

## A brief analysis of the outsourcing industry in Romania

---

Andreea Burciu<sup>1</sup>  
Mihaela Mihai<sup>2</sup>

*Outsourcing is rather a new way of doing business and optimising a company's processes. The paper offers an overview of the definitions of the term, which are the benefits and the risks of the choice of outsourcing and how should this decision be made. Using various sources, we tried to create a proper image of this industry and explain what it will be still growing in the future. The study aims to address the global landscape and then focus on Romania's position on the market by using data provided by the National Bank of Romania and the International Monetary Fund, as well as consultancy companies.*

*Keywords: outsourcing, information technology, global economics, optimisation*

*JEL Classifications: D20, F6, M2, L86*

---

<sup>1</sup> **Andreea Burciu**, PhD student at Bucharest University of Economic Studies, Bucharest, Romania, e-mail: andreea.burciu@gmail.com

<sup>2</sup> **Mihaela Mihai**, PhD student at Bucharest University of Economic Studies, Bucharest, Romania, e-mail: mihaela2173@yahoo.com

## **Introduction**

The world we live in is governed by technology which continuously reshapes the way we interact and the way we work. In these terms, when someone can be located in the Southern hemisphere and work remotely for a company on the other side of the Earth, the outsourcing industry becomes more and more a handy solution for managers. Once the Internet and the communications services have become so widespread, the outsourcing breaks political barriers, offering access to cheap, but well-trained work-force. Many organisations are competing on a global basis and the regional agreements in force as well as the existence of the European single market have facilitated the flourishing of this industry. The trend has led organisations to expand the geographical scope of their business operations in terms of the markets they serve and the production locations for the creation of their products and services (R. McIvor et al, 2009).

## **Literature review - Outsourcing definitions and classification**

The concept of outsourcing refers to obtaining material or service inputs by a company from an external source national or international. This is usually used by advanced economies companies which outsource to companies located in lower income countries (NCP, 2005). The term outsourcing covers both outsourcing of manufacturing as well as services and can involve the transfer of an entire business process to a supplier. Sometimes, outsourcing can also involve transfer of both people and physical assets to the supplier (R. McIvor et al, 2009).

Table 1

Types of outsourcing		
Outsourcing (Externalisation)		Internalisation
Internal	International (off shoring)	
Hiring an external organisation to perform some business functions in the same country	Hiring an external organisation to perform some business functions in a foreign country by a foreign subsidiary/by a different company with no connection to the contractor; It is considered a import of goods and services.	Receiving goods and services in the form of outsourcing from a company based in another country

*Source: NCP, 2005*

In this paper we will make reference to the offshore outsourcing. The outsourcing industry is defined by the need of the companies and institutions of optimising their internal processes and becoming more effective in their business cycle by allocating some activities to external specialists, according to Troaca and Bodislav (2012: 33). Popescu (2009 :1) states that: 'in the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company, but not related specifically to the core business. Next stage was represented by outsourcing support services, such as: human resources, accounting, internal mail distribution, data processing, security, maintenance, and others alike'. According to some estimations, the outsourcing industry had a proportion of only 20% in the added value of goods and services in

the US in 1946, reaching 60% 50 years later (Troaca and Bodislav, 2012: 33).

