

Popularization of Nearshoring In Eastern Europe- A Study to Understand the ‘Why’ Behind

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ABSTRACT

Nearshoring refers to transfer of work to another organization in the nearby region. For instance, for UK based business units, Europe is the Nearshoring region; companies will prefer to outsource or Nearshore within its boundaries basically due to its data protection laws. While selecting the business model, businesses Nearshore operations and projects to area nearby while keeping cost-effectiveness, small time- zone differences and fewer cultural discrepancies into mind. Proximity on one side allows for lesser cost, less expensive traveling while on another side a greater control and time-based decision-making in any critical situations.

Offshoring as another child of relocation of a business process is to a more distant location where wages are lesser leads to significantly reduced overall production cost. Asian countries like- India, China, and also the Philippines are a few notable examples of such offshoring locations for many ‘Western’ companies. Several aspects like different time zones, greater distance, various cultural differences, and also the language barriers, impact the business process significantly. (Nearshoring-vs-offshoring, 2018)

Eastern European countries like- Poland, Romania, Czech and a few other are favorite nearshoring destination due to familiar financial and legal laws; stable social and economic structure; and growing technical talent within the region. However, ‘more and more’ for ‘less and less’ is not the only factor which the firms must look for, they must ensure the overall incentives and benefits to leverage their business.

The present study is a secondary data based exploratory study which attempts to understand the concept of Nearshoring. It further endeavours to comprehend ‘how’ Nearshoring is replacing outsourcing at a fast pace and to learn ‘why’ eastern European countries are the favourite Nearshoring destinations.

1. Introduction

Profit maximization and cost reduction are fundamental to any business. Outsourcing is- when for the sake of cost reduction, a company handed over a complete project to the third party. This is usually done all across the globe, wherever the first party finds the most optimum cost reduction without compromising with the quality parlance. Numerous activities such as – software development, recruitment, IT services etc have been outsourced by the big companies. Generating big margins outsourcing already proved itself as the successful business model since last many years. Since businesses all over the globe are facing a lot of challenges during its growth and development cycle, new challenges keep emerging and among many difficult moments, one is to decide how many financial investments can be done for the handling of certain projects.

Nearshoring is assigning or handing over a project to a firm geographically closer to the one. Though it can be even in another country or region the idea is that the two will not be geographically apart. Offshoring is when companies might look for entirely different geographical location and decide to outsource their project as a trusted partner. Companies could

go places to take advantage of the much cheaper labor market usually in third world countries.

2. Nearshoring In Eastern Europe

Nearshoring in Eastern Europe is a growing phenomenon. Since years after the collapse of communism, rigidity, habits, attitudes and the values have changed out of the recognition of eastern part of the continent. There were at times even planting a factory seemed risky there; so, of course, outsourcing would have seemed mad in the volatile settings.

European Union had actually played a significant role to strengthen the business path. Now, since laws are imposed and standard of technical education has risen significantly, Eastern Europe has evolved as a favorite destination for outsourcing of projects from western European nations. The reasons behind such moves have been identified as:

1. **Cultural affinity-** The foremost benefit of belonging to the same continental region is cultural affinity. While dealing with business projects trust and understanding can be built comparatively easily and firms will face fewer differences with respect to the work- culture differences.

