want to continue to offshore or to bring manufacturing operations back to the U.S.

The first thing to be analyzed is the cons. Although the initial backlash Nike suffered when reports about worker lives was the worse, there are still many people who criticize Nike about their “sweatshops”. Nike’s factories were unsafe and unsanitary and their workers were being paid minimum wage (Source 4, B). However, Nike has, and still is, making changes to fix these problems. Through these changes Nike has been able to keep their brand image good and has continued to be an extremely financially successful company. This portrays how consumers are tolerant of the flaws in the companies operations. Also, although it may seem as if Nike is the entire problem, the countries that Nike has offshored are also the problem. Those countries set up laws regarding minimum wage, child labor, and hour limits. Those countries allow companies like Nike to pay their workers very little and allow workers to work long hours. Although Nike is definitely at fault, the countries they are offshoring too are also part of the problem. There are many ethical problems related to Nike’s offshoring and their are also financial problems.

Nike’s offshoring operations save the company billions of dollars, however there is also criticism about this. In order to save billions of dollars Nike has to avoid taxes. Many countries Nike offshores to has income tax, however, the U.S. has a relatively high income tax. What Nike does is they tell the countries they will pay the U.S. income tax once they repatriate their profits, this allows them to dodge foreign income tax. However, if Nike doesn’t bring their profits back to the U.S. they never pay taxes (Source 1, D). Although this is frowned upon by many, this strategy of saving money is not technically illegal; it is up to the people to believe this is ethical

or not. Also, the billions in dollars that Nike is saving in costs can go to other projects. For example, Nike can focus on expanding the company and investing in new products.

There are also benefits from offshoring that can help the company and consumers alike. By having operations all around the world, Nike will have more distribution channels and will be able to move their products from warehouses or stores into consumer hands much faster. Also, by having more offshored factories, Nike will earn more profits and financially succeed, this would lead to an increase in Nike's stock, which would benefit Nike's stockholders. Another benefit of offshoring is that Nike is not the only company that is offshoring and if Nike falls behind another company will take over and do the same things Nike did.

After analyzing my documents, I have created a SWOT analysis in order to summarize and reiterate my main points:

	Strengths:	**Weaknesses**
Internal Factors	• Nike can have operations going 24/7, allowing for a smoother and faster operating company (Source 5, C). • Nike continues to save money and therefore can lower costs for consumer which appeals to customers (Source 5, D).	• Nike has to spend money and time in order to make sure their companies are safe and sanitary and their workers are treated well (Source 2, D). • Nike needs to continue to keep the public informed and satisfied (Source 2, C).
	Opportunities	**Threats**
External Factors	• Low labor costs in foreign countries help cut costs (Source 5, A). • Tax benefits and lower foreign tax allows Nike to keep more of their earnings (Source 1, D). • Having operation around the world gives Nike more distribution channels.	• Stakeholder who do not like offshoring will be a threat to business. • New government laws and legislation may decrease federal tax rate, making offshoring less profitable (Source 1, D).

Conclusion: ✓

I conclude that although there are ethical issues with offshoring, Nike should continue to offshore. Offshoring will allow Nike to cut on costs and save billions of dollars; with this money Nike will be able to cut product costs as well as expand their company. Also, Nike continues to change their standards in their factories which will help foreign workers lead to better lives. In the end the benefits of offshoring outweigh the issues. In conclusion, Nike should continue to offshore their manufacturing operations.

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Appendices: Supporting Documents

Alex Tang

Source Document #1

INSTITUTE ON TAXATION AND ECONOMIC POLICY
(https://itep.org/)

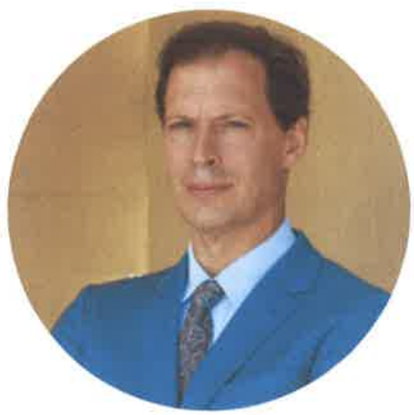
'TAXES

(/category/blog)

Tax Avoidance: Nike "Just Did It" Again, Moving $1.5 Billion Offshore Last Year

[redacted]