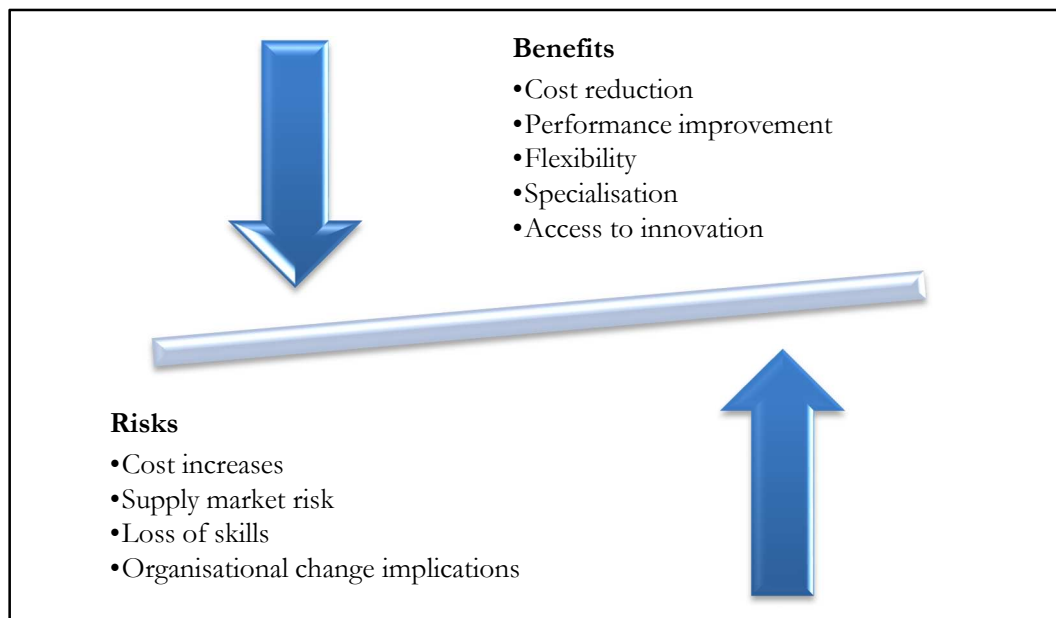
Outsourcing is justified by cost reduction, higher specialisation, minimum risks when audited, less errors and competitive advantages offered. Nevertheless, there must be a balance between what should be kept in-house and what should be outsourced. On the one hand, one of the challenges of outsourcing is represented by the fact that once a company chooses to outsource its business services, it risks to outsource its know-how in the area, which can diminish its competitive advantage in the market. On the other hand, the advantages of outsourcing are very appealing to managers because of the degree of confidentiality they offer regarding the wages of the employees (in HR outsourcing), for example, or because of the permanency of functioning of the IT network and the development of software applications. When it comes to the IT activities, a company which is focused on other areas than software development for example, would have to allocate a lot of money for aligning its technology to the latest developments, therefore it would be more convenient to outsource than to go over this process in-house. Moreover, in the eventual case of errors, the company wouldn't have to pay for fixing them, since the service is ensured by the contractor. Also, it is easier to denounce the contract and change the provider for that certain services if the results are not as good as expected. There must also be mentioned the difference of wages between East and West which also means profit and competitive advantage for companies. Regarding the HR activities, for instance in the case of small companies it is more affordable to outsource the HR management and payroll than to hire specialists to do these jobs. Moreover, regarding accounting activities it is preferable to outsource this activity as the responsibility for the accuracy and fairness of the data is outside of the company's responsibility.

To summarise, there are four types of offshore outsourcing, according to Popescu (2009: 2): ITO (Information Technology Outsourcing), BPO (Business Process Outsourcing), Software R&D and KPO (Knowledge Process Outsourcing).

R. McIvor et al (2009: 8-13) have proposed a list of advantages and disadvantages of outsourcing, which we will encompass in the following figure:

**Figure 1**

**Benefits and risks of outsourcing**



*Source of data: R. McIvor et al, 2009*

Cost reduction is an expectable benefit of outsourcing as the outsourcing organisation had advantages on economies of scale, experience and location. Performance improvement refers to a higher level of performance that can be achieved in certain processes by the supplier compared to the outsourcing organisation. Another benefit

refers to flexibility in terms of responsiveness through new technologies for the supplier companies compared to vertically integrated organisations. One of the major advantages of outsourcing is specialisation which can leverage the competitive advantage and offer both for the company and its employees a deeper knowledge of one area of expertise, enhancing effectiveness. Last, but not least, access to innovation refers to the ability of exploiting the service providers' investments, innovations and specialist capabilities instead of spending on redefining the wheel (R. McIvor et al, 2009).