2. **Similar time zones**-A person sitting in his home country settings can easily deal with host clients. No worry to take an overload of working in different time zones, night-shifts and over time in order to synchronize calls or meetings. It is thus a comparatively easier and comfortable option for both the parties.
3. **Historical linkages**-Countries sharing borders, common history and have had linkage found each other more connected- socially, emotionally, politically and linguistic. Thus, it appears as a comparatively better option to them to look for a neighbor to help. For both the parties, it is easily adaptable.
4. **Geographical proximity**-Frequent face to face meetings enhance interactions and increase collaboration, hence raising productivity for a firm at lesser input cost.
5. **Familiar language**-Skype is no doubt, doing wonders throughout the globe. It has built in a platform to merge the world. However, semantic barrier, communication barrier persists while dealing with non-native speakers. That reduces the weight of the work and due to poor communication; sometimes things may not proceed as they are supposed to be.
6. **Leverage at Low-cost involved**- Cost cutting can definitely improve the worth of a business. Economic differences have invited the eastern countries to look for more and more work and cost reduction has directed the western European nations to look towards cheap rate business solutions.
7. **Putting in the highly skilled technical workforce**- According to a very broad generalization, India is said to be good at processing a factory model, while handling things quickly in a cost-efficient manner, However, Eastern Europe is a better place for experimental nature of tasks.
8. **Technical talent growing**-It's more important to take benefit of the talent which is the best in the world. Growing technical talent hub in Russia and eastern European make them more capacitive in handling challenging, unstructured tasks randomly while challenging the idea and modifying the mistakes without acting just like doer without questioning.
9. **Less risk of data theft**- Western contracts and financial investment are increasingly flooding into the eastern part of Europe. Risk of data theft is comparatively lower when compared to that of Asian and African continent outsourcing. That derives the business decision maker to go flawlessly with easier and safe options.
10. **Familiar law to ensure protection**- Eastern Europe is beginning to look much more like China and India than Africa since it is closer geographically and a familiar legally culturally than their eastern counterpart, and hence doing business appears easier there. The presence of European Union has strengthened and imposed the familiar legal environment there.(Julia, 2018)
11. **Faster problem-solving**- when comes to handling urgent and fast nature of work, picking Nearshoring get clear your way.

3. The success of Nearshoring

Out of many conditions that need are to be fulfilled for Nearshoring to work. Following factors works well-

1. **Fully Transparent operations with no hidden costs**-Transparency has its real sense when dealing with the banking industry. Trust and confidence come with the transparency enabled environment only.
2. **Access to the highly qualified technical IT experts** is easier and cheap than hiring graduates from Cambridge and UK due to the improved academic environment there.
3. While Delhi is 9 hours through the airway, a few cities in Eastern Europe are simply an hour away, hence Good communication is inevitable and collaboration is better. The significant ability to let grow and keep the talented resources also produce the desired business results.Regularly meeting on quality feature and with no compromise make them an option to look forward. Clearly, reporting helps in making informed decisions timely which is build value and make sense in business terms.
4. **Projects are handled by the human resources**-a kind of blend of technology with industrial expertise. Proven skills and project methodology helps to establish milestones in the long-term business relations. Similar work-culture promotes cohesiveness and hence regulates each other in an understandable way.

A clear and straightforward form of the business model and structures help the person on another side to understand the requirements and work accordingly. Among all, Business stability does matter. It avoids hassles and flawless working without worrying about the long-term guarantee. (Amaral, 2016)

4. Emerging Nearshoring Areas

For Poland, cities such as Motorola and Sabre are the significant near shoredcentre for IT and software development, while firms such as Comarch, HCL and likewise are growing their footprints in the IT-based consulting field. (hall, 2011)

In the Eastern part of Europe, Poland has appeared as the largest economy that definitely offers many important added advantages when compared with other neighbours. With stable economic scenario and good tax incentives, it offers all valid ways to look for Nearshoring here.

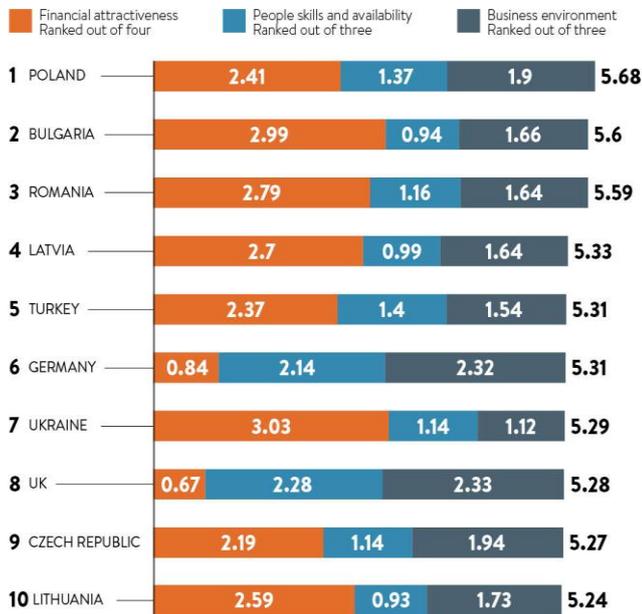
Equally, Poles are facing tough competition from another challenger emerging in the region. Bulgaria- is set to become the next hot location specifically for the high-level computer-aided design related activities.Along with this, it is culturally closer the UK, so for them, it is an interesting destination altogether for outsourcing. Presently with more than 400 outsourcing centres, Poland enjoys a substantial amount of foreign capital investment for it around research and development related projects and also business process outsourcing.Meanwhile, IT and software-based business process providers giants like