July 21, 2017



Matthew Gardner (/gardner-matthew)
Senior Fellow

A The Nike Corporation's annual financial disclosure (https://www.sec.gov/Archives/edgar/data/320187/000032018717000090/0000320187-17-000090-index.htm) of income tax payments is always notable for two recurring trends: the Oregon-based company's steady shifting of profits into offshore tax havens, and Nike's apparent effort to conceal how it's achieving this tax avoidance. This year's report, released earlier this week, is no exception. offshoring

B Nike now holds $12.2 billion of its profits offshore as "permanently reinvested earnings," up from $10.7 billion last year. Designating its profits this way allows the company to avoid paying even a dime of U.S. income taxes on these profits until they are repatriated to the U.S. (https://itep.org/comprehensive-guide-to-repatriation-proposals/)

This ability to postpone paying U.S. income taxes, known as "deferral," isn't quite as troubling when the companies are clearly doing real business abroad and paying a reasonable amount of taxes in other countries. If these profits are repatriated (https://itep.org/comprehensive-guide-to-repatriation-proposals/) to the U.S., the federal tax on foreign income is the statutory U.S. corporate tax rate of 35 percent minus whatever has already been paid to foreign governments. D

But if a corporation reports that it would pay nearly 35 percent of its offshore profits in U.S. taxes upon repatriation, that means the company must be paying almost nothing in taxes in the foreign countries where it claims to earn these profits.

C

And that appears to be exactly what Nike is doing. The company estimates that if its $12.2 billion was repatriated to the U.S., it would owe $4.1 billion in U.S. taxes, for a tax rate of nearly 34 percent. The clear implication is that the company has paid a foreign tax rate of almost zero on this $12.2 billion, including the $1.5 billion the company shifted offshore in the last year.

In the past, it's been easy to identify a likely candidate for the destination of this offshore cash: Bermuda. As we noted (http://www.ctj.org/taxjusticedigest/archive/2013/07/nikes_tax_haven_subsidiaries_a.php#.WXIlqojyuUl) in 2013, Nike disclosed owning a dozen subsidiaries in this tiny (and income-tax free) country, almost all of which were named after specific brands of Nike shoes. Since it seems unlikely that the company needs all those subsidiaries to help it sell flip-flops to the good citizens of Bermuda, a highly plausible alternative explanation is that Nike has been shifting its intellectual property to its Bermuda subs, where the income generated by its patents and technology won't be taxed.

place

popularity, consumer image

But Nike appears to have wised up to the negative publicity this stunt could create. In each year since 2013, the company has disclosed fewer and fewer Bermuda subsidiaries. The most recent report whittles down the list to just two, "Nike Finance Ltd" and "Nike International Ltd." Has Nike abandoned its tax-sheltering ways and eliminated its other Bermuda subs—or has the company's leadership decided to simply stop reporting the existence of these subsidiaries? The lax disclosure requirements (http://ctj.org/ctjreports/2016/06/lax_sec_reporting_requirements_allow_companies_to_omit_over_85_percent_of_their_tax_haven_subsidiari.php) governing subsidiary reporting make it impossible to know for sure. But the hard fact is that Nike's offshore cash is now even more tax-free, in 2017, than it was before its Bermuda subsidiaries started disappearing.

O

Nike's apparently tax dodging illustrates the problem with Trump's proposal (https://itep.org/50-state-analysis-of-trumps-tax-outline-poorer-taxpayers-and-poorer-states-are-disadvantaged/) to lower the federal corporate tax rate from 35 percent to 15 percent. Nike's continuing offshoring of profits is a sobering reminder that if deferral is allowed, the tax rate Republican leaders are really trying to compete with is zero. Nothing short of ending deferral will stop Nike's tax-avoiding ways.

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Source Document # 2

GLASS CLOTHING

0

Home / Uncategorized / A History of Nike's Changing Attitude to Sweatshops

A History of Nike's Changing Attitude to Sweatshops

2nd July 2018

Nike is a pioneer of sustainable infrastructure. Their 2016 Olympics campaign celebrated the diversity of the employees and supported female empowerment. In 2016, 48% of its global workforce were women and over half of its employees were minorities. Nike plans to run on 100% renewable energy by 2025. They are committed to transparency about working conditions in all their factories. But this was not always the case.

The Sweatshop Scandal

A

Since the 1990s Nike have been frequently accused of using sweatshops to cheaply produce their products. For a long time, they had a reputation of exploiting their workers so they would have to pay less to make their clothes and shoes, but a reversal in their attitude to

sweatshops changed everything. This success is reflected in their changed reputation and improved sales figures. This shows that being an ethical company does not have to reduce corporate success.