In terms of risks and disadvantages, costs are also present on this other side as costs may increase in some cases, since outsourcing comes often to cover for areas that were causing problems and not for areas where people are replaced by contracts. Depending of the strategy of the organisation, it has to bear in mind the problem that is solved by outsourcing and whether it wants to have a long-term outsourced issue, which will eventually prove to be more cost effective. Regarding the supply market risk, it refers to the companies that use service providers for processes that they have performed internally in the past. Dependency on a particular service provider can lead to risks in terms of costs, quality and service provider failure. When the objectives of the outsourcing company and the service provider are conflicting, there may be a risk regarding the loss of skills. A company must preserve its potential for innovation in the future and it has to keep a balance and never forget that service suppliers may become competition once they achieved the knowledge and skills to deliver the core business of the outsourcing organisation. The last risk refers to organisational change implications, meaning the social impact over the employees and the way they perceive the outsourcing process. Generally, outsourcing influences the job security and loyalty of the employees, changing cultural values, work procedures and relationships at internal and external levels (R. McIvor et al, 2009).

Nevertheless, it is important not to forget the impact of outsourcing on the labour market. Some fear the fact that it destroys the work ecosystem in one country, favouring the development of a poorer country. Yet companies externalise ineffective processes, and want to maximise their competitive advantage meaning that they focus on the key processes and may keep/create new workplaces for better performing employees. These advantages may transform into lower prices for the consumer, meaning higher demand and more workplaces.

### **The global status of the industry**

A.T. Kearney (2014) elaborates a periodic study named "Global Services Location Index" (GSLI) which offers a holistic view over the development of the outsourcing industry worldwide. The study contains 51 countries, selected on the basis of corporate input, current remote services activity and government initiatives. They were evaluated against 25 measurements across three categories: financial attractiveness, people skills and availability and business environment. According to the study, Asia continues to dominate the ranking, having 6 countries in top 10 countries suppliers. India is the worldwide leader, providing all-around strengths across the offshoring sector, with excellence in IT, BPO and voice services, employing over 1 million people and representing 25% of India's total exports; China is placed the second with promising perspectives, offering an alternative to Eastern Europe especially for Asian customer, having advanced analytics and IT skilled workforce, being followed by Malaysia (rank 3), Indonesia (rank 5), Thailand (rank 6), Philippines (rank 7). Latin America represents the second best region represented in the ranking (with Mexico, Brazil and Chile as top 15), while Central Europe offers mature industry and highly skilled players, while Southern Europe has a big potential, but a bit immature industry so far. The Middle East and North Africa (represented by Egypt - rank

10, Tunisia - rank 28 and Morocco - rank 34) benefit from proximity to Europe and a large talent pool, and in the mean time North America offers very good opportunities in this regard, outside the tier 1 metropolitan areas. The US are ranked 14 in the GSLI of A.T.Kearney, focusing especially on the southern part of the country, boosting with large talent pools and excellent universities (A.T.Kearney, 2014).

We left Europe at the end of the discussion, as it represents our main interest in this paper. As expected, Europe is torn apart between East and West, namingly through the experience, skills and costs of players from both sides. The highest rank is held by Bulgaria (9) which serves both multinational and local companies, yet it has to implement the EU data security directives in order to handle sensitive information from clients based in the EU. It is followed closely by Poland (11) which took a leap of 13 spots upwards this year, having a good pool of talented specialists, a multitude of city options and a reasonable cost profile. Next, Hungary (31), Spain (32), the Czech Republic (33) and Slovakia (35) are also countries that provide support for businesses. The surprise in this ranking is Spain which jumped 10 spots from last time the index was made. This is justified by the close ties with Latin America as well as by its proximity to Western countries.

