

ROMANIA'S COMPETITIVE ADVANTAGES ON THE GLOBAL OUTSOURCING MARKET

D. BOŞCOR¹ C. BĂLTESCU¹

Abstract: *The paper applies a conceptual approach combined with analyses of statistics and secondary material and presents advantages and risks of outsourcing, the most important competitive advantages of Asian countries and Romania's position on the global outsourcing market. The conclusions of the research highlight the strategies that should be used in Romania for sustaining and improving the competitive advantages. Strategies proposed are linked to higher investments in education, infrastructure, a better use of tax incentives and a national strategy for attracting investors.*

Key words: *outsourcing, incentives, advantages.*

1. Introduction

Outsourcing is an allocation of specific business processes to an external specialist service provider. Cost reduction reasons drive companies to outsource some activities of the value chain. When companies use an external supplier to provide them services as human resources functions, IT services, customer services, accounting and technical support they use the business process outsourcing. Business process outsourcing includes back office activities as payroll and billing and front-office activities as marketing and technical support [1]. In order to achieve a sustainable competitive advantage companies should not rely only on product innovation but also on low-cost manufacturing and suppliers' capabilities to develop new products. The policy of product standardization allows cost reductions and the policy of products

adaptation can satisfy the customers' needs but has a negative impact on costs. Therefore, companies should try to find a balance between these two policies, using in the same time the advantages of producing some components in the firm and the advantages of outsourcing.

Intrafirm sourcing is the purchase of components or products from the parents or their foreign subsidiaries on an "intrafirm" basis and outsourcing is the purchase of products from independent suppliers on a "contractual basis". Many companies buy products and components from their subsidiaries in foreign countries but the new trends are to gradually switch to independent foreign suppliers [3].

The US multinationals have used the strategy of exploiting competitive advantages of suppliers by introducing on the markets innovations made by suppliers.

¹ Dept. of Economic Sciences and Business Administration, *Transilvania* University of Braşov.

2. Objectives, materials and methods

The objective of the research is the identification of Romania's competitive advantages on global outsourcing market and the ways of improving these advantages. A research based on secondary data was used.

The most important findings of the research show that outsourcing destinations for US multinationals are India, China, Singapore, Vietnam, Mexico and the most important advantages are low-cost labour, natural resources, government incentives, tax policies.

In order to reduce the risk of dependence on independent suppliers and the risk of losing expertise in new technologies, the best strategy for multinational companies is to create strategic partnerships by using joint ventures, subcontracting and licensing. Some valuable assets should be kept in-house because their loss might be an advantage of the competitors [4]. One of the most important advantages of outsourcing is cost reduction due to lower costs of labour for the foreign supplier and specialization. The investments in fixed assets are lower because part of the production is outsourced. If the relationship with the supplier is built on long term, costs might be reduced due to suppliers' experience.

Another important advantage of outsourcing is flexibility because companies can change suppliers when market conditions change. This is also a risk for the supplier because he might lose his orders and he might be in the position to look for another partner.

A risk of outsourcing activities is linked to lower than expected cost savings because of the lack of skilled labor and differences in cultures. Factors from the economic environment as currency fluctuations, tariffs and other trade barriers, high inflation rates and high transportation costs might negatively affect outsourcing.

Bureaucracy, corruption and a weak protection of the intellectual property are also considered risks of global sourcing.

If the focal company transfers a lot of knowledge to the foreign supplier, the risk for the supplier to become a competitor is very high, that is why activities as research and development, marketing and branding are very important for the company and should be concentrated at home.

The risk of dependency on the external service provider can be reduced by using several providers, but in this situation it will be more difficult to achieve cost savings and to coordinate all the contracts.

The loss of control on the service provider might have a negative impact on quality, that is way the proper selection of the supplier and the contract concluded are very important.

The loss of confidentiality risk and the potential risk of data privacy issues and information security can be reduced by using special provisions and penalties in the contract.

Advances in telecommunications and new technologies have been a key driver of outsourcing. In the field of services, the outsourcing strategies had a strong influence on the firms' market performance. British banks trying to use several call centres from India for managing the relationship with the customers received many complaints from the British customers because of the language misunderstandings with the Indian employees. Some of these banks were forced to give up outsourcing and to move back those activities in England. The move was highly advertised in order to maintain the customers' satisfaction. The understanding and evaluation of the quality are very important for the client when selecting a supplier [5].

For a prestigious company to offer high quality services it is necessary to know and understand clients' demand before services

delivery, as well as their reaction after the delivery. [6] Training of the staff for improving the skills is very important in the delivery of supplementary services, which are more outsourced than the core services.

The following criteria for selecting service suppliers in different countries are used by companies: reliability and performance of the supplier, quality control ability, reputation and experience and costs with salaries and training programs. Factors from economic, political, cultural and legal environments are also important.

Firms should focus on core services and outsource supplementary services using strategic partnerships with suppliers in order to control better the quality of services provided.

