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**INTERNATIONAL OUTSOURCING
PRESENTED USING THE EXAMPLE OF THE IT SECTOR.
THE POSITION OF POLAND
ON THE GLOBAL OUTSOURCING SERVICES MARKET**

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ABSTRACT

Since the end of the last century, outsourcing of production and services as one of the types of international trade has gained significant importance. Firms are using outsourcing as one of the means to achieve optimal costs of their activities to realise larger profits, as well as in order to find new methods of production and delivering services. After several years of observing this phenomenon, one can come to the conclusion that outsourcing has had a huge influence on shaping today's global economy and trade exchange in the world. It has led to several countries and regions specialising in certain types of production and services. It has also led to divide countries and regions into those which specialise in technologically advanced production and services and those which deliver more basic products and services which are less knowledge intense and require a more simple workload.

This polarisation had a huge influence on both shaping the international labour market and levels of remuneration in different regions of the world. Specialisation has also caused the emergence of certain countries as outsourcing giants – good example here is India which has become a leader in IT (information technology) and accounting services outsourcing. It is important also to stress that outsourcing is a very dynamic phenomenon undergoing constant evolution due to ongoing technological progress that makes use of new solutions possible and enables the delivery of services even from the most remote regions of the world.

The outsourcing of services or processes that were previously an integral part of company activities like customer service, finance and accounting or IT became especially popular at the turn of the 21st century. In the search for new cost-optimising methods, companies started to hire external firms from other countries or even continents to deliver these services or entire processes.

The process of moving service delivery from the country of origin has already been analysed elsewhere but experiences of those companies have not yet been the subject of many scientific works. The author of this dissertation has recognised the need for a deeper analysis of the results of international outsourcing using the one example in which it has become commonplace - the IT sector. The analysis of this phenomenon has shown many interesting trends and economical dependencies presented in the dissertation.

This analysis would not be complete without showing the many possible ways of the expansion of outsourcing trends in the future, especially new forms of service delivery which will shape the international market like online work platforms for freelancers known also as “working in the cloud”. Here, we can observe the direct impact of the development of new

technologies, for example cloud computing, on the evolution of outsourcing. Some authors of scientific papers on this matter point out that this type of work slowly becomes “new generation” outsourcing and so the development of “working in the cloud” should not be left out of the analysis of the international outsourcing market.

Another important research problem presented in the dissertation is the position of Poland on the international services outsourcing market. According to many reports in this domain, Poland is becoming an important international player in the outsourcing field as one of the main service providers in the world. For this reason the analysis of the development of outsourcing in Poland and identification of the factors that influence the attractiveness of our country for foreign investors seem to be an important part of the research. Moreover, there are currently not many research papers where one could find the analysis of the position of Poland on this market and some proposals for the future development of this sector as well as ways to create some new comparative advantages giving this sector the potential to be one of the pillars of the Polish economy.

The main goal of the dissertation was analysing the mechanisms that influence the development of international service outsourcing and the factors deciding the position of Poland on the international market in this domain. The dissertation also aimed to present some recommendations for Poland concerning possible actions in order to ensure the competitive position of our country on the international market. There was a special emphasis put on IT services outsourcing from both an international and a local Polish perspective. An important part of the research was the analysis of the online work platforms and their possible applications as well as their influence on the labour market and legal, economic and financial aspects of the service delivery for international customers using these platforms.

Taking into account the goal of the dissertation, the following thesis was formulated: **Poland is one of the major outsourcing services providers in the world but the main factor behind the attractiveness of Poland as an outsourcing localisation are relatively low labour costs which contribute to the specialisation of Poland in the delivery of less advanced services as far as technology and processes are concerned.**

In order to verify the above thesis, the following research questions were defined:

1. What economic theories explain the origins of outsourcing? What are the incentives for using outsourcing on both an international and local scale? What factors influence the development of the outsourcing phenomenon?
2. What economic and legal factors influence the development of outsourcing in different parts of the world? What factors attract foreign investors to different regions

and countries? What are the impacts of international outsourcing on the global labour market?

3. What were the milestones of development of outsourcing in the IT sector? Which strategies of outsourcing are the most popular among companies? What outsourcing experiences have influenced its perception by companies and can influence its future perspectives?
4. What is the role of new technologies and solutions in shaping outsourcing trends? Is the “working in the cloud” influencing the outsourcing market? What is its impact on both the international and local labour market?
5. What are the main characteristics of outsourcing development in Poland? What are the factors in deciding the attractiveness of Poland on the international outsourcing market? What is the position of Poland compared to other countries concerning costs and productivity of labour as well as time of work, skills and elasticity of labour law? What are the perspectives of the outsourcing market in Poland? What impact can online work platforms have both on the Polish economy and labour market?

Research methods used in the dissertation consisted of comparative and descriptive analyses of literature, source materials, data and case studies. The first chapter concerning the theoretical basis of the outsourcing phenomenon includes literature studies completed with one’s own analyses and conclusions. They aimed to explain the outsourcing and foreign direct investment terms and both micro and macroeconomic theories which could be the basis to these phenomena.