### **Outlook over Romania's outsourcing capacity**

Romania is placed the 18<sup>th</sup> in the global ranking elaborated by A.T. Kearney (2014). For Romania, the outsourcing industry represents a job generator and a highly added economic value. It contributes to developing new capacities and stopping the brain drain phenomena. Many young specialists who would have chosen heading West in search of better salaries and working conditions have remained in their home country thanks to the outsourcing services and companies that created for them a better life standard than they would have had if they had emigrated. According to Popescu (2009: 3), the Romanian



outsourcing industry is growing ahead of the rest of the economy. IT attracts a wave of acquisitions of local companies by foreign investors. Evolutionary transformations, such as further growth and acquisitions as well as a reduction in the level of industry's fragmentation, can be expected. Small companies and IT freelancers from Romania are very active on online marketplaces which are mostly designed for SMEs.

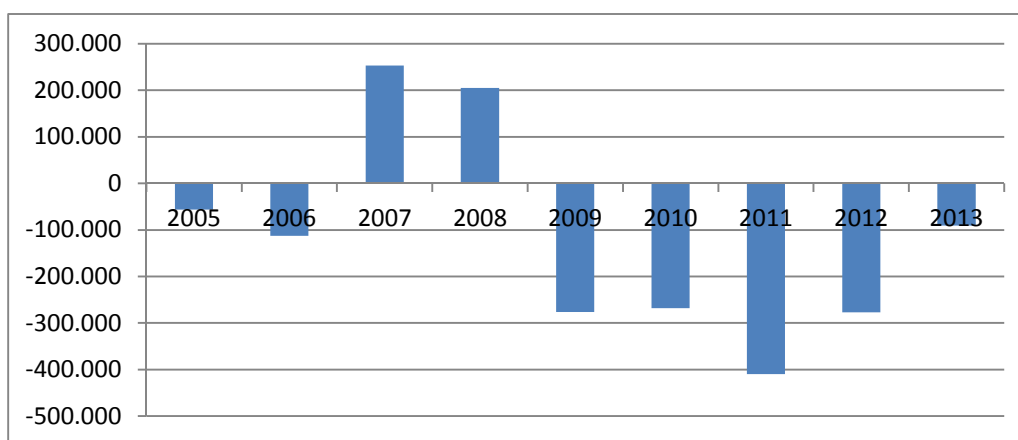
The advantages of Romania on the outsourcing market are represented by the geographical position, the high level of foreign languages spoken by Romanian professionals, the availability of specialists in different fields (technical, IT, foreign languages), the proximity of the providers and exporters to main universities across the country. Also, Romania is preferred by many international companies for outsourcing operations thanks to the quality of education and training available in technical universities, thanks to the communications' infrastructure (speed of internet, for example), thanks to the legislation in force (aligned with the EU regulations), thanks to its adherence to the EU single market, the international standards (e.g: ISO), as well as its cultural affinity to the Western working style and the favourable economic policies for the business environment (taxes and subsidies). Nevertheless, Romania should consolidate its image as an outsourcing hub worldwide as there are many minuses in this concern: there are no sustainable partnerships between the software industry and the academic environment, not as many as needed banking incentives to sustain the industry, no branding in this regard whatsoever (no connections between foreign companies and Romanian IT industry, no external representation of the IT industry in foreign countries), no transparency regarding the access to finance, no mechanism to encourage the foreign direct investments.

### Analysis and discussion of the results

In order to analyse the real dimension of the outsourcing industry in Romania, we took into consideration the data offered by the International Monetary Fund and the National Bank of Romania regarding the balance of payments, since all goods and services which are part of outsourcing are considered exports. Most important sectors providing added value are financial services, Telecommunication, computer, and information services according to a study developed by NCP (2005: 5). We also added the section "other business services" which should reflect other developments (such as BPO or KPO aforementioned). The period analysed refers to 2005-2013. For 2014 there were available only Q1 and Q2 and for comparison reasons, we chose not to include 2014 at all.

