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“Edu Talent” Paweł Bronowicz

postal address: Jana Pawła II Ave. 27, Atrium Building, 2<sup>nd</sup> floor, 00-867 Warsaw

tel.: (+48) 534-020-558

e-mail: [prace@edutalent.pl](mailto:prace@edutalent.pl)

**Offshoring or nearshoring? Enterprises on crossroads of the globalized world.**

**The author: Paweł Bronowicz**

**The company: Edu Talent**

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**What is this article about?**

The below article is aimed at explaining advantages and setbacks of offshoring in international companies. The author points at how offshoring evolved and to what extent it has proved right or wrong. Negative developments in outsourcing, that have been described in the text, made companies demand a new and more adjusted business solution. The author refers to time zone differences, language problems, cultural miscommunication, or mere disorganization, which compelled outsourcing firms to develop the nearshoring. The author presents its main features and seeks for answers on how it may be applied widespread and become a cure for the most often reason of headache of top managers, which is cost-effectiveness.



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### **Why is offshoring needed? Globalization in context.**

Without a doubt, globalization is an omnipresent force that cannot be stopped. No one seems to argue with that and even biggest companies and strongest states have to yield to its unhampered impact. It has changed the world so much that we barely remember how our life looked like 10 or even 5 years ago. Even if we do recollect, it is striking how everything has evolved around us. Many aspects of reality appear to look similarly across the globe. Just to recap, communication is an area where overwhelming influence of globalization can be seen most easily. Technological revolution epitomized by cell phones, Internet, laptops and iPhones has eased communication and linked individuals and whole societies. This linkage results in same fashions, habits, and preferences traversing the whole planet. Without it, world could never see the roaring success of Microsoft, Facebook, Google, let alone Apple.

Indeed, the unstoppable influence of globalization has left its deep footprint on how business is made around the world. The way all business transactions are performed is faster, more efficient, attracting large capital, and - one could see it for himself - more unpredictable than ever since. Long time ago, bank transfer had to take weeks before it reached its beneficiary. Today, this transaction – depending on distance - may take one day or just one click. Moreover, international organizations take up efforts to deepen liberalization of trade and direct investments. As it seems, there are almost no bounds for the capital flow. Billions of dollars are looking for the profitable investment opportunities. Great sums of money may get into one country and leave it on the very next day. In this complicated and extremely unstable environment, companies have to boost their sales and win new markets.

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The growth of sales nowadays, however, is not a factor of such importance, as it were a few decades ago. Companies are present on nearly all - but not all - markets, only for unstable political situation or poor local economy (example given: African states). Enterprises simply have too little space for accelerating expansion only on demand basis. With regard to this, pursuing for consumer masses in 21<sup>st</sup> century seems not enough for corporations to survive.

### **What is offshoring and is it so crucial in business?**

Whilst one would say: ‘increase your incomes’, another person would counter: ‘cut your expenses as much as you can’. When the former is right, it is not quite a comprehensive argument without the latter. Especially, when markets are contracting and enterprises are bankrupting, the latter gains more significance.

Financial crisis of 2008 seems to have been a shock therapy to the business. At the time when banking system in the US had collapsed, no manager could confidently say that his company would survive. Panic-stricken boards of directors demanded CEO’s to look for immediate expense cuts. On the one hand, the best thing that could have been done was redundancy. But on the other hand, companies needed constantly moderate operation costs in a long-term run. This would have been beyond reach for them, if they again had to employ the same people that they had previously fired.

The industry needed to create jobs at lower salary rates. This idea would have been viable only if the work migrated to other countries. Under this conditions, the work was bound to be offshored. In the turmoil that crisis had spilled over the world, offshoring had become considerably more popular. In theoretical framework, offshoring and outsourcing have different scope and applicability. According to Nicholas Burkholder, outsourcing is one



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of the “hot business ideas” that is occurrence of division of labour and is “a virtual assembly line in a global factory”. It is hard to question this thought, but let us move on to more mundane facts about outsourcing. In simple terms, ‘outsourcing’ means assigning some tasks to another company, no matter whether it is located in same or another country.

