

Challenges of Delocalization

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Companies working in the global market of delocalization are faced with the lack of professionals in Western markets. This will benefit Spain if its companies can offer local consulting services and delocalize lower value-added activities to countries with lower costs.

Globalization is spurring on the development of an entire emerging industry of outsourced, delocalized services. Initially, large companies working in this area accepted dragging value-added processes to their countries of origin. Now, however, they no longer have the desire to limit themselves to producing at a low cost for Western companies. What the major players such as Indian firms Infosys or Tata Consultancy Services (TCS) look for in offshoring is to complement their standardized services with other higher value-added services, such as consulting.

In other words, combine their line of strategic consultancy services in their clients' local markets with the delocalization of their production activities to India. Thus these companies act as consultant partners which could ultimately become a highly efficient factory with costs that are more competitive than those of their Western rivals. These global solutions are complex and demand a combination of mastering various languages, working in different time zones and establishing certain levels of proximity with the customers. In order to achieve this, offshoring providers to be in contact with local professionals that work in their customers' countries. The problem is that in developed countries the number of available college graduates is in itself reduced and the majority prefer to work exclusively in technology or systems integration companies.

To now, the high activity level in the sector has prompted these companies to act quickly and corral Western employees through the acquisition of local companies, for instance in countries such as the United States. However, growth strategies like these in developed countries are complicated and expensive. When it comes down to it, combining the work of such a high number of professionals produces cultural conflicts and impedes integration. Moreover, it is not always easy to achieve compatibility between these employees' professional expectations and their true prospects for development in their

Highlights

1 A study by the [Anselmo Rubiralta Center for Globalization and Strategy](#) of IESE Business School defines offshoring as the delocalization of a company's resources, functions or activities to another country.

2 The report makes the distinction between production offshoring, which has been used for years now, and the more recent offshoring of services, while revealing that 73% of the Spanish companies surveyed either already employ this practice or are considering it.

3 Another study, in this case by Roland Berger, states that among the leading factors driving offshoring are cost-cutting and pressure from the competition. The consulting firm maintains that more than 80% of all companies are satisfied with their experiences with offshoring, thanks to cost savings ranging from 20 to 40%.

4 Datamonitor claims that the revenues of the top five consulting companies in India—Tata Consultancy Services (TCS), Infosys, Wipro, Satyam and HCL Technologies—have grown by an average of 30%, while their American rivals have grown just 4%.

new companies. Regardless, over the long term this alternative is difficult to sustain.

It would seem that the Infosys formula has more staying power. This offshoring company based in Bangalore has launched the *Global Talent Programme*, a project that revolves around creating specific programs for recruiting talent on a global level. Basically, it consists of training Western college graduates to become bridges between the Indian company and the local markets. Although it remains to be seen whether it can hold onto the talent once training is complete, it will always be more feasible than recruiting trained professionals with high expectations.

Spanish companies should draw their own conclusions from this strategy. The fact is that Spain is not facing the same lack of professionals suffered by other developed countries. It has highly qualified professionals, working at salaries considerably below those of their European counterparts, and furthermore many professionals from the EU are willing to work and live in Spain for a variety of reasons, such as climate, lifestyle or quality of life.

Therefore, Spain is a good hub for providing services to multinational companies around the world. However, the services that it can attract now will eventually be standardized and the day will come in which the price will be too high—if it is not there already. As we are seeing with factories, the delocalization of services will emigrate to cheaper countries.

Therefore, as is happening with large companies such as Infosys or TCS, those in the Spanish offshoring market cannot settle for offering qualified professionals at a low cost. They have to be able to offer local consulting services and, at the same time, know how to delocalize lower value-added activities to countries with lower labor costs. If not, Spain runs the risk of having to rely solely on the increasingly competitive tourism market.