Before the 1990s, Nike produced most of its products in Korea and Taiwan where required wages were low and labour was disorganised. Although there were no scandals, Nike took advantage of a situation where workers could not complain about being unfairly treated by a corporation. This attitude was to continue into the future and it is only relatively recently they have shown a significant change in their attitude for the better.

Once labour began to organise in these countries, Nike moved to Indonesia, China and Vietnam. Here they would be able to continue to produce at low costs and take advantages of available cheap labour. Problems started for them in 1991, when activist Jeff Ballinger published a report detailing their insufficient payment of workers and the poor conditions in factories. This report gained a lot of publicity and Nike responded by creating a factory code of conduct. But this did not lead to massive improvement. B

Public Outcry

Ten years later, reputable newspapers like the Guardian were still reporting on how Nike had failed to make significant changes. They designed a code of conduct to ensure factory safety and better wages. But just one year later, Ballinger published another article in Harper magazine. It detailed how a Nike subcontractor paid workers in Indonesia less than 14 cents an hour in unsafe conditions.

All this attention had an impact on Nike's reputation and sales. At the Barcelona Olympics, people protested against Nike's poor working conditions. The issue received a lot of mainstream media attention on the issue and this continued for the next few years. Other scandals like revelations that Kathy Lee Gifford's clothing was made by underpaid children strengthened public outrage.

Nike's Initial Response

D

In 1996 they created a department to improve the lives and working conditions of factory workers. This was a response to public pressure to improve, and the demand for etł

sourced clothing. But as the next few years were to show, this was not the end of Nike's sweatshop scandal.

E

From 1997, people became increasingly outraged at how Nike were ignoring complaints and continuing to increase their franchise. The media, including within sport, were no longer willing to believe their spokespeople. Nike could not ignore public demands for them to improve their working conditions. As the reported abuses increased in frequency and severity, Nike recruited a diplomat and ex-activist, Andrew Young. He had the job of examining their labour practices abroad and reporting back. His report was more favourable to Nike than many had expected, and so they published it quickly. But criticisms of Young's work included failure to include low wages, solely using Nike interpreters, and Nike officials accompanying him everywhere. The media accused Nike of a cover-up. College students around the UK and the US staged mass protests throughout 1997.

How Nike Improved:

In May 1998, CEO Phil Knight said *"The Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse".* Some believe this moment marks the shift in Nike's attitude to use of slave labour. He announced Nike would increase the minimum age of its workers and continuously audit its factories. They would also adopt US clear air quality standards. From 2002-2004, they conducted 600 factory audits and revisited problem factories. Nike also allowed human rights groups and organisations to come into their factories and inspect them. This showed their new commitment to transparency and corporate ethics.

In 2005, Nike produced a full list of its factories. In the same year it published a report acknowledging it still had to improve its Southeast Asian factories. This was a contrast from just eight years previously when activists accused them of abuse of workers there. From 2005 till the present day, it has been producing corporate social responsibility reports, as part of its commitment to continued transparency.

C

Their current company ethos is:

"when Nike creates meaningful change within our own company and within the communities that we influence, we make a positive difference in the world."

Today, Nike had made huge improvements in the way they treat their workers. They have continued to be financially successful as a brand. This shows that it is possible to be both an ethical company and a profitable one.

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amy sankey

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Alex Tang

Source Document #3

The Guardian

Revealed: how Nike stays one step ahead of the taxman

Money paid for trainers in shops moves in and out of Europe, to Caribbean and even to entities not officially based anywhere

Nick Hopkins ***and*** **Simon Bowers**

Mon 6 Nov 2017 13.15 EST

Everyone knows Nike. Most people probably own a pair of Nikes.

It is unquestionably one of the best-known brands in the world, making billions of dollars in profit from global trainer sales. With names such as Swoosh, Flight, Force, Tailwind and Pegasus, every shoe is crafted, and every launch anticipated and heavily marketed.

This is a company that stays one step ahead of its rivals. And one step ahead of the taxman, too.

Thanks to documents in the Paradise Papers, it has been possible to piece together the schemes and structures that have helped Nike over the past decade. It is a story involving grey areas and loopholes, tax havens and zero tax rates, and the movement of money and royalties from one jurisdiction to the next.

At the end of this journey is a limbo land beyond the reach of tax authorities. For the companies that know how to work the system, this is sensible and legal. For campaigners who insist the system is unfair, it is ridiculous.

Either way, it means money paid for trainers in cities such as London, Paris, Berlin and Madrid has ended up flowing in and out of Europe, on its way to the Caribbean, or to entities that are in effect stateless. And that is all apparently above board as far as tax authorities are concerned.

