WHY ‘NEARSHORE’ MEANS THAT DISTANCE MATTERS

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As the outsourcing and offshoring phenomena matured, the marketplace has sought increased differentiation on the basis of location through a range of ‘shoring’ and ‘sourcing’ terms. “Rural-sourcing,” “two-shoring,” “best-shoring,” and at least a dozen other expressions have emerged. Prominent among these is “nearshore,” which first appeared in the software/IT field in an article about an entrepreneurial software development venture established in the island of Barbados [8]. Nearshore was presented then as a reaction to the main offshore destination, India, which was viewed as “farshore,” a very distant destination, many hours to travel, many time zones away, and a very different culture.
The emergence of nearshoring in an industry that ENCOU-RAGES VIRTUAL FORMS OF WORKING PRESENTS yet more evidence that distance still matters.
of the texts emphasizing an understanding of nearshore in terms of linguistic factors, 57% suggested this was based on native speakers of the common language, usually referring to English, such as English-speaking Malta for Britain. But, other common language bonds: the Latin American nearshore destinations’ closeness to Texas or Florida, where Spanish-speaking populations are large; French-speaking Northern African nations being nearshore locations for France. In other cases, proximate languages were emphasized: The Finns source to linguistically proximate Estonia. There is “Romanic” linguistic similarity between Romania and France. Another theme is the common business ethic between the client and the nearshore country, the latter referred to as having a “similar” or “Westernized” business culture. Such terms were in use in about one-third of the textual sources. Hence, a country that is nearshoring is expected to share linguistic and cultural similarities with the client country.

Finally, less common in usage, are political/economic and historical linkages drawn between client and nearshore location. Nearshore was measured or measurable in relative few cases. For example, only 21% of the texts mentioned any specific travel time between client and nearshore destination. Once mentioned, however, it was usually less than four hours. References to time zone differences (only 31% of texts) usually stated a time zone difference of zero hours. In general, however, with the texts having but a vague consensus on the attributes of nearshoring, they are even less clear about measuring nearshore attributes.

To summarize, given the absence of a concrete definition for nearshoring, we synthesized the texts to present the following:

Nearshoring: sourcing service work to a foreign, lower-wage country that is relatively close in distance or time zone (or both). The customer expects to benefit from one or more of the following constructs of proximity: geographic, temporal, cultural, linguistic, economic, political, and historical linkages.

The accompanying sidebar presents some of the nearshore anecdotes found in the texts and illustrates how the constructs are used to describe the location.

**NEARSHORE VS. OFFSHORE**

Given that 23% of these texts were actual promotional advantages that were perceived as being important for differentiation.

**MANAGERIAL IMPLICATIONS OF NEARSHORING**

Our analysis shows that distance (in the nearshoring context) is viewed as multi-dimensional (that is, it illustrates the elements that are perceived as being important for differentiation.

**NEARSHORE LOCATIONS IN THREE PRINCIPAL GLOBAL CLUSTERS AND THEIR RESPECTIVE ATTRIBUTES**

**Japan Nearshoring to China**

The city of Dalian in northeastern China, a former Japanese colony, is referred to as “Little Tokyo” with its large number of Japanese-speaking residents, “Kinoso-called women,” and sushi bars [4]. The article promotes the importance of cultural and historical linkages that have created a unique symbiosis for a nearshoring solution. The Japanese are comfortable doing business in the “Japan-friendly” city while the Chinese entrepreneurs and multinationals take advantage of former Japanese ties to gain a foothold in the IT outsourcing business. Dalian exported US$37 million in IT-related services to Japan in 2004.

**Germany Nearshoring to Belarus and Bulgaria**

With only a small domestic market, the Belarusian IT industry has focused on exporting software. It has grown several medium and large IT services firms that serve Russia and Western Europe, especially Germany and Sweden. Its advantages include a mature technical infrastructure, post-Soviet educational system, and geographical and cultural proximity to the European Union [5].

The German software firm SAP opened a research lab in Bulgaria’s capital city of Sofia in 2004. Other German firms nearshoring to Sofia include BMW and Siemens. Chief among the advantages offered by Bulgaria are not only its time zone and proximity, but “cultural, linguistic, and ethnic connections [6].”

**U.S. Nearshoring to the Caribbean**

The Caribbean nations are within a short-haul airline flight and are in a similar time zone to the U.S. East Coast. In addition to some IT work, the region also has a long tradition of offering back-office functions such as data entry that has morphed into today’s call centers. A 2005 report from the Zagada Institute claims that the Caribbean’s tourism industry has endowed the islands with a so-called “cave dividend,” which means they have become specialists in supplying customer services. According to Zagada, the islands are promoting their “three Ps” (that is, their three advantages) Proximity (nearshore), Proficiency (English and Spanish), and Preparedness (education and U.S. cultural alignment).
Nearshoring has represented one of the competitive threats to the fast-growing Indian software firms—A THREAT TO WHICH THESE FIRMS HAVE RESPONDED WITH AGILITY. The top Indian firms have been expanding their global presence for some years including into nearshore locations.

For example, if convenience of travel for face-to-face interaction is considered essential then the geographic proximity of the location would dominate other considerations. If a strategic collaborative partnership is working on radical innovation projects, decision makers may determine that engineers need to interact frequently and thus the convenience of travel and real-time communication, enabled by time zone overlap, may be deemed critical.

In recent years both vendors and nations have aggressively emphasized their nearshore advantages. Some locations have not merely promoted these advantages but exploited them further. We offer two examples. Ireland specializes in software localization services for Western Europe, including language translation. Ireland’s specific advantages lie in geographical positioning (somewhat equidistant) between the U.S. and Western Europe, being part of the European Union, and deep cultural linkages to the U.S. Nearshore dimensions can thus be used as multipliers of competitive advantage. Costa Rica has recently positioned itself as a nearshore hub for North American clients with small collaboration spokes to neighboring firms in Central America and the Andean region.

Maintaining Perspective

Our study also suggests that “nearshore” has become a convenient label, its legitimacy implicit through repeated use, with or without clarification. A destination that labels itself as nearshore seeks to differentiate itself particularly from Indian offshoring and any of the negative connotations that may be attributed to the Indian model, such as long travel time. There is, however, an inherent fallacy in this logic since India actually shares some of the very same characteristics that make nearshore destinations attractive. For example, while India is certainly not nearshore to Britain it has long and deep historical and linguistic ties to Britain due to the colonial period.

Indeed, India is such a powerful software nation that it exports roughly five times the software of all the 45 nearshore nations (excluding those nations noted in Figure 2 shown as dichotomous). Notwithstanding the Indian hegemony, nearshoring has represented one of the competitive threats to the fast-growing Indian software firms—a threat to which these firms have responded with agility. The top Indian firms have been expanding their global presence for some years including into nearshore locations. These Indian firms now offer a locational menu of choices to their clients that assimilates some of the nearshoring discourse. For example, India-based TCS can offer its British clients services that are farshore (India), nearshore (Budapest, Hungary), and onshore from their offices in London, Nottingham, or elsewhere. Another Indian firm, Satyam Computer Services, launched a development center in Hungary in 2004 to be “nearshore” to its European clients. In the same vein, India-based Infosys has “Proximity Development Centers.” Indian firms have also refined their internal processes in mitigating time zone difficulties [5].

In summary, as the global marketplace for software/IT services continues to mature, the nuances implicit in the term nearshore will likely stay with us. Locational and geographical differences will continue to play a role. This implies that distance and proxim-