THE WALL STREET JOURNAL.

★ ★ EASTERN EDITION THURSDAY, JUNE 9, 1983 WHITE OAK, MARYLAND

Now We Can Move Office Work Offshore to Enhance Output

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In 1977, Peter Drucker identified "production sharing" as the world's newest economic trend and foresaw its rapid rise as a dominant form of industrial organization in the world economy. Production sharing combines the higher labor skills and technology available in the developed countries for the manufacture of materials and components with lower-cost labor available in developing countries for processing and assembly operations to produce finished goods for market. Since 1970, U.S. imports under production-sharing arrangements have been increasing at a rate of more than 20% per year, becoming more competitive in the process.

In the 1980s, a far more dramatic change has begun to take shape. The advent of the offshore office is upon us. Satellite technology has made it cost effective for large corporations to move clerical tasks such as data entry and word processing to a remote location. Keypunching, such as entering subscription forms into computerized mailing lists, has been done offshore for at least 15 years. Magazine publishers, for example, have routinely sent batches of paper overseas for processing and storage on magnetic computer tapes, which are returned by air transportation. The application of high speed satellite transmission to such a task drastically reduces turnaround time. And transmission costs are independent of location; theoretically, the information can be transmitted, for the same cost, from any location with access to an earth station.

The human dynamics behind what may be termed "office sharing" are similar to those of production sharing. The increasing level of education in the U.S. has reduced the pool of unskilled labor available to perform essentially repetitive tasks. In 1940, 50% of the American labor force was unskilled, compared to 7% in 1980 and a projected 1% by the year 2000. Scarce keyboarding labor can be found in the huge surpluses of unskilled labor present in many developing countries today.

Recent developments in the telecommunications industry offer compelling economic reasons for a likely acceleration of the office sharing trend: Hardware and transmission costs have been falling in both relative and absolute terms. The key to large-scale corporate use of satellite systems is the existence of low-cost earth stations. In the last several years, technological advances together with increased demand have created economies in production, resulting in declining prices for earth-station equipment.

Domestic deregulation of the telecommunications industry introduces another important cost factor. Comsat (the U.S. representative in the Intelsat system) has a monopoly on international satellite services, but until late 1982 could sell those services only to AT&T and the international communications companies, not to the general public. Companies requiring satellite data-transmission facilities had to purchase these services from one of the international carriers, such as ITT, which are basically resellers of the services. Since then, the FCC has ruled that companies can now purchase these services directly from Comsat.

Citicorp's Digital Transmission Service (DTS) is a current example of the application of satellite technology to reduce communications costs and provide better service. Citicorp's $80 million domestic communications bill had been increasing at the rate of 20% a year when it decided to invest in its own system. DTS links 10 earth stations scattered across the U.S. through transponders the company purchased on a satellite. DTS not only reduces costs, it also transmits data almost six times faster than ordinary telephone communications. And because the system is linked together by satellite, Citicorp's credit-card operations in Sioux Falls, for instance, theoretically could be located in an area outside the U.S.

In most corporations today, office expenses represent 25% of the total cost of doing business. As the U.S. economy continues the shift from an industrial base to a service-oriented one, office costs will continue to rise, possibly reaching 45% of the total cost of doing business by the end of the 1980s. At the same time, the productivity of office workers is below that of the industrial and agricultural sectors of society. During the 1970s, office costs doubled but office productivity increased just 4%. In addition, there is a small but significant union movement within automated offices in the U.S. Although most of these offices are not unionized at present, at least one labor leader views the 1980s and 1990s as the decades of growth for clerical unions. This potential growth threatens to push costs even higher and will ultimately strengthen the appeal of foreign labor markets.

Application of the office sharing concept in developing countries can revitalize companies in the banking, insurance, publishing and other industries facing rising operating costs and increasing competition. Cost savings from this idea not only affect profits but ultimately increase the value of these companies as the investment community perceives their renewed emphasis on growth.

The English-speaking nations in the Caribbean can benefit from this trend by providing a portion of the labor necessary to meet the needs of the North American market. Faced with declining prices for their traditional exports and rising import bills, these countries have been trying to diversify from reliance on a single industry or commodity. Investment incentives provide the basis for the development of the industrial sector of these economies, yet progress has been slow due to a general decrease in investing abroad by U.S. businesses and the long lead time for those that do. The application of office sharing to these economies can provide employment within a relatively short period of time, diversifying the skills of the labor force and familiarizing it with computer technology. Jamaica, with the largest English-speaking population, stands to benefit the most from the application of this concept. Literacy rates are high and studies of the Jamaican labor force indicate a very high level of productivity.

Office sharing holds the potential to be a powerful development tool in bridging the technological gap that exists between industrialized and developing nations.

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