In contrast, offshoring, which is also known as BPO (business process offshoring), may be well deemed as a separate term. But in the doctrine there are some voices, that suggest that offshoring is an integral part of broader term of outsourcing. Offshoring bases on identical formula but it always involves migration of jobs (from small to teams to whole departments) abroad. Sceptics would say that it means firing thousands of people because somebody else in India, China or Philippines or anywhere else, is capable of doing same work for a mere cup of rice. It is presumably a disputable opinion, but it’s not the point. The point is that the offshoring makes companies able to reduce operating costs in many areas like: customer service, accountancy, manufacturing of semi-products, etc. It is honest to say that companies pay little or no attention to who does the work. Regardless the protests of trade unions and negative effects on society, the focal point is structure of expenditures and expected savings.

### **A Brief case study of Toyota and Accenture. Positives and negatives of offshoring.**

Countless companies have so far improved their cost structures and saved funds through outsourcing. A longer list of them is easy to be reeled off, but this article will focus on the most noticeable examples in business. Toyota had for very long time taken a lead as a corporation that used outsourcing services. The management of the Japanese giant used to order manufacturing of car parts to third parties. So therefore, a car designed in Japan, first waited for parts manufactured by contractors on all continents, and, later on, complete cars



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were leaving production lines in plants owned by Toyota. What has to be said, Japans came across a perfect answer for their needs. According to statistics, Toyota was able to cut its manufacturing costs by a few billion dollars per year. In this circumstances, delivery of value to shareholders was not such a troubled task. CEO’s were elated at presenting annual reports to the managing boards. The dividend from Toyota helped many investors shape their fortunes. Had it not been for the offshoring, Toyota would not have been able to achieve so much.

Another example is Accenture, the largest outsourcer that raked in US\$21,6 billion during the fiscal year 2009-2010. It is simple to say what services Accenture does not provide. But to highlight, Accenture is particularly specialized in outsourcing IT, accountancy, supply chain, human resources amongst many others. As a single entity, it is the absolute leader in the business and many companies confided in the quality that Accenture delivers.

Moreover, outsourcing has become a unprecedented window of opportunity for the poor of this world. India alone is the best example to prove it. McKinsey Global Institute has recently researched that India was preeminent destination of BPO in terms of variety of services it could provide, and low-cost, easily accessible, well-skilled workforce. The strides that had been made in the field of outsourcing inclined local education authorities to develop learning programmes in IT, accountancy, finance. The BPO does promise high salaries to newly employed, but the pay is more attractive than in any other industry, inter alia trade, agriculture or manufacturing. The BPO can be considered as one of the factors that rendered possible social promotion to middle class for millions of Indians.

It is noticeable that almost 2.5 million of Indians worked in BPO in 2009, and this figure continues to grow. In spite of that, the wise from Mc Kinsey are afraid that India at some point will reach too high a cost of labour to be competitive. This may be a setback of India’s concentration on offshoring. This can be already observed that jobs in the offshoring



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migrate from India to poorer countries, like Bangladesh, Kenya, Tanzania, that have a lower wage to offer for employees. But yet, India is very likely to remain a global BPO centre for next years.

The above argument may raise awareness of positive impact of offshoring, but some other facts must be brought out in this paper. They come down to the truth that BPO is not perfect and has up to date undergone harsh critics. In fact, it is what Accenture and Toyota have already learnt the hard way. Toyota trusted its contractors to such extent that it utterly neglected quality control. Not long time had it waited for negative effects of this naive carelessness. Toyota has already called millions of customers to go with their automobiles for free repair. In 2010, Toyota had serious problems with accelerators. Because of this, 2 million automobiles had to be repaired or withdrawn from the market. The last warning in January 2011 was due to fuel leakage. As it turned out during the troubleshooting, fuel pipes had been manufactured improperly. The producer used plastics of worse quality, which is why pipes were cracking during the ride. As the Japanese stern tradition had required, customers were sincerely apologized by the Toyota. But the main culprit was no one but defective BPO model applied in Toyota.

Neither is Accenture innocent, from the viewpoint of outsourcing provider. Not accidentally, poor organisation within the company caused delays of big accountancy projects. Accenture was not capable of improving the service level, nor could it deliver all promised projects. So therefore, there was no other way for the leaders of Accenture but to recede and pay fine to the purchasers.