3. Results and discussions

AT Kearney's Global services Location Index analyzes and ranks the top 50 countries as the best destinations for providing outsourcing services. The score obtained by each country is composed of a weighted combination of relative scores on 39 measurements, grouped in three categories: financial attractiveness (compensation costs, infrastructure costs, tax and regulatory costs), people and skills availability (labor force availability, education, language, worker attrition rates, business-process experience and skills) and business environment (political and economic environment, physical infrastructure, cultural adaptability and security of intellectual property).

Table 1

Rank	Country	Financial attractiveness	People skills and availability	Business environment	Total score
1	India	3.11	2.76	1.14	7.01
2	China	2.62	2.55	1.31	6.49
3	Malaysia	2.78	1.38	1.83	5.99
4	Egypt	3.10	1.36	1.35	5.81
5	Indonesia	3.24	1.53	1.01	5.78
6	Mexico	2.68	1.60	1.44	5.72
7	Thailand	3.05	1.38	1.29	5.72
8	Vietnam	3.27	1.19	1.24	5.69
9	Philippines	3.18	1.31	1.16	5.65
10	Chile	2.44	1.27	1.82	5.52
11	Estonia	2.31	0.95	2.24	5.51
12	Brazil	2.02	2.07	1.38	5.48
13	Latvia	2.56	0.93	1.96	5.46
14	Lithuania	2.48	0.93	2.02	5.43
15	United Arab Emirates	2.41	0.94	2.05	5.41
16	United Kingdom	0.91	2.26	2.23	5.41
17	Bulgaria	2.82	0.88	1.67	5.37
18	United States	0.45	2.88	2.01	5.35
19	Costa Rica	2.84	0.94	1.56	5.34
20	Russia	2.48	1.79	1.07	5.34
21	Sri Lanka	3.20	0.95	1.11	5.26
22	Jordan	2.97	0.77	1.49	5.23
23	Tunisia	3.05	0.81	1.37	5.23
24	Poland	2.14	1.27	1.81	5.23
25	Romania	2.54	1.03	1.65	5.21
26	Germany	0.76	2.17	2.27	5.20
27	Ghana	3.21	0.69	1.28	5.18
28	Pakistan	3.23	1.16	0.76	5.15
29	Senegal	3.23	0.78	1.11	5.12
30	Argentina	2.45	1.58	1.09	5.12

Source: AT Kearney's Global Services Location Index

The top ten positions are dominated by Asian countries like India, China, Malaysia, Indonesia, Thailand, Vietnam and Philippines [7].

The most important advantages of India are: low salaries for highly skilled employees, friendly government policies, infrastructure investment [8].

In the field of tax concessions entrepreneurs building infrastructure facilities benefit from a full five year tax exemption. A full tax exemption is granted to industrial units established in Free trade Zones, in Electronic Hardware Technology Park or Software Technology Park and for 100% Export Oriented Units. All profits derived from export of computer software are deductible in computing taxable income. Exporters of goods or merchandise are also allowed 100 percent deduction in respect of profits derived from export trade in computing the taxable income. There are many other tax exemptions for New Industrial Projects in under-developed areas, for Power Generating Sector and deduction of expenditures for Scientific Research [11].

A research conducted on the European outsourcing market revealed that in Finland, Spain and the UK, the highest percentage of outsourcing is used in IT services, such as

application development and payroll services [10].

Automotive companies in Europe have outsourced 42% of their IT services. Services such as sales and procurement remain among the least outsourced.

Among the services outsourced by companies can be mentioned: legal services, facilities management, payroll services, logistics, call centre and customer support and design and engineering.

The reduction of costs and efficiency improvements were the most important reasons for using the first generation of outsourcing contracts. Efficiency improvements, access to specific knowledge, quality improvements and standardization of services were the most important targets of the second generation outsourcing contracts.

4. Romania's advantages on global outsourcing market

In order to assess the advantages of Romania in outsourcing we can use an adaptation of the index of outsourcing services attractiveness developed by neoIT in table 2.

Outsourcing service attractiveness index

Table 2

1.	Financial advantages	Labour costs and other costs for doing business
		Tax incentives
2.	Quality of services offered	Suppliers' experience and expertise
		Data security and protection
		Confidentiality
3.	Human resources	Foreign language skills
		Flexibility
		Education and work ethics
4.	Infrastructure	IT and commercial infrastructure
		General infrastructure
5.	Macroeconomic environment	Government incentives
		Political risk
		Cultural compatibility
		Level of corruption and bureaucracy

Source: adapted from www.neoit.com

More than 100 universities in Romania offer qualified engineers, having also very good language skills. The high productivity and creativity of Romanian specialists are important advantages on the world outsourcing market. The cost of labour in the IT sector is low and the quality of work is very good, staff being creative and motivated [9].

The strong multilingual skills of the employees in the IT sector are important advantages, the English fluency rate being more than 80 percent, French and German languages being widely spoken.