Nike did this with the help of smart lawyers, complex laws and compliant governments. Here, we break down exactly how.

Nike shoes are made in countries such as Vietnam and Indonesia. From there, they are shipped to the company's futuristic, fortress-style warehouse in Belgium. The Laakdal "logistics" hub is a sneaker storeroom on a monumental scale. When shops need shoes, they come from here.

Vietnamese workers put the finishing touches on trainers at a Nike factory on the outskirts of Ho Chi Minh City. Photograph: Richard Vogel/AP

Buy a pair of shoes in, say, London, and one would expect the cash to go to the company's main British subsidiary, Nike UK Ltd. That would make sense, but that is not what happens. The money from sales of shoes flows out of the UK to the Netherlands.

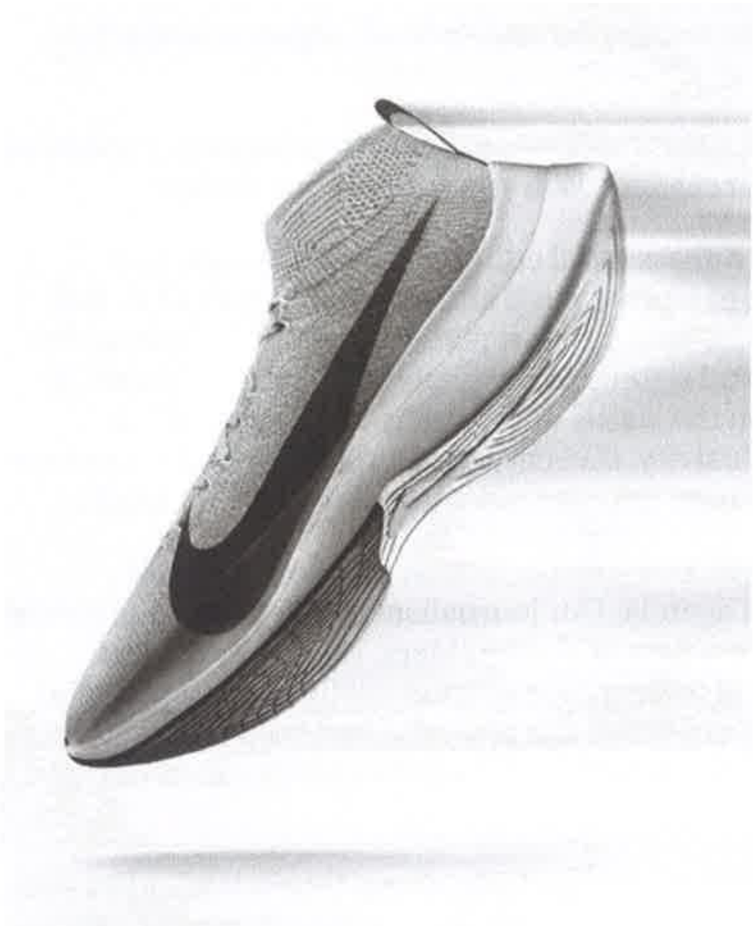
The Netherlands is significant. In particular, two companies are at the heart of Nike's Dutch operations. They pay some tax on the near $8bn (£6bn) of revenue they receive from Nike sales across Europe, the Middle East and Africa.

A

However, from 2005 until 2014, Nike was able to shift vast sums of money out of the Netherlands to Bermuda, which is an offshore tax haven with zero tax. Nike did this through a Bermudan subsidiary, Nike International Ltd, which held the company's intellectual property rights for its sneaker brands - the crown jewels of the Nike empire. Even though this subsidiary did not appear to have any staff or offices in Bermuda, it charged large trademark royalty fees each year to Nike's European HQ for selling its trainers. The fees allowed Nike to legally shift profits away from Europe to Nike International Ltd.

In 2014, Nike had to think again. With the deal from the Netherlands due to expire, the company came up with a new plan, again with the agreement of Dutch authorities. This involved moving the company's intellectual property from Nike International Ltd in Bermuda to yet another subsidiary, Nike Innovate CV. This entity is not based in Bermuda. It is not actually based anywhere.

How does it work? It is complex - and controversial. The "CV" model allows Nike Innovate to avoid paying local taxes in the Netherlands. Nike Innovate is not being taxed anywhere else, either. Nike is not the only multinational to use the CV model. Many of the US's largest multinationals use similar subsidiaries.