**Figure 2**

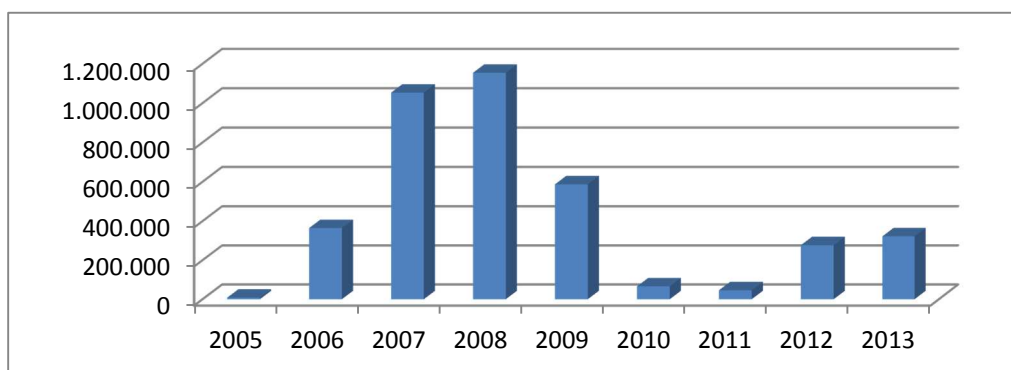
#### Evolution of financial services in Romania



*Source: IMF - Balance of payments, own calculations*

From the analysis of Figure 2, we can notice that the net difference between exports and imports of financial services is mostly negative, except in 2007 and 2008. Therefore, we can tell that the level of

internalization of services is higher than outsourcing. In 2007 and 2008 we can consider that the economic boom contributed to a positive difference between exports and imports of these services. After 2008, there is a high need of imports in the area and outsourcing doesn't seem to grow at all, since companies have tried to shrink as much as possible their additional costs. The numbers are expressed in thousands US dollars. Regarding other business services, we have developed Figure 3 to illustrate better the evolution.

**Figure 3****Evolution of Other business services in Romania**

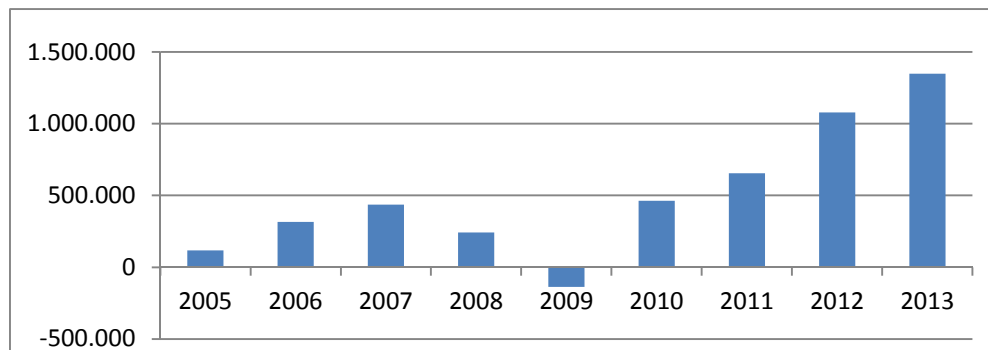
*Source: IMF - Balance of payments, own calculations*

In this case, things are very different than the financial services. There is a major variation between the exports and imports of business services, meaning between internalisation and outsourcing. Nevertheless, it is worth mentioning the fact that in the whole period analysed, the difference is positive, meaning that Romania is outsourcing more in this field.

Last, but not least, we focused on the "Telecommunication, computer, and information services" area which, as we mentioned before, is supposed to be the most valuable one and has potential to become a brand for Romania.

Figure 4

### Evolution of Telecommunication, computer, and information services in Romania



*Source: IMF- Balance of payments, own calculations*

In this particular situation, the trend is clear. The difference between the credit and the debit (namely exports-imports) is positive and growing, showing the positive trend of the IT outsourcing industry for Romania. In 2013 it was valued at over 2,5 billion dollars, while the internalization industry was worth 1,17 billion dollars.