The average time to start a new business in Romania is 10 days, a shorter period than the regional average.

The number of certified specialists places Romania on the first place in Europe and 6th in the world, having more than 30000 engineer graduates annually, of which 8000 are trained in Information and Communication Technology. There are more than 64000 specialists in the IT sector.

The service providers from Romania combine high technical proficiency with very good communication skills and flexibility.

Many international companies like Siemens, Microsoft, Oracle, Intel and Amazon have invested in Romania, focusing on high value technologies and not only on low costs.

Business culture in Romania is very close to Western Europe and America and the advantage of distance is obvious for companies coming from Western Europe.

Regarding taxes, specialists in the IT field have been exempted from salary tax since 2001 in order to reduce the brain drain in the field.

Companies do not have to pay taxes on buildings and land within industrial parks and the dividends reinvested for creating new jobs are exempted from taxes [12].

Another important tax incentive is linked to accelerated depreciation of equipments,

machinery and computers used in R&D activity.

In comparison, in Vietnam, import taxes for IT products were kept low and several incentives for IT companies were introduced. Businesses from software production and services, local and foreign investments have been exempted from the tax on profits for 4 years. Software products have a zero VAT. The creation of a software company is much easier than the creation of companies in the advertising field, the latter being considered more sensitive to the socio-political climate. The government has promoted the development of a modern software park, opened in March 2001, having more than 10000 programmers. Another source of capital and trust is the Vietnamese diaspora, having more than 1 million people working in US, many of them in the IT industries.

5. Conclusions

The most important advantages of Romania on the world outsourcing market are the well developed IT infrastructure and the quality of labour. The applications developed by Romanian programmers are more flexible and the delivery times are shorter.

The good knowledge of foreign languages leads to a closer relationship with Western Europe from the cultural point of view and represents a key advantage in comparison with India, China and Russia.

Funds allocated by the government to education and research should be increased in order to have a strong educational system that supply engineers, scientists and knowledge workers. Romania's advantage of high quality labor could be maintained on long term with a strong educational system.

The Romanian government should also try to collaborate with foreign companies investing in Romania to finance different

educational programs and to create different training programs.

Regarding the economic and fiscal policies, the government should use them to attract more foreign investors and part of the models implemented by India, China and Vietnam could be successfully implemented in Romania.

One of the most important disadvantages of Romania on the outsourcing market is related to infrastructure, which is underdeveloped in comparison with other European markets. Romania should create a national infrastructure development program, using also European funds to develop its infrastructure.

Romania should adopt a national strategy for attracting investors by offering them more fiscal incentives and should try to solve the problems linked to bureaucracy and corruption.

On the level of service suppliers, the culture of high integrity, ethics and disciplines should be improved in order to combine cost advantages with quality and service effectiveness.

Shared Service Centers and Business Process Outsourcing providers in Romania are expanding their offers of innovative and high quality services from IT and finance to legal services, real estate management, knowledge management and marketing intelligence.

Romania is considered an ideal near-shore location for captive companies- owned by the foreign providers and for independent suppliers and a mix of a stable business environment, government incentives and financial advantages will improve its position on the world outsourcing market.

References

1. Cavusgil, T., Knight, G., et al.: *International Business*. Pearson Prentice Hall, 2012, p.488-509.
2. Hoch, D, Kwiecinski, M., et al: *The overlooked potential for outsourcing in Eastern Europe*. In: *Emerging trends, threats and opportunities in international marketing*, Cavusgil, T., Czinkota, M., et al. (eds.). Business Expert Press, New York 2009, p.295-301.
3. Kotabe, M., Murray, J.: *Global sourcing strategy and sustainable competitive advantage*. In: *Emerging trends, threats and opportunities in international marketing*, Cavusgil, T., Czinkota, M., et al. (eds.). Business Expert Press, New York, 2009, p. 199-219.
4. Kotabe, M., Murray, J.: *Outsourcing service activities*. In: *Emerging trends, threats and opportunities in international marketing*, Cavusgil, T., Czinkota, M., et al. (eds.). Business Expert Press, New York, 2009, p. 241-253.
5. Madar, A., Neacşu, N. A.: *Service quality analysis – Hotel Alpin (Poiana Brasov)*. In: Annals of the “Constantin Brâncuşi” University of Târgu Jiu, Economy Series, Issue 6/2013, p.95.
6. Neacşu, N.A., Madar, A.: *The quality of hotel services*. In: International Economic Conference of Sibiu, 17-18 May 2013, Sibiu, Romania, p.594.
7. www.atkearney.com. Accessed: 15.03.2014.
8. www.business.gov.in. Accessed: 10.03.2014 .
9. www.computerweekly.com Accessed: 20.03.2014.
10. www.ey.com/gbs. Accessed: 15.03.2014
11. www.indianembassy.it. Accessed: 10.04.2014.
12. www.kpmg.com. Accessed: 10.04.2014.