

Spanish offshoring enters new terrain

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Spain, a late starter to services offshoring, is fast catching up. Major Spanish companies are integrating offshoring into their strategies.

Greater diversity of functions. Latin America as a primary destination. New reasons for offshoring. A preference for captive companies. New risks. The winds that shape the future of offshoring in Spain are blowing forcefully and in many directions. The study, "[El offshoring en España. Evolución y perspectivas de la deslocalización de servicios en 2008](#)" ("Offshoring in Spain: Evolution and Prospects for Services Offshoring in 2008"), by [IESE Prof. Joan Enric Ricart](#) and research assistant Soledad Rosatti, shows the evolution of this phenomenon in comparison with the data from the first survey done in 2006. The research, part of an international study conducted by the Offshoring Research Network (ORN), was presented at IESE Business School, Barcelona, in January 2009 during a special session with executives and suppliers involved in offshoring activities.

Offshoring functions

Of all the services that Spain outsources to other countries, five stand out from the rest: IT related, followed by provisioning, call centers, other production activities and software development. In the United States, the offshoring of software development and product design top the list, each representing 22 percent of U.S. services offshored compared with a more modest 8 percent for Spain. Such disparity is understandable, say the authors, given that the United States is that much farther along in its offshoring practices, so is already more focused on knowledge-related activities than Spain. However, the authors note that Spain has evolved greatly since 2002 toward more offshoring of this type. In fact, activities

such as product development experienced rather significant growth four years ago (although these jobs have since declined somewhat), giving rise to a far more diversified array of assignments.

Why offshore and where?

In 2006, the main reason Spanish companies outsourced was to save on labor costs. While still important, that reason has yielded to a bigger drive to make offshoring central to a company's overall growth strategy. Other reasons include the fact that offshoring has become a more widely accepted practice across sectors, and it enables companies to offer improved levels of service and gain access to qualified personnel at the same time. Undoubtedly, the most common destination for Spanish companies is Latin America, mostly for call centers, IT and software development. Low cost of labor leads the list of reasons, followed by shared language, cultural proximity and talent available. Dig a bit deeper, though, and you find major inequalities in the preferential treatment assigned each different country in the region, mainly due to security concerns and political stability. Argentina and Chile are two of the main ports of entry into Latin America, though Brazil is emerging as a major player in the offshoring market. Moreover, the authors note a progressive migration from large cities to smaller ones. The Argentine cities of Córdoba and Rosario, which are becoming important centers for technology, serve as good examples of this trend. When choosing a location, another determining factor is the size of the Spanish company doing the outsourcing. Small businesses opt mainly for Latin America, while larger ones look to India and the Philippines, especially for product development. Indeed, India has become the second most preferred destination for Spanish companies, although there has been some decline over the past two years. (The United States has long opted for India and China, as well as its neighbors Canada and Mexico, and to a lesser extent, Latin America.)

Other emerging regions are Eastern and Western Europe, which in recent years have become hotspots for outsourcing administrative functions, helped by geographical proximity and ease of relocation. (Belgium has typically used these regions as prime destinations for these reasons.) And despite the operational risks entailed by the still limited supply of skilled personnel, Africa has appeared as a new destination, chosen primarily for the outsourcing of call centers.

Risks and models

The study also highlights the perceived risks: concerns over the quality of the service,

operational efficiency and political instability. In comparison with 2006, the authors see less concern expressed about cultural differences, which, they say, comes from experience. In terms of a business model, in principle, Spanish companies prefer to maintain control over their offshoring processes, and thus start by setting up a subsidiary in the receiving country (company-owned "captives"). Only later do they decide to use an external supplier or third parties to handle their offshoring activities ("outsourcing"), mainly for legal services and call centers. As the terrain grows more complex, for offshoring to go to the next level, Spanish companies must provide lower costs and complete transparency to end customers so that they receive services without even realizing how they were being delivered.

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