Accenture, Genpact, Captero, Luxoft, and Wipro have made bases in the country Romania. (hall, 2011)

the world, including Microsoft as well as Google, to create outsource centres out there.

Graphic Illustration 1: Showing top most European countries preferring outsourcing

TOP 10 MOST ATTRACTIVE EUROPEAN COUNTRIES FOR OUTSOURCING
GLOBAL SERVICES LOCATION INDEX RANKS THE OFFSHORING LANDSCAPE ACROSS THREE CATEGORIES, GIVING A TOTAL SCORE OUT OF TEN



Source: A.T. Kearney 2016

Source: Amaral, R. (2016, September). *The most attractive European countries for outsourcing*. Retrieved from www.raconteur.net: <https://www.raconteur.net/business/the-most-attractive-european-countries-for-outsourcing>

CEE is definitely a place for IT development related and consulting and some other work forms that traditionally were the province either in India or in the Philippines.

Big differences are there in a Turkey and Estonia which the potential UK customer will want to be aware of outsourcing before they actually go down the route. Because of the stable economic situation in Poland, tax incentives facility and closer cultural affinity make it the favourite Nearshoring destination in the UK. However, even high valuable is the wealth it has of tech talent, that are leading a few biggest tech companies of

Baltic region states, Lithuania, is also wealthy in technology-based talent, thus, offers another good alternative to the off shoring. Farida Gibbs, CEO of UK-based Gibbs S3, has established one IT training for IT workers to train and educate who can later be engaged by British firms to flexibly meet demand. (COMPARISON, 2018; Amaral, 2016)

5. The best practices

1. Nearshoring In Poland

With growing investment from western companies has helped the eastern European country Poland to become the world’s third-largest outsourcing or Nearshoring market after Asian giants China and India — and finally seeing off the competition from the countries like Brazil and Philippines. (Coleman, 2015)

In Poland’s outsourcing industry, nearly half of all the foreign capital investments have come from banks, insurance and IT based companies — and of that outsourcing operation, 90 percent serve their clients from western European nations. However, much of its investment has been from second- and third-tier level cities. For instance- Lodz, home to Accenture was once a thriving textiles producer.

2. Nearshoring In Other European Countries

Hungary and the Czech Republic are other options perceived as a low risk in the region. Outside the parlance of European Union, Ukraine too has improved its business conditions, offers an array of IT specialists. Even it is politically and economically instability constitutes a hurdle to the potential growth of the market. (Amaral, 2016). Romania- a rising star of the Nearshoring market because of its comparatively low labor costs without any compromise on the quality of the workforce. Romanian government offers a huge support for the outsourcing services, such as significant tax incentives for the IT professionals. Additionally, near shore locations sometimes are smaller cities, in population and graduate output terms when compared to offshore centers, hence are relatively less mature. That present a few hurdles in terms of some skills, scalability potential, and some senior positions. (Coleman, 2015).

Table 1: Showing Top 5 Countries That Have Adopted Nearshoring in Eastern Europe

COUNTRIES >>	BULGARIA	ROMANIA	ALBANIA	POLAND	HUNGARY
Capital	Sofia	Bucharest	Tirana	Warsaw	Budapest
PEOPLE SKILLS & Availability					
Main city population	1,3 M	1,9 M	0,6 M	1,7 M	1,7 M
Country population	7 M	19 M	2,7 M	38 M	9,9 M
English Speaking	*****	*****	*****	*****	****
Western European Languages	****	*****	*****	****	**
Students in computer science/year	6000	5800	3200	8000	7400
Number of certified IT professional	8700	14200	7300	9500	9600
COST					
Net salary level on base 100	109	115	90	131	127

(Romania)						
Employer & Employee charges		31%	32%	25%	40%	46%
Infrastructure (SQM/month Prime)		12 EUR	19 EUR	10 EUR	15 EUR	21 EUR
RANKS						
A.T. KEARNEY 2016 global services location index Eastern Europe		2	3	-	1	8
Tholons Top outsourcing 2015 Eastern Europe :		7	4	-	3	2
Cushman & Wakefield BPO index rank 2015 : Eastern Europe		1	2	-	6	3
Colliers international outsourcing city rank 2015		3	4	-	7	5

For choosing between South Asia & Eastern Europe for the delivery of IT services programming do not make a big difference, however, skill differences do count.(Amaral, 2016).

