WHY 'NEARSHORE' MEANS THAT
DISTANCE MATTERS

By Erran Carmel and Pamela Abbott

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.

When sourcing abroad, a growing number of companies now weigh whether the location is near vs. far.

Countries and companies viewing themselves as nearshore claim to offer some of the benefits of offshoring (namely, cost reduction), while mitigating difficulties imposed by distance from the client. Studies on distributed software development have documented that distance introduces difficulties due to issues of communication, control and supervision, coordination, creating social bonds, and building trust [4, 7]. The emergence of nearshoring in an industry that encourages virtual forms of working presents yet more evidence that *distance still matters*. In this article we explore the subtle ways in which this is viewed.

Traditional offshoring is enabled by technology. The ubiquitous nature of technology has led to an assumption that common interactions such as communication, coordination, and collaboration can be easily resolved over distance by technology and that physical location therefore becomes a non-issue. Such a view is espoused, for example, in the book, *The Death of Distance*, which claims that "companies will locate any screen-based activity anywhere on earth, wherever they can find the best bargain of skills and productivity" [3].

Nearshoring challenges this assumption. Nearshore emphasizes location and proximity as opposed to the prevailing offshoring archetypes of location transparency and irrelevance of distance and time [1].

Research in related areas, such as the distributed organization of work, global strategy, and economic geography, support the view that despite current globalization trends, location, and distance still do matter.
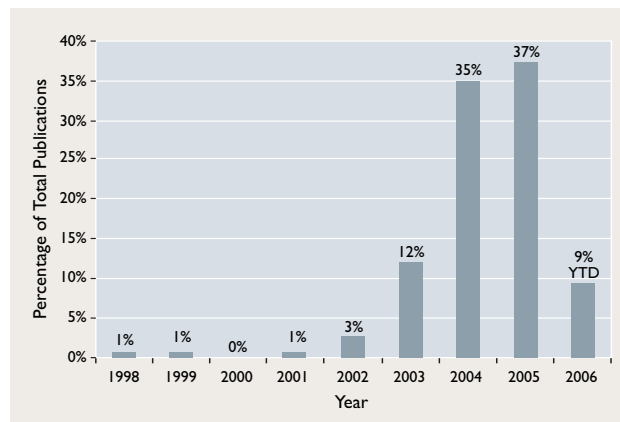
Note: 2006 data is only for part of the year.
Sources: ABI/Inform, EBSCO Business Source Premier, ACM Digital Library, Google.com, all with keyword search on "nearshore" and derivatives.

Figure 1. Distribution of publications found by year of publication.

Kiesler and Cummings [9], investigating geographic distribution of work, assert that proximity is critical to the development of group interaction and social relationships, and that technology alone is often insufficient to re-create the same facilitating environment in distributed teams that is present in co-located settings. Porter [10], in his landmark article on geographic clustering of related industries such as Silicon Valley, argues that despite the apparent global availability of capital, goods, and information, there is still evidence of competitive advantage based on particularities of location, such as knowledge and relationships. Ghemawat [6] argues that a sophisticated analysis of distance based on several dimensions (such as cultural, geographic, administrative, and economic) is needed in order to better inform the feasibility of making international investments even within a new economic climate that promotes increased global interaction. Ghemawat's dimensions of distance suggest that the impact of distance on global trading relationships can be measured in more than just geographical terms. Each dimension can either enhance or restrict the effectiveness of the relationship.

Thus, distance—or proximity—of an offshore facility from the client may influence the success of that relationship in subtle ways. Furthermore, distance, viewed here as the physical remoteness of an offshore facility from a client, is associated with another interpretation of distance, that of *difference*; difference that imposes difficulties in the smooth operation of the sourcing relationship. Conversely, proximity, viewed here as the effect of reducing remoteness, is associated with *similarity*; similarity

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that enhances competitive advantage. Thus, we wanted to investigate how closely the current understanding of nearshore reflects these arguments regarding location, distance and proximity, and their association with concepts of difference and similarity.

Through a critical examination of various textual sources we clarify how nearshore solutions are represented in the broader global software/IT sourcing landscape. In so doing, we map the geographical areas that are being promoted as nearshore, determine the nearshore model's contours and constructs, examine the differences proffered by the literature between nearshoring and traditional offshoring (or farshoring) and, most importantly, discover the implications that nearshoring has introduced for the efficient management of global sourcing arrangements.

