Offshoring 2.0: Are you ready for the next wave?

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While offshoring is not a new phenomenon, the way it is being done is. The book, *Offshoring in the Global Economy*, helps managers navigate the organizational challenges that arise from this next-generation offshoring wave.

With unique resources and capabilities more critical than ever, competition is becoming more knowledge-based, and the ability to source and retain superior talent is critical. Firms best able to navigate the next generation of global sourcing will be best placed for long-term success. But where should they start?

In their book, *Offshoring in the Global Economy: Management Practices and Welfare Implications*, IESE Prof. Joan E. Ricart and colleagues Pablo Agnese, Niccolò Pisani and Tunji Adegbesan help managers who want to catch this new offshoring wave to navigate the organizational challenges that arise from coordinating geographically dispersed knowledge workers.

The book presents both an economic and management-oriented perspective on offshoring, starting with a comparison of direct and indirect measures of its impact on labor markets, and moving into a thorough analysis of the current literature.

The authors describe the new wave of offshoring currently taking place - that of services offshoring, which, although much smaller than the traditional materials offshoring, is growing at a faster rate.

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Finally, they suggest how managers, governments and workers themselves can take advantage of this new offshoring.

Services offshoring

The advent of the Internet and telecommuting has created a new wave of offshoring: services offshoring. Companies now have the potential to relocate worldwide business processes that, until recently, were considered to be classic white-collar jobs performed exclusively at home. This offers firms the possibility of leveraging a cheap and available pool of well-trained workers. This type of offshoring entails highly skilled service workers, rather than those engaged in the highly repetitive tasks of the manufacturing sector.

"With services, there is an additional appeal from a managerial perspective to compete for worldwide talent, beyond the short-term cost/benefit analysis. Thanks to the fast development and dynamic nature of services offshoring, companies are in a better position to develop their own capabilities and to address their strategies from a global point of view," write the authors.

Services offshoring is not as visible as the conventional offshoring of production. There is no sudden shutting of factories, but rather, a gradual relocation process.

Although this second wave of offshoring was first limited to the migration of contact centers and administrative and IT functions, it now includes product development activities such as R&D, product design and engineering services.

"The relocation of these activities, conventionally considered to be the critical value-generating activities of most enterprises, represents a major geography-related change in the organization of corporations," state the authors.

The socioeconomic debate

The authors demystify the negative association offshoring has with job losses. "Contrary to common belief, the net employment effects of offshoring are negligible," they insist.

Although offshoring has a direct negative impact on employment, it also has an indirect positive impact through improvements in productivity. "The positive side to the story is that with services offshoring, direct employment effects are less extreme, as highly skilled workers are expected to adapt more easily to the requirements of new job opportunities."

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Moreover, positive productivity effects can result from both traditional offshoring and, to a greater extent, the new services offshoring. As a consequence, for services offshoring, the effects on employment are less disruptive.

In fact, the offshoring of services may encourage activities to be upgraded domestically, enhancing domestic productivity and opening the door to many "offshorable" jobs in the future.

Navigating the new offshoring

The authors offer advice on how to navigate the new wave of offshoring to the groups implicated.

First, they suggest that governments should be cautious about hindering what they refer to as a "natural economic process."

"If governments leave offshoring on its own, other countries experiencing an increase in employment will eventually increase their demand for goods and services, many of which will be produced abroad, and some of which will even be produced in the country from which its activities had been relocated. To produce these new goods and services and meet the increased international demand, more labor will be needed."

For firms, the authors stress that offshoring must be thought of as an integral part of a company's global strategy. If not, companies could lose terrain to other more willing firms.

Firms must also be flexible and efficient in managing the workforce. Companies that invest time and resources in finding the right strategy to train and shape their staff are in a much better position when the time comes to offshore.

"Career-long learning, career planning, staff development and skill renewal are just a few of the possible strategies that can help firms and their workers adapt to the new offshoring reality."

They also suggest flexibility for workers who might suffer the offshoring stigma.

"Having geographic mobility is as much an advantage today as it was, for instance, during the time of the American colonies. There is much to be gained by both savvy executives and flexible workers and, subsequently, the society as a whole."

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