

# Ohio Bans Offshoring As It Gives Tax Relief To Outsourcing Firm

Ohio governor says offshore work has 'pervasive service delivery problems,' creates privacy risks

By Patrick Thibodeau

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Computerworld - Ohio Gov. Ted Strickland is delivering one of the strongest attacks yet on offshore [outsourcing](#), calling it not only a threat to jobs but an IT security risk.

Strickland's criticism of offshore outsourcing was part of a recent order to state agencies prohibiting them from hiring any firm that sends work offshore. The agencies were ordered to be in compliance by last week.

In his order, Strickland said that the purchase of offshore services "has unacceptable business consequences," and among them were "unacceptable data security, and thus privacy and identity theft risks."

But Strickland has also wooed offshore companies to his state. In 2007, Indian IT services giant Tata Consultancy Services said it would build its North American Delivery Center in Milford, Ohio, after the state offered about \$19 million in tax credits and other incentives.

TCS said Friday that it has 400 people working at its Ohio delivery center, an increase of a 100 workers from about a year ago.

TCS employs more than 141,000 people worldwide, but [more than 90% of its work force is Indian](#). U.S. workers account for only a tiny fraction of its workforce. Earlier this year, TCS reported that it has 10,700 employees who are nationals of other countries and of that number, fewer than 7% were Americans.

Despite the effort to win Tata, Strickland's views on offshore vendors are particularly harsh.

"There are pervasive service delivery problems with offshore providers, including dissatisfaction with the quality of their services and with the fact that services are being provided offshore," Strickland wrote in his order, which also pointed out: "It is difficult and expensive to detect illegal activity and contract violations and to pursue legal recourse for poor performance or data security violations."

Strickland's deal with TCS [has drawn White House attention](#). Last November, Strickland was among 16 people seated at the head table for a State Department luncheon for Indian Prime Minister Manmohan Singh. Others with Strickland included House Speaker Nancy Pelosi and Secretary of State Hillary Clinton.

Strickland's executive order stems from a decision by the Ohio Department of Development to hire a Texas-based company, Parago Inc., to administer a rebate program for new energy-efficient appliances. But the company apparently used call center works in El Salvador, prompting Strickland to ask for a review and the subsequent order last month "to ensure that public funds are not expended for offshore services."

Amanda Wurst, a spokeswoman for Strickland, said Friday that it has been Ohio's policy all along that public funds should not be spent on services provided offshore.

"Throughout Governor Strickland's time in office, procurement procedures have been in place that restrict the purchase of offshore services," said Wurst, in an e-mail response to questions. "Despite these requirements, federal stimulus funds were recently used to purchase services from a domestic company which ultimately provided some of those services offshore." That incident led the governor "to redouble his commitment" to bar the use of public funds for offshore services, she said.

Ohio [isn't the first state to bar offshore outsourcing](#). New Jersey also moved to block offshore outsourcing after a vendor used offshore labor for call center support.

Regarding the state's support for Tata, Wurst said, "the governor worked hard to bring Tata Consultancy to Ohio, where the company is making investments and creating jobs for Ohio workers. That's called insourcing, for which the governor makes no apologies. Similarly, he makes no apologies for his longstanding opposition to the outsourcing of Ohio jobs."

Ron Hira, an assistant professor of public policy at the Rochester Institute of Technology, sees a contradiction in the governor's action.

"Governor Strickland should be commended for his recognition that outsourcing reduces employment opportunities for Americans and harms American workers," Hira said. "This is an important epiphany given the massive government subsidy he gave to the largest offshore outsourcing company."


Tata's business model "is to offshore as many American jobs as possible. So, it's strange that Mr. Strickland would use precious tax dollars to subsidize such a company," Hira said. About 80% of Tata's workers are in low-cost countries, he said.

Peter Bendor-Samuel, the CEO of Everest Group, an outsourcing consultancy and research firm, said Strickland's actions will have little impact on the overall industry.

But Ohio's action comes at a time of increasing "demagoguing and minor actions" against outsourcing, including the recent action in Congress to increase the [H-1B fees on offshore firms](#), Bendor-Samuel said. The trend "is worrying for the industry, as this climate increases, you could have legislation come out that could have an impact," he said.

Most of the Indian firms realize that they need have more resources near the customers, but that's being driven not by the political climate but the type of work. "The nature of the work demands that they have more in-country resources," said Bendor Samuel.

Even as the political rhetoric increases over offshore outsourcing, the large Indian firms are "are all experiencing a significant uptick in new work," he said.

***Patrick Thibodeau*** covers SaaS and enterprise applications, outsourcing, government IT policies, data centers and IT workforce issues for Computerworld. Follow Patrick on Twitter at [@DCgov](#) or subscribe to [Patrick's RSS feed](#) . His e-mail address is [pthibodeau@computerworld.com](mailto:pthibodeau@computerworld.com).