A Nike Zoom trainer. Photograph: Nike

So, Nike Innovate CV is a treasure indeed. It is seemingly beyond the reach of Dutch tax authorities, and it is out of range for the US taxman, even though Nike is a US-registered company with headquarters in Portland, Oregon. Nike Innovate does not seem to have tax residency anywhere in the world.

The CV model, and the one that preceded it in Bermuda, appear to have helped Nike substantially reduce its global tax rate. In May, Nike's offshore mountain of accumulated profits was worth more than $12bn. And its global tax rate has fallen from 34.9% in 2007 to 13.2% last year.

Nike was asked about these arrangements. It said: "Nike fully complies with tax regulations and we rigorously ensure our tax filings are fully aligned with how we run our business, the investments we make and the jobs we create. Nike's European headquarters has been based in the Netherlands since 1999. It employs more than 2,500 people, who oversee Nike operations in over 75 countries."

But Nike and other multinationals are under pressure. The Organisation for Economic Co-operation and Development has been trying to shut down the Dutch CV model, known in the trade as as the "reverse hybrid mismatch". And it will be phased out. Under the EU's anti-tax-avoidance directive, Nike may have to find a new way of funnelling its money by 2021, or pay more tax than it does at the moment.

So far, Nike has stayed one step ahead. The race is on again.

We made a choice...

Topics

- Nike
- Paradise Papers
- Netherlands
- Tax avoidance
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Source Document #4

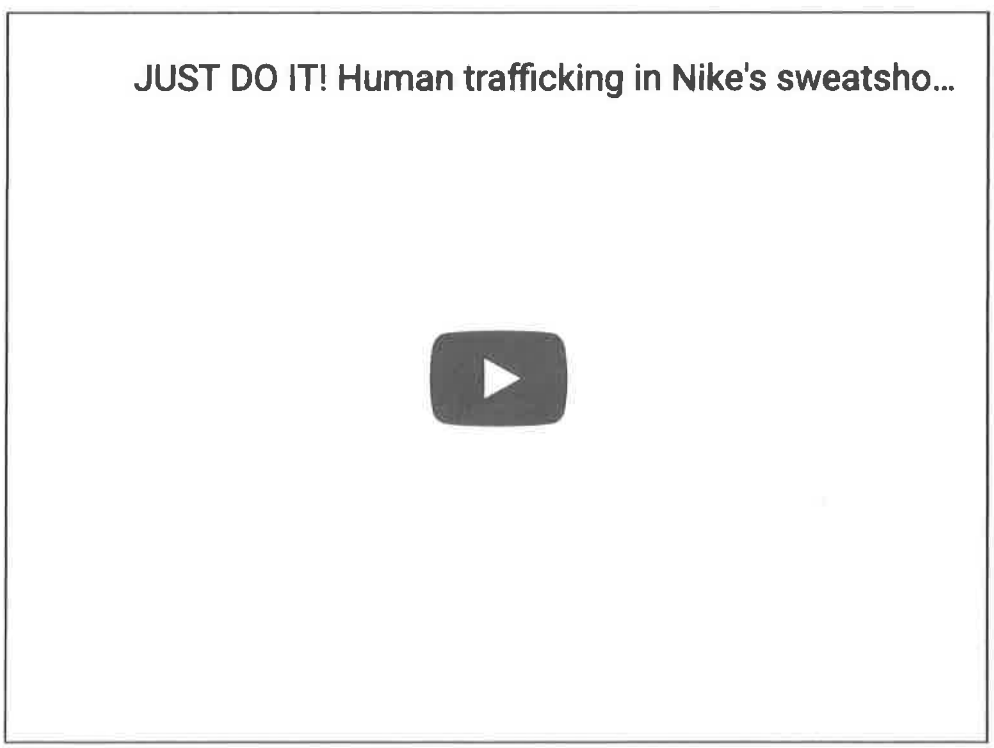
BLM's Kaepernick joins Nike to sell a company built on modern slavery

September 04, 2018

Colin Kaepernick – the man who made "taking a knee at football games" fashionable and who became an icon for the Black Lives Matter movement – has agreed to shill for human trafficker Nike sportswear. How is this for a mixed message?

For at least twenty years, Nike has been criticized for its labor practices – including the offshoring of jobs to sub-contractors who use child labor and who practice human trafficking or modern day slavery to help Nike turn a very handsome profit.

Yes, Nike has been caught...