INVESTIGATING NEARSHORE'S MEANING AND SCOPE

We assembled 150 textual sources relevant to our topic dating from 1998 through early 2006. The distribution over time appears in Figure 1 (and this is suggestive of the interest in nearshoring emerging in 2003–2004). The sources represented approximately 570 pages of text that either mentioned nearshoring explicitly or were advocating sourcing destinations based on proximity. The largest group of texts was journal/magazine texts (45%), with the rest being promotional (23%), Web-based texts (22%), consulting papers (7%), and academic (3%). In aggregate, this collection of texts appears to represent the current industry thinking and understanding of the concept of nearshoring.

We conducted an analysis of the language and constructs represented in these texts by using a critical, systematic, and qualitative content analytical method [2]. Content analysis allows for the reduction of textual sources into manageable content categories on which further statistical and interpretive analysis can be performed. We inductively derived coding categories on which to base our analysis and then applied them deductively to the textual sources.

The analysis covered the following questions: Where is the nearshoring location? What are the perceived dimensions of the nearshoring construct? Is there evidence provided in various texts to support the assertion of difference between near- and offshore?
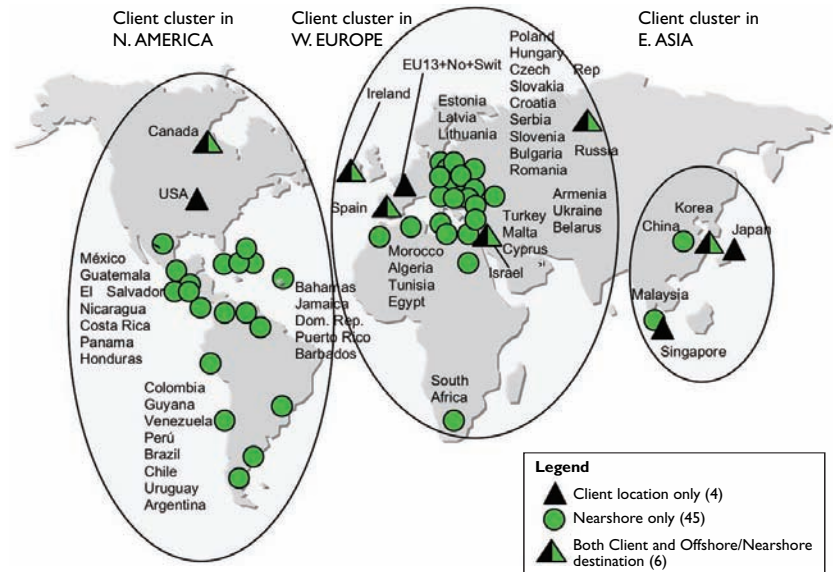

Figure 2. Global distribution of nearshore destinations and their division into three clusters.

GEOGRAPHIC FINDINGS

From the analysis 51 countries were identified as nearshoring destinations, and are depicted graphically in the map of Figure 2. Three major global clusters can be identified. One cluster of 20 nations surrounds the U.S. and Canada and another 27 nations form a cluster around Western Europe. The third, smaller cluster lies in East Asia. (We are aware of some additional nations that are nearshore destinations that do not appear in the map of Figure 2, but these nations were not mentioned within the data from our extensive search).

The analysis also reveals that some countries can be considered dichotomous in that they are both client locations and nearshore destinations. This dichotomous characteristic is due to the fact that these nations are either middle-income nations (sometimes due to currency differentials), or nations in which wages have risen quickly.

CONSTRUCTS THAT CONSTITUTE NEARSHORE

Of the 150 texts reviewed, less than one-third (29%) define the term nearshore. Of these, 93% claim nearshore to be associated with geographic proximity between client and sourcing locations. In fact, just over half of these definitions (58%) use only this construct in defining nearshore. However, it is clear from the use of the term across texts, that other constructs are implicit in the descriptions given of nearshore attributes (see Table 1). In some sources, nearshore assumes primarily a geographical context thus suggesting that convenience of accessing the location is the major aspect being promoted. In other cases, where the proximity of the country is not

