Offshoring: Nothing to get alarmed about

February 2, 2009

Offshoring of services is an unstoppable process, though some see a sinister side to the benefits: jobs are being destroyed along the way.

According to Forrester Research, 3.3 million jobs in the United States will move offshore by 2015. It's a considerable figure that becomes somewhat diminished in context: by that same year, there will be 160 million American workers. Nevertheless, public opinion remains wary of such movements due to the trail of unemployed it leaves in the short term.

IESE Prof. Joan Enric Ricart and Pablo Agnese offer their own particular take on this trend in *La deslocalització de serveis: una perspectiva global i local* (*Offshoring Services: A Local and Global Perspective*). They provide a broad perspective of the phenomenon: theory, statistics and real consequences.

Setback or progress?

The IT boom has permanently changed our lives and, by extension, the business world. Just as improvements in transportation altered the world of goods production, telecommunications are currently changing the landscape of the services sector. Any task that is impersonal - or can be, thanks to technology - is susceptible to offshoring. Now, white-collar workers must also compete at the international level.

So, how does this affect the job market? Theoretically, with perfect mobility, the loss of jobs in one sector will be compensated by gains in others. But perfection does not exist, and the fact remains that offshoring translates into short-term unemployment.

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Luckily, however, there is a flip side: Businesses that transfer particular services to other countries enjoy substantial profits, thanks to reduced costs. Those profits can plowed into new investments in the country of origin and, consequently, create more jobs.

Likewise, improved productivity - same service, lower price - can lead to a price reduction, greater demand and an expansion of the business, which, in turn, also creates employment.

Offshoring in figures: Dispelling misconceptions

When talking about the relocation of jobs, it is assumed that the trend is increasing and that the flow is always from Western countries to developing ones.

In the case of services, that is only partially correct. It is true that a progression exists: In the United States, offshoring went from 0.1 percent of the GDP in 1983 to 0.4 percent in 2003. In the United Kingdom, that figure rose from 0.9 percent to 1.2 percent during the same period.

However, it is also true that both countries are major receivers of jobs. What's more, China and India are among the largest offshorers in absolute terms. Curiously, the relative indicators (percentage of GDP, for example) are headed by African economies.

To elaborate on the U.S. situation, the rise in offshoring in 2008 was expected to be 108 percent in the area of human resources, 86 percent in provisioning, 85 percent in engineering services and 82 percent in product design. While these decisions may have initially been about direct price reduction, the greater predilection for segments of high added value indicates that the world's largest economy has shifted its focus to hunting for talent, wherever it may be located. The era of employee relocation is giving way to "migratory" businesses.

Spain takes its first steps

A study prepared by IESE on behalf of the Spanish chapter of the Offshoring Research Network (ORN) analyzes 55 of the country's largest companies with an average of 3,500 workers. Of these, 70 percent have engaged in offshoring or considered doing so. Notable examples here include IT-related functions and customer service (contact center), both of which generate limited added value, unlike R&D or engineering, which are still in the background. The vast majority of cases (88 percent) are about cutting costs. The exact opposite is true with the United States, where access to qualified personnel and new markets is limited.

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Spanish entrepreneurs are generally conservative and remain wary of cultural differences, while their Anglo-Saxon counterparts think only in terms of competitive pressure and customer satisfaction. There is statistical evidence to back up this theory: 75 percent of Spanish businesses engaging in offshoring activities do so through a subsidiary.

One of the major concerns for a Spanish entrepreneur starting out on this path is the amount of time it will take to return to the same service levels that existed prior to the transplant. Two-thirds of the companies surveyed achieve this within the first year, but in most cases, these operations generate minimal added value.

It is vital to get things underway quickly and, in terms of future investments, to continue thinking about other areas that are simple to offshore, such as human resources.

A natural phase of progress

While Spain is gradually taking to this commonly employed strategy, the phenomenon is already redefining globalization as we know it. For leading economies, the question is not about whether they should offshore, but rather how and when.

In the case of Spain, there is a long road ahead, full of trial and error; the sooner it gets started, the better. The boom of IT should open up strategies based on value, not velocity. One must consider the inexhaustible source of talent offered by the global market, while also becoming the leading destination for nearshoring on a European scale.

It is also important not to overreact to the alarmist tone with which the media has treated this subject. Offshoring constitutes a natural phase of globalization and modern capitalism. It is governed by the same principles as international trade, one of the pillars of progress. The first industrial revolution caused a massive shift from the field to the factory. Later, the competitive advantage moved to the colonial nations, and is now found in countries such as China and India.

If we are to learn anything from the current process, which some consider a third industrial revolution based on IT, it is that jobs do not disappear. Rather, they relocate in search of greater productivity, and therefore, greater overall profit.

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