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Outsourcing To Vermont?

By Sarwar A. Kashmeri

For the Valley News

Mention outsourcing in polite company today and chances are you will hear some very impolite words. This hysteria is generally the result of the assumption that outsourcing means sending jobs out of the country, when in fact it does not.

“While critics suggest that outsourcing is synonymous with shipping American jobs to India, the vast majority of outsourcing initiatives remain in the United States,” said Chris Carrington, leader of North American outsourcing services for Capgemini, one of the world's largest consulting, technology and outsourcing companies. (I should mention that Capgemini, which has its global headquarters in Paris, is one of my clients.)

When Capgemini asked 288 senior finance executives, many from companies with more than \$1 billion in annual revenue, to identify the regions to which they have outsourced business processes, 80 percent said America, versus 39 percent who said India.

The role of outsourcing becomes daily more important as companies focus on their “core competencies” and outsource business processes that others are more capable of handling. Technology and the Internet have made the outsourcing decision even easier.

I was intrigued by Capgemini's finding that, everything else being equal, more American companies outsource within America than outside it. Should competing for the companies' outsourcing business be a focus of Vermont and New Hampshire's quest for job creation? And what is each state's core-competency?

Today's column reflects Vermont Gov. Jim Douglas' response. A later column will report on my conversation with Gov. John Lynch of New Hampshire.

“Outsourcing of jobs overseas is a serious problem for the United States, and for Vermont,” Douglas told me, “so I want Vermont to be a place to which business is outsourced.”

The Douglas administration has discussed the challenge with the University of Vermont at great length and believes UVM will be key to preparing the state for attracting jobs and companies.

“We helped UVM start the Vermont Center of Emerging Technologies, that has

already begun to spawn new technology companies that will be spun off,” Douglas said. “Senator (Jim) Jeffords secured funding from Congress last year to establish a National University Transportation Center at UVM, which will allow them to develop innovative technologies for transportation systems. We turned over a state armory a few years ago to Norwich University for a business incubator in downtown Northfield, and that has been very successful. Vermont understands the importance of moving in the direction of ... engineering technological growth and is taking steps to do that.”

Douglas said he believes the niche Vermont should aim at is the area of environmental technologies. “That is a niche consistent with our state's ethic and traditions and will allow us to enhance engineering opportunities for entrepreneurs here in a way that is unique,” he said. Vermont seems to be headed in this direction. General Dynamics in Burlington is working on hydrogen fuel cell technology, which President Bush mentioned in his State of the Union message in terms of energy independence. Research is under way at UVM on hydrogen and renewable fuels in the transportation sector. And the “Cow Power” program by Central Vermont Public Service, in which manure from farms is converted into electricity, has become an integral part of the state's entrepreneurial activities.

But Vermont has a reputation for being highly taxed and regulated. Will this not impede the inward flow of business?

“That is true compared to other parts of the United States, but not as true any more compared to our neighboring states,” Douglas said. Vermont has reduced its corporate income tax over a two-year period and reformed its workers compensation laws “so this year's premium increases are flat, which is quite significant.” Further, Douglas said, “there has been no rate increase in retail electric rates for our two largest utilities for the last three years, while our neighboring states have seen increases.”

The biggest obstacle for Vermont is “the demographic issue,” Douglas said. The governor and the legislature are already engaged in efforts to reverse the emigration of younger people to other states to study and work, yet it remains a looming -- and potentially damaging -- problem.

“I worry about our economic future if this trend is not corrected,” he said. “If we don't have enough people to take jobs, it will be difficult to convince employers to come here, or to stay or expand.”

Higher education has become a big industry in Vermont -- it is now the third-largest economic sector of the state. “In many of our communities it is the largest employer in town, and I worry about the viability of the institutions.” If present trends continue, in 10 to 15 years, “we will have only enough revenue at the state level to pay for two things: K-12 education and for human services.”

The environment, technology, and outsourcing could provide a powerful mix for Vermont's future. It is nice to know they are on the table and being investigated.

Correction

My last column incorrectly reported the source of business donations to the Upper Valley Business and Education Partnership. In fact, all corporate donations to the

UVBEP come directly from the donor companies.

Sarwar A. Kashmeri of Reading, Vt., advises corporations on communications and marketing strategy and is a fellow of the Foreign Policy Association. This twice-monthly column explores the Upper Valley's "business climate," focusing on the issues and conditions affecting the region's economic health. Kashmeri can be reached at skashmeri@aol.com.

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