Table 2: Showing Next 5 Countries That Have Adopted Nearshoring in Eastern Europe

COUNTRIES >>	CZECH	CROATIA	SLOVAKIA	LITHUANIA	UKRAINE
Capital	Prague	Zagreb	Bratislava	Vilnius	Kiev
PEOPLE SKILLS & Availability					
Main city population	1,2 M	0,8 M	0,4 M	0,5 M	2,8 M
Country population	10,5 M	4,2 M	5,4 M	2,9 M	45 M
English Speaking	*****	*****	****	*****	***
Western European Languages	***	***	***	***	**
Students in computer science/year	9000	8500	8400	5500	Inc
Number of certified IT professional	11000	1000	2800	1500	25000
COST					
Net salary level on base 100 (bulgaria)	145	120	125	110	108
Employer & Employee charges	33%	37%	48%	39%	47%
Infrastructure (SQM/month Prime)	20 EUR	14 EUR	15 EUR	14 EUR	17 EUR
RANKS					
A.T. KEARNEY 2016 Global services location index Eastern Europe	6	-	-	7	5
Tholons Top outsourcing 2015 Eastern Europe :	1	-	5	-	-
Cushman & Wakefield BPO index rank 2015 : Eastern Europe	5	-	-	4	-
Colliers international outsourcing city rank 2015	5	-	-	-	2

6. The real benefits to eastern Europe

Taxation Benefits

In order to make the European markets more attractive destination governments of these countries like Poland and Romania have in fact implemented some tax incentives for the IT companies so as to set up shop in their country.

Also, the European Union umbrella will also provide a high degree of regulatory. That allowed companies to Nearshore in Europe for some types of back-office work while dealing with the sensitive customer data.

Integration of activities and confidential material become much easier now with nearshoring.

Further, European workers are more comfortable in providing value-based input for the development of the projects than that in other areas. It is a general belief that Workers in Europe are more likely to ask the question and also challenge the work they are asked for, thus deliver the higher quality of

end-products. Another seemed advantage is the facility to learn foreign languages, which is a useful trait especially for companies dealing in supply chains and the customers around the globe.

The most emerging reason for why Nearshoring has been attracting companies is that due to the similar time zone and close at hand these are favorable. Increase in the reach of IT projects and real-time implementation, proximity elements have gained a wholesome new relevance now. Workers with good technical skills along with linguistic capabilities in addition to the English language can be easily found in Poland, or Bulgaria, or Romania. One estimate says that around 98 percent of Bulgarians can speak a foreign language well and four out of five Romanians can speak English. Firms are shifting from fixed-infrastructure data centers to the cloud-based environment. Projects are now delivered differently and the support is provided in an agile way.

Exploiting The Time Zones

Sometimes it took even years, or several months for development of large technology projects while going according to a structured methodology in which each step must be followed in a specified time frame. However, cloud-based technologies are increasing where-in products can be quickly put to work, and customers can use them.

time zones proximity will allow teams to work beneficially even if located in different countries and instant traveling can also be done to head a workshop or to check things with the outsource partners further constitute the advantages of Nearshoring.

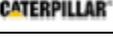
The time zone brings a difference while building IT solutions. Along with-it Knowledge-sharing portals and the real-time based screen-sharing remove the time-difference issue.

Specialized companies all across the globe are expanding their offer to Eastern Europe. For instance-Wipro- as an outsourcing giant from India has maintained its operation in Romania more than the decade.

7. The company wise best practices

There are numerous companies including those in Production, Service and IT sectors that have started using near shoring to attain competitive edge in market. They not only focus on cost reduction but also in improving quality, expansion, and other strategies like diversification and Acquisition.