Companies like Microsoft, Oracle, IBM, SAP, Accenture, HP have brought to Romania a large part of their support teams, thanks to the advantages we mentioned before. The IT in Romania and especially outsourcing can become an important industry and can lead the economy further, generating workplaces and added value, enhancing the role of the country in the international landscape. We have all the prerequisites to make this happen.

### Conclusions

Outsourcing is part of a new era. In a world that is continuously connected, the companies found a way to use technology in order to

optimise their processes and cut off all the areas where they were underperforming. At first sight, it may seem rather risky, costly, time consuming, culture-changing step to take, yet we have seen throughout this paper that on the long term, outsourcing may be a valuable solution. The condition is that companies should tailor their choices based on their core-business and never give away a major process as ineffective as it may be, as it may threaten their existence. At global level, Asia is still a leader, yet Eastern European countries are fighting to challenge the rankings. For the future, it would be important to have a closer look on the effects and implications of outsourcing over the labour market in Romania and which would be the impact whether large companies with major operations would move to another country due to evolvement of Romania in terms of skills, taxes or wages.

### **Acknowledgements**

*This work was co-financed from the European Social Fund through Sectorial Operational Program Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/134197 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.*

---

**References**

*Analysis of Romania as an Offshore Services Location*, [Online], Available: <http://www.outsourcing.ro/analysis-of-romania-as-an-offshore-services-location/#more-182> [20 April 2015].

A.T. Kearney - Laudicina, P.A., Peterson, E.R. and Gott, J. (2014), *A Wealth of choices: From anywhere on Earth to no location at all, The 2014 A.T. Kearney Global Services Location Index*.

A.T. Kearney - Stettler, E., Ali, I., Mirza, F., Mohal, M. And Jaiswal, A. (2014), *The rising stars of IT outsourcing*.

Bodislav, D.A, Troaca, V.A. (2012), "Externalizarea serviciilor - conceptul", *Economie teoretică și aplicată*, [Electronic], vol. 19, no. 6(571), pp. 32-39.

*IT Outsourcing news from Central and Eastern Europe*, [Online], Available: <http://itonews.eu/romania/> [8 April 2015].

McIvor, R., Humphreys, P.K., Wall, A.P. and McKittrick, A. (2009). *A Study of Performance Measurement in the Outsourcing Decision*.

Mirea, C., Mihai, A. (2013) *Outsourcing is not a trend anymore, it is a necessity for business efficiency*, [Online], Available: <http://www.zf.ro/zf-24/concluziile-seminarului-zf-outsourcing-externalizarea-nu-mai-este-o-tendinta-ci-o-necesitate-pentru-eficienta-unei-afaceri-11493399>.

National Prognosis Committee, *Measuring the process of international outsourcing services*, [Online],

Available:

<http://www.cnp.ro/user/repository/797e5f098782b0d7fdaf.pdf> [7 April 2015].

---

Neagu, C. and Stoica, M. (2006), *The efficiency of technological transfer in telecommunications*, Bucharest: ASE.

Popescu, A.I. (2009) "The rise of offshore outsourcing. An attempt to assess Romania's competitive advantages", International Conference Business Excellence, Brasov, Romania, Available: SSRN: <http://ssrn.com/abstract=1799255>.

See News Research and Profiles (2011), *Romania's IT Sector Grows Driven by Outsourcing*, [Electronic], Available: <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=dae478e4-fb5c-488c-ae45-a8663bbcc5a7%40sessionmgr4001&vid=2&hid=4212>.

*The International Monetary Fund - eLibrary Data*, [Online], Available: <http://data.imf.org/?sk=b4a9517a-a080-4d8a-b1dd-d1bba58213b7&ss=1390030109571>, [23 April 2015].

*The National Bank of Romania - Balance of payments*, [Online], Available: <http://www.bnr.ro/Balanta-de-plati---BPM6-11132.aspx>, [23 April 2015].