Construct	% of Texts using this Construct	Characteristic of the Nearshore Destination	Examples from Texts
Geographic	59%	Physically closer and takes less travel time to reach	"moving parts of your work to countries that cost less but are *not too far away*;"
Temporal	31%	Some time zone overlap	"focus will be on delivering *same time zone services to U.S. clients*"
Cultural	41%	Similar cultural characteristics such as way of life, or way of doing business	"you need an outsourcing contractor with **a** *similar corporate culture and way of doing things* to your own"
Linguistic	47%	Shares linguistic similarities such as adopting English as the language of business, or sharing the same native language	Forty million Americans speak Spanish, [this is] responsible for a new breed of outsourcing company that aims to *take advantage of its Spanish origins*
Political/ Economic	28%	Political alignment or economic grouping	"Nearshoring partners can *take advantage of the NAFTA treaty*, it is much easier for them to gain access for visas"
Historical	11%	Shares some historical perspectives such as colonial history, diaspora linkages	"Morocco and Tunisia, *former French colonies*, will remain focused on the French markets"

Table 1. Constructs shaping the definition of nearshore.

immediately obvious, for example, Argentina to the U.S., nearshore assumes primarily a temporal slant or is linked mainly to cultural/linguistic factors.

Of the texts emphasizing an understanding of nearshore in terms of linguistic factors, 37% suggested this was based on native speakers of the common language, usually referring to English, such as English-speaking Malta for Britain. But, there were 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 destinations 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.

Nearshore advantages claimed over offshore	% of Total
Proximity advantages	60%
Real-time overlaps	42%
Cultural/historical similarities	41%
Linguistic relationships	36%
Political/economic similarities	29%
Other locational advantages	9%

Note: N=150; categories are not mutually exclusive.

Table 2. Categorization of nearshore texts claiming advantages over offshore/ farshore destinations.

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 used in about one-third of the textual sources. Hence, a country that is nearshore 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 locations.

Nearshore was measured or measurable in relatively 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 material, it was not surprising to find that nearshore often appears to be used as a selling point—accompanied by attractive slogans such as "*Bridge between East and West*," "*Silicon Border*," or "*Silicon Beach*." Significantly, our content analysis revealed that almost three-quarters of the texts (71%) used nearshoring as a differentiator from offshore/farshore outsourcing and 60% of the texts explicitly mention India in comparison, or contrast India with the nearshore destination. That being the case, we analyzed the texts for explicit and distinctive advantages that were posited for nearshore relative to offshore/farshore (see Table 2).

Since we were particularly interested in how the texts differentiated nearshore from offshore/farshore, we compiled selected claims and present these in Figure 3. While some of these are exaggerated marketing claims, they illustrate the elements that are

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, more than the physical meters between locations) and that some dimensions may be measured (for example, one time zone apart versus seven time zones apart). The dimensions of nearshoring are often traded off with costs and risks of doing business in a specific destination. Hence, man-

1. Nearshore locations provide a "stable atmosphere" as compared to offshore destinations.
2. India is called "distant lands;" India has difficulties with long-distance management and cultural differences.
3. Indian accents are difficult to understand; India is too distant and has "unilingual" focus on English; Indians only speak English, not other European languages.
4. India is too difficult to manage remotely; too many time zones away. Cheaper, real-time communication relative to India.
5. Nearshore better for outsourcing "business-critical" work.
6. If you want to get to the U.S. market, you need to speak Spanish—therefore India is inappropriate.
7. Nearshore is in the same time zone and a short time to travel while India is 20,000 miles away.
8. Nearshore offers lower costs of communication, shipping, and tariffs.
9. Same time zones are better for "e-commerce applications" requiring interaction.
10. Canada offers time overlap to U.S.; less travel time; none of the difficulties of culture and quality issues associated with offshore.
11. Caribbean seen as more culturally aligned to U.S. than India; it is more familiar with U.S. culture.

Note: All items are rephrased for brevity. On item 7: The earth has a circumference of approximately 24,900 miles, which means that this statement is false. Source: 11 different texts.

Figure 3. Selected nearshoring claims being advantageous relative to offshoring/ farshoring.

agers can make location decisions based on task attributes and how these interact with nearshoring attributes.

For example, if convenience of travel for face-to-

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, "Kimono-clad women," and sushi bars [2]. 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$375 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 [3].

The German software firm SAP opened a research lab in Bulgaria's capital of Sofia in 2002. 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" [1].

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 "care 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). **C**

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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 loca-

tions. 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, Hungry), 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, Indian-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 proximity are not disappearing. To the contrary, in certain conditions, distance still matters. **C**

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