Kaepernick will be the face of Nike's "Just Do It" 30th anniversary ad campaign. The initial image is a close up of Kaepernick's face with the

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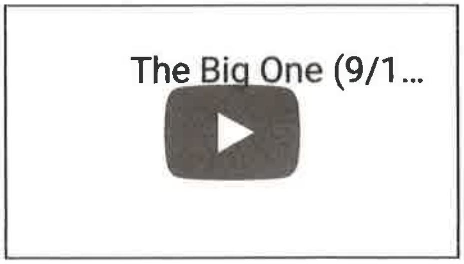
caption: “Believe in something. Even if it means sacrificing everything.” Yeah, believe in something... slavery.

According to Wikipedia and numerous sources, “Nike has been criticized for contracting with factories (known as Nike sweatshops) in countries such as China, Vietnam, Indonesia and Mexico... The company has been subject to much critical coverage of the often poor working conditions and exploitation of cheap overseas labor employed in the free trade zones where their goods are typically manufactured.” A

“Nike has faced criticism for the use of child labor in Cambodia and Pakistan... Nike continues to contract their production to companies that operate in areas where inadequate regulation and monitoring make it hard to ensure that child labor is not being used. A BBC documentary uncovered occurrences of child labor and poor working conditions in a Cambodian factory used by Nike. The documentary focused on six girls, who all worked seven days a week, often 16 hours a day.” B

“As of July 2011, Nike stated that two-thirds of its factories producing Converse products still do not meet the company's standards for worker treatment. A July 2011 Associated Press article stated that employees at the company's plants in Indonesia reported constant abuse from supervisors.”

Sources for this criticism include Naomi Klein's book *No Logo* and Michael Moore documentaries... including the clips from the one below...



This brings us to Tom Malinowski, a candidate for Congress in New Jersey's 7th District. Tom used to be one of the good guys... or maybe it was just a stepping stone, a career move? Back in 2007, when Tom was a lobbyist for a human rights organization, he chastised the Bush administration for its "double-standard" on issues like Human Trafficking – putting foreign policy before principle and allowing regimes viewed as "allies" to get away with murder.

Fast forward to 2015, with Tom Malinowski now a member of the Obama administration and the top State Department appointee concerned with human rights. The Obama administration decides to put business interests before principle and in an effort to broaden the markets included in the Trans-Pacific Partnership, reclassifies Malaysia's human trafficking problem. The downgrade of the human trafficking crisis in that country comes just as hundreds of bodies of trafficking victims are discovered, buried in the forest.

160 members of Congress – a bi-partisan outpouring – condemn the Obama administration and its State Department for ignoring the plight of victims of modern day slavery. Here are some headlines...

State Department Watered Down Human Trafficking Report

Senators: State Department 'Heartless,' Lacks 'Integrity' After Politicized Human Trafficking Report

Lawmakers threaten to subpoena all information about inflated grades for countries that have failed to crack down on forced labor, prostitution

Earlier in May, 139 graves in camps for human trafficking victims were found near Malaysia's northern border with Thailand.

160 Members of Congress Call on State Department to Not Upgrade Malaysia Ranking in 2015 Trafficking in Persons Report

These headlines are from May 2015. In June 2015, Assistant Secretary of State for Democracy, Human Rights, and Labor Tom Malinowski testifies before the Senate Foreign Relations Committee and claims that it is all about the trade and passing the Trans-Pacific Partnership. Malinowski argues:

"I am convinced that, on balance, TPP will greatly aid the effort to advance human rights in the Asia-Pacific region."

Apparently the double-standards that he decried in 2007, under the Bush administration, were okay in 2015, under the Obama administration. See how the cookie crumbles?

In July 2015, Ranking Democrat Congressman Lloyd Doggett sent a letter to the State Department chastising Tom Malinowski and others responsible for the Obama administration's policies. Congressman Doggett wrote:

"Once again trade is being prioritized over trafficking enforcement. Bending the standards to reward a country that accepts trade in women, children and forced laborers is wrong. Malaysia adopting some new provision that will not be consistently enforced is no substitute for effective prosecution... It is easier to lower the standard than to insist that Malaysia protect trafficking victims... this (is) another indication that the Trans-Pacific Partnership is not being used to bring about meaningful change on critical issues."

We couldn't agree more.

