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Distinctive
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Outsourcing, Offshoring and Near Shoring and their Crucial Distinction

Offshoring means the shifting of corporate functions and jobs (commonly those of back-office workers or accounting-type roles) to overseas territories. Outsourcing on the other hand is the contracting out of a business process to a third-party. When we talk about outsourcing, the question which is crucial is "who?". This is caused by the fact that outsourcing involves the transfer of responsibilities for not essentially needed resources and services to third party providers. When it comes to offshoring we ask "Where?", in terms of the relocation of process steps or entire production processes to locations abroad.

Companies undertake outsourcing and offshoring for a variety of reasons, depending upon their vision and purpose of the exercise. Both concepts describe, in an overall perspective, the approach of focusing on core businesses within an organization, by contracting external parties to run "non-core-businesses".

Further benefits due to these strategies are for example:

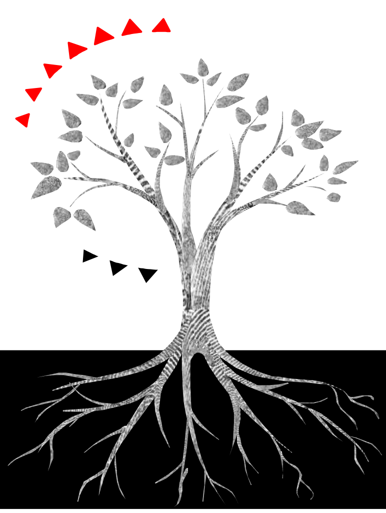
- Lower operational and labor costs
- Leverage a global knowledge base, having access to world class capabilities
- Freeing up internal resources that could be put into effective use for other purposes

In addition, outsourcing is undertaken to save costs and to provide a buffer capital funding for companies that could be levered in a manner that best profits the company. By delegating responsibilities to external agencies, companies can get rid of functions that are difficult to manage and control, while still realizing their benefits.

Both concepts share quite the same benefits for corporations. However, it is important to note a crucial distinction between the two:

Outsourcing does not necessarily lead to job losses in a particular territory or country. This approach does not inevitably contain negative impacts on national economics. A job can simply be handed over to another organization of the same nationality or geographical location, where it can be carried out in a more efficient way. Offshoring, however, does involve shifting jobs to another country. But this may not involve transferring jobs to another organization, as, for example, transferring jobs within one corporation is imaginable.

Closely related to offshoring is the concept called "near shoring". It describes a phenomenon whereby companies shift operations to foreign countries that are still very close to their own. By doing this they can still gain a labor cost advantage, but don't lose the "tangible-control" about their outsourced operations.



Typical examples for "near shoring" are corporations which have their business in the United States and which outsource their operations to Mexico, as Spanish is a common language in both countries. The situation is almost the same in the case of Japan and the Chinese city of Dalian, which was occupied by the Japanese for many years and where Japanese-speakers live.