Table 3: Showing Company Wise List of Best Practices in Nearshoring

Company	Near shore location	Function / Service	Rationale / Description
	Belfast, Jacksonville	IT development & support	Government grants, lower ease of management
	Birmingham, Raleigh	Call-centre for institutional capital markets clients Operations & IT	Lower cost of real estate and salaries than London. Lower cost, timezone benefits Infrastructure cost, taxation
	Norwich	Call-centres	Quality issues experienced in India
	Glasgow, Leicester, Liverpool	Call-centres	Service quality – in sourced from India
	Newcastle	Call-centres	Undisclosed
	Manchester	Call-centres	Up sell/Sales quality
	Columbus	Manufacturing	Opened new ATM plant, bring production back from China
	Avon Lake	Manufacturing	Replacing production in Mexico due to tax relief
	Suttner	Manufacturing	Expanding onshore plant capacity
	Various UK	Call-centres	Acquisition of UK based call-centre businesses to expand its onshore delivery capabilities
	Detroit, Michigan	Software development	High quality service
	Meerbusch	Data centre	Acquisition of Citibank data centre in Germany
	Belfast	Call-centres	Acquisition of BT call-centre

8. Nearshoring Pitfalls and Ways to Avoid them

Nearshoring seems to have been a two-way-street after a few of pitfalls. After unsuccessful outsourcing projects, banks are forced to either look for another service provider or resume back to their previously trust outsourced processes back.

Typically, there are three possible explanations-

- a) The quality expectations and the requirements for the service have not been actually met;
- b) Poorly realized cost saving benefits or
- c) Maybe the legal or regulatory requirements got changed and afterwards, higher control is required for certain functions based on which a bank had outsourced earlier.

Moreover, another reason for failed Nearshoring projects is classified into following groups: business case, approach angle, project-based and implementation strategy and other soft factors. Reasons for project’s failure vary from accurate business case to uncalculated one is owing to the absence of the pragmatic step-by-step angle approach while Nearshoring.

The degree of complexity can immense for projects when inconsistency, incompleteness or unclearly comes in, the project becomes almost fatal. Likewise- poor planning, hasty project & implementation, insufficient budget estimation or inadequate personnel training pave the way to generate the low quality of services and also the non-achievement of estimated goals. Also, living conditions, working styles, linguistic barrier also restrict the success rate of the project success.

9. Recommended critical success factors for Nearshoring-

1. A comprehensive and standardized end-to-end customized project approach is required to ensure a great efficiency and an also positive project outcome for the whole project.
2. The commitment of Top-Management and its speed of decision making are absolutely crucial to mobilize the resources indicate the seriousness backed by the top-level management.
3. Next is the balance proceeding between top-down and bottom-up is important to do SWOT analysis of Nearshoring.
4. Process-related and the legal know-how definitely matters in order to calculate the valid assumptions and the hypotheses too, to challenge the skeptics and finally for overcoming the potential show stoppers. Profound legal based know-how is critically necessary for the project success.
5. Last but not the least, working together with empathy and transparency is of paramount importance to build trust, gain significance and in maintaining a long-term relation indeed to carry out the project successfully. (Assohoff, 2014)

10. Conclusion

Outsourcing gives immense benefits to the organizations who wish to outsource. Enhance their regular ability to keep focused on core competencies things, optimum reallocation of the resources for innovation and growth, reduce the operational and managerial risk, with almost no additional investment over infrastructure and improved scale of overall competitiveness. Hence, while choosing to go for Nearshoring focus must be on the benefits, but at the same time keeping oneself aware of the possible risk or challenges involved. The wiser one way is to do the thorough analysis and careful consideration of the overall environment for deriving the challenges into opportunities.

It is further recommended that such Nearshoring practices can attain competitive edge in almost all kinds of settings be it countries or sectors or organizations. The benefits of Nearshoring are inevitable and much better than off shoring and outsourcing. The need of the hour is to exploit the opportunities within the strategic framework. In a country like India, there are huge challenges with regard to the growing concepts of Nearshoring. Although the country has been unbeatable when it comes to outsourcing but for Nearshoring, the country needs to adapt to the developments and tap the competitive sources that are near to it.

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