Jersey Conservative   Comment   0 Likes   Share

Colin Kaeprnick, Nike, Black Lives Matter, Child Labor, Human Trafficking, Modern Day Slavery, Tom Malinowski, Congressional District 7 NJ, Obama Administration, Democrat Congressman Lloyd Doggett, Forced Labor

JCPD COPS BADO, MANUEL CLAII THE WASHINGTON POST CALLS BULL

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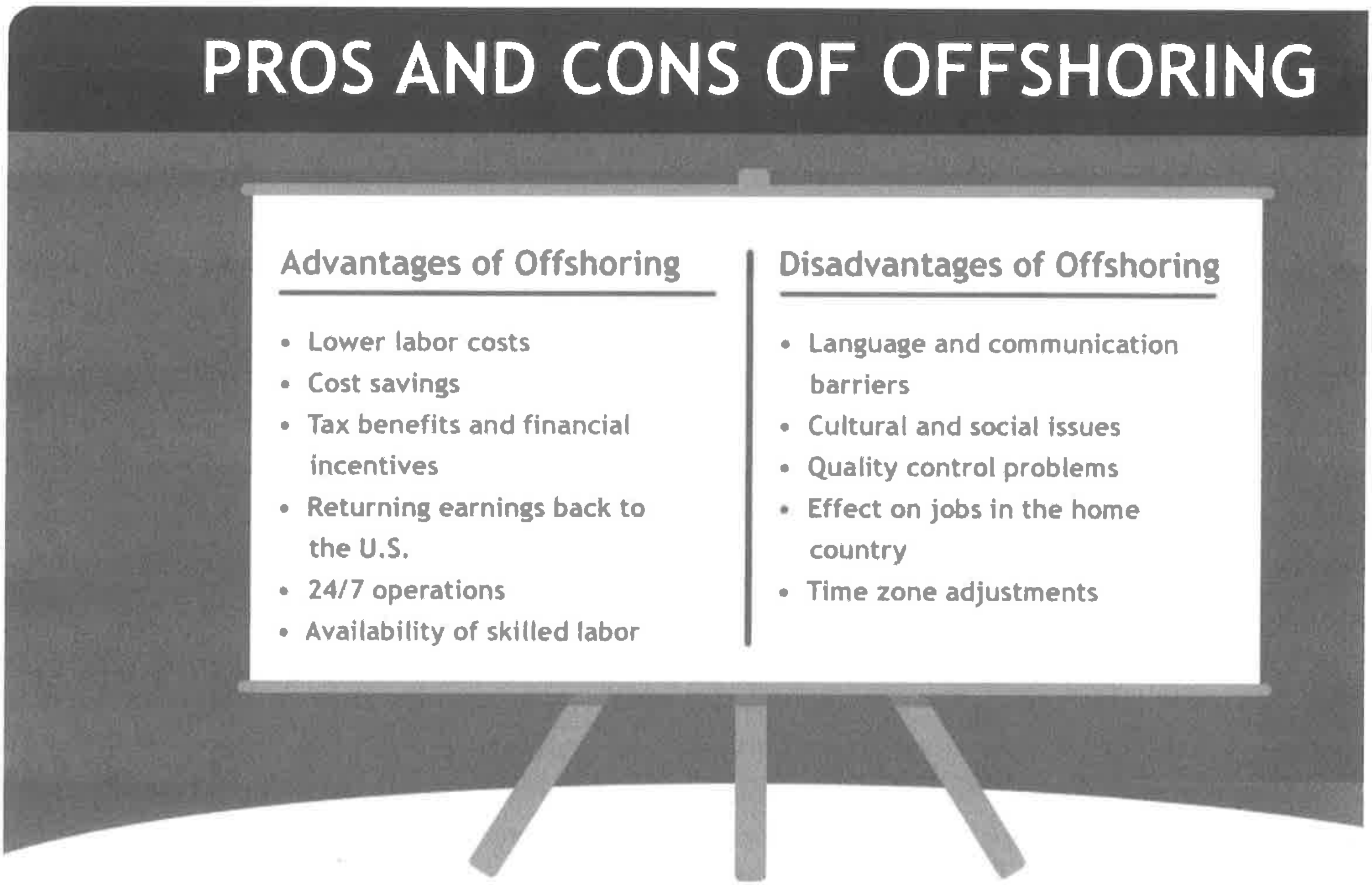

2018-12-20 / CEBU, DEVELOPMENT

Pros and Cons of Offshoring

What is Offshoring?

physical manufacturing processes to another country while services offshoring is the relocati
company's administrative and technical services such as accounting and finance, human res
sales services, and software development.

If you are a business owner thinking about offshoring your company's business process, the f
thing you might ask yourself is "what are the pros and cons of offshoring?" Other questions y
might have in mind are "what are the offshoring benefits and disadvantages?", "who can hel
build an offshore team?", "should you establish a foreign subsidiary or hire an offshore service
company?" and so on. This article will help you decide if offshoring is ideal for your business.