Moreover, offshoring has other wrongs and malfunctions that at no point can be overcome. The first shortcoming falls down to the fact that time is not identical in all places in the world. Whereas the Americans are working, the Indians are drifting off in their beds. BPO is nonsense, unless night shifts are introduced. This might be a resolution of the



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problem, but hardly anyone is able to work as efficiently as during the daytime. At times, it would have been a pleasure to see that ‘anyone’ having worked. It came as no surprise when one company worker called its BPO provider located ten thousand kilometres away and found himself without needed information because nobody had bothered to pick up the phone. To one’s anger, the whole shift had been sleeping.

Nevertheless the time zones can put many BPO projects into disarray, culture undoubtedly is a more profound factor. Gert Hofstede, a prominent Dutch sociologist, best known for his theory of dimensions of national cultures, states that culture is a way our mind is programmed. It is a software that control all our behaviours, beliefs, actions and interactions. Also it determines styles people work. Persons at workplace, according to Hofstede, are featured by some characteristics like: individual or collective approach, the power distance, attitude to time, long or short-term orientation, feminine or masculine behaviours. When people from different cultures interact with each other, the same goes with their cultural attributes. It is too much to expect that this interactions are fully harmonious. In fact, it is a field where cultures clash and intercultural communication (and miscommunication) happens.

How does it occur in offshoring? This question might cause a heat of discussion, but it also asks for example: when the Americans request something to be done as soon as possible, we understand it as they do. But different cultures does not define time and haste the same way. In contrary, the colloquial ‘asap’ may be a sign for Indians or Africans that action is needed tomorrow or later. On the other hand, in high-context cultures, frank and offensive speech is not welcome, which is why Asians often feel offended when they get instructions from, or are told off by a cheeky American or Australian. The same applies to Arab-American relations in business that are under impact of how policy is made between those nations. Not to add, language problems are a great concern. English speech that



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become a language of the business world is not spoken equally perfectly in all corners of the Earth. In addition, It is a serious issue when neither the customer, nor the PBO provider speak a language at a level that would improve communication.

### **Nearshoring as a response to failures in offshoring.**

All these cases raise some questions about BPO and its usability. Is the offshoring still a miraculous antidote for all companies? It has never been such. Can any company apply BPO and succeed? Not every company is adjusted to taking BPO. What if both problems occur? Can the offshoring still be called ‘cost-effective’? In case of two last questions: certainly not. The overall quality of offshoring leaves much to be desired. It was a really hard nut for executives to crack.

The failure of certain BPO projects learnt managers that cost-effectiveness does not end on hunt for countries where salaries are very low. Drawbacks of cooperating with companies of different cultural profile made managers look for solutions in proximity. Nearshoring is the invention of this way of thinking, which is why corporations started looking for BPO in similar time zones, moreover they try to find contractors that are culturally akin to them. It is no wonder why nearshoring acquires more and more importance in eyes of executives.

Last but not least, nearshoring proves adaptability of corporations to new market conditions. In had unravelled problems that managers later had to deal with. If offshoring was not offering satisfying performance, it must have been reconstructed. But yet offshoring has not been thrown off the stage. It still delivers added value to enterprises, although it cannot work in every environment and for any business model. Nearshoring is a response to those that are not able to benefit from the ‘pure-form’ offshoring.



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### **A careful look into the future of nearshoring.**

The market has not yet invented a better concept than outsourcing. Even though offshoring and nearshoring are only its modified versions which better meet expectations of the outsourced companies. It is, however, too early to say that nearshoring is perfect in its all properties and sooner or later, it is bound to be set aside. But for the time being, nearshoring is highly likely to be on a path of continuous growth. It is only a matter of time that nearshoring will create new linkages between enterprises existing not across oceans but lying within continents and regions. Does it mean that globalization will not only be global, but also regional? The author is far from knowing the answer to this question and this study is not to reveal it. But it is quite clear, that nearshoring has brought a new quality and fresh ideas to the global economy. The BPO companies that will want to take advantage in this rising business line, will have to reduce their traditional outsourcing offer and develop nearshoring services. Nearshoring will strike the balance within the BPO market and enable companies to act in globalized world at higher speed, but the final results are remain to be seen.



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