Advantages of Offshoring

Companies obtain many offshoring benefits when they relocate their business operations to
locations. The following are the major advantages:

A

- **Lower labor costs** – It is more affordable for companies in the United States to pay foreig
employees who have lower salaries compared to employees within the country. Offshoring
make a good business practice for business owners if offshore workers can do the same typ
work as their American counterparts for much lower labor costs. This is especially importan
for labor-intensive businesses such as manufacturing and service jobs where reducing labo
expenses can help in reducing costs of operations, increasing revenues, and maximizing inc
- D **Cost savings** – Aside from salaries, other types of compensation and benefits are much l
offshore countries compared to the United States. Employers can save from lower costs in M
taxes, Social Security benefits, health insurance, workers compensation, and other costs ass
with employees based in the U.S. Costs of utilities, infrastructure and materials are also lowe
developing countries like the Philippines, India, and other countries that are cost effective f
intensive industries such as manufacturing and call centers.

B

- **Tax benefits and financial incentives** – Many offshoring destinations such as the
Philippines offer tax holidays, financial incentives and fewer business regulations to attract
direct investments and stimulate growth in industries such as offshoring and business proc
outsourcing. Those tax holidays and financial incentives make it more affordable fo npa
relocate to offshoring destinations.
- **Returning earnings back to the U.S.** – A company earning more revenues from tax bene

additional wages and benefits for local employees, investing in research and development, returning the profits for investors and shareholders, and paying state and federal taxes.

- **24/7 operations** – Companies can cover time zones not handled by their operations thro offshore subsidiaries or by hiring offshore service providers that offer 24/7 operations. For bu process offshoring, the local team in the U.S. can turnover unfinished tasks to the offshore t there is continuous work on a project until it is finished.
- **Availability of skilled labor** – Offshoring locations such as the Philippines and India have pool of skilled labor from which U.S. companies can recruit employees for their offshoring operations. These countries have a rich pool of talent in terms of English language proficier college degree earners, and the skills of their workforce.

Disadvantages of Offshoring

As much as companies obtain many benefits when they offshore their business processes to countries, there are also some disadvantages of offshoring for them. Below are some of these disadvantages:

- **Language and communication barriers** – Many offshoring countries use English as an o language in business and government transactions. But there are different degrees in the c and understanding of knowledge of English between the workers of the offshore country a foreign counterparts. The accent can also be a challenge when offshore employees come fr region with a strong local accent and they have to talk to foreigners with distinguished acc
- **Cultural and social issues** – Offshore countries have cultural and social customs that are different from the countries of the originating companies. For example, an American execu talk in a candid, outspoken manner while his Filipino employees are more reserved and not the frank approach of communicating. Both parties may miscommunicate what they inten to each other and this could lead to misunderstanding.
- **Quality control problems** – For manufacturing offshoring, ensuring that a product is stri built according to the parent company's standards may be a challenge under the offshore l manufacturing set-up. Even if the parent company provides quality guidelines, the differen working culture, language, logistics and supply chains of the country where the factory is lc may affect the quality of the finished product.
- **Effect on jobs in the home country** – The parent company may have to terminate e employment of its local workers if it offshores their jobs to overseas subsidiaries or hire the s

the remaining jobs in the factories or offices where the company laid off many workers. Sta
of wages, uncertainty about job security, and low morale could affect the output of employ
could eventually lead to low productivity and affect business operations. The company's pul
image may also be damaged if there is a lot of negative publicity generated in the media ak
local economy losing jobs to other countries.

- **Time zone adjustments** – The time zone differences between the home country and offs country can be a problem for both manufacturing and services offshoring. It can be challen the management in both countries to organize shift patterns that are not disruptive for bot This can be an issue when both sides have to find an appropriate time to talk to each other. gaps in communication times could also affect the decision-making process. For example, t offshore country needs to make an important decision about a project, but it cannot move without consulting with the home country. The time it takes to wait and get a decision coul urgent tasks that are time sensitive and deadline driven.
-

Summary

You have read the offshoring benefits and disadvantages in this article. Hopefully, this will he make an informed choice if offshoring is a good business model for your company. If you hav decided to proceed with offshoring, then choose Cebu City, Philippines, and hire Full Scale as offshore services provider.

We can provide you with an offshore team that has the skills to fulfill projects in software and development, graphics design, illustration services, content writing, and search engine optimization. Contact us now to find out how our offshoring services can help your business expand and grow!