The goals of the following chapters were to verify the main thesis of the dissertation. There were data analyses presented based on sources like OECD, Eurostat, UNCTAD, World Bank, WTO and Main Statistics Office in Poland databases. The analyses also included a number of reports by private institutions and business associations like Gartner, Grant Thornton, A.T. Kearney, NASSCOM and ABSL. There were also other methods used like a comparative analysis of online work platforms based on data provided coupled with opinions of online users.

The time range of the dissertation concerns the years 2000-2015. During this period one could observe intensive development of the outsourcing phenomenon in the world and it is a good time span to analyse different trends within this phenomenon and evaluate their durability. This period is also reflected in most of the tables and charts presented in the dissertation. For some of the trends there are shorter data time ranges analysed because of

limited data availability; in the case of others data available in different sources enabled the author to include 2016 in the analysis.

The structure of the dissertation reflects the research process aimed at analysing the subject and verifying the thesis. The dissertation includes an introduction, five chapters, conclusions and a bibliography.

The first chapter consists of the analysis of the theoretical base of outsourcing and classification of this phenomenon regarding different criteria like the outsourcing subject, geography and capital bonds between outsourcing process participants. This chapter also includes an attempt to sort and clarify terms and definitions concerning outsourcing which are often understood differently by different authors of analysed literature. The author of the dissertation adopted, as the most appropriate, the definition which states that outsourcing means transferring part of one's activities that were previously performed by the company of origin to another company, which can be a joint venture, and which can be placed locally or abroad. In the case of transferring of activities abroad, we can define this process as international outsourcing.

This chapter also presents the comparison of outsourcing, and especially international outsourcing, with foreign direct investment (FDI) as well as macro and microeconomic theories explaining the phenomena. In concluding this chapter, the main factors of attractiveness of countries are the same for international outsourcing and foreign direct investment. Among these factors are the ones related to resources seeking, improving business effectiveness and strategic assets research. Nevertheless, factors influencing the attractiveness of one country as an investment localisation depend mostly on the type of investment, especially taking into account the level of the outsourcing services from a technological or process point of view. For knowledge intensive services, the main factors will be the availability of a well-educated workforce, level of technology or infrastructure in the country. For less advanced services it will be the cost and availability of less skilled workers as the investor will be seeking mostly to cut the cost of service delivery as opposed to enhancing its advancement. This conclusion is also relative to many of the macroeconomic theories presented in the chapter. An example of which is the comparative advantage theory or the Heckscher-Ohlin theory. This is also relative to microeconomic theories like the transaction costs theory.

In the second chapter the phenomenon of outsourcing in international practice was examined. In the first place the role of agreements and international regulations in the world and in the European Union was shown as well as their impact on trade and international

outsourcing. There was also an attempt taken to assess the phenomenon of international outsourcing in terms of volume on the basis of available statistical data concerning, in particular, the flows of direct foreign investment, import and export of goods and services and global value chains. Analysis of data led to the conclusion that one could observe a steady increase in the value of foreign direct investment, as well as the volume of trade in goods and services, reflecting the growing economic dependency of individual regions and countries of the world. This in turn encourages the transfer of some elements of the business from one country to the other through outsourcing.

Analysis of data concerning global value chains showed the specialisation of individual countries in tasks of greater or lesser value in the chain, including the example of China, as the world's "assembler", performing tasks with little added value and countries such as the United States as providers of advanced services with a high added value. The chapter also presented the analysis of the development of the outsourcing phenomenon in its main centres in the world, such as India, China, Central and Eastern Europe, as well as the factors enabling Ireland, a small country in Western Europe, to attract major companies from the IT sector and to become the European headquarters for such IT giants as Google and Dell.

The analysis included the factors that contribute to the attractiveness of countries on the global outsourcing market and presentation of the impact of outsourcing for the labour market, both in the countries providing services as well as in those buying them. A comparison of the major world centres of outsourcing services, such as India, China, Ireland and Central and Eastern Europe, indicated that one of the main factors encouraging investors to locate their outsourcing business is the availability of a workforce with appropriate qualifications and the cost of labour. The latter is not always the main aspect of attracting investors as shown in the analysis of the development of the IT services industry in Ireland. In this particular case the main factor turned out to be the relation of the cost of labour to the productivity and skills of employees. The better those skills are the more technologically advanced activities can be performed and the better the perspectives for the development of the investor's business and the country's economy in general.

The impact of FDI and outsourcing for the international labour market is not easy to define and many authors present varying opinions on this subject. However, the analysis has shown that international outsourcing turns out to be generally less beneficial for low-skilled workers from countries from which production or services are transferred. The working conditions of these workers tend to deteriorate with their initial activities moving abroad. International outsourcing may, however, represent a positive development for low-skilled

workers in the countries receiving the investment because the demand for their work increases. In the case of employees with high skills, outsourcing does not have as big an impact on changing working conditions in the countries of origin and can even be very beneficial for the countries receiving the investment which previously did not have positions that required advanced knowledge.

The third chapter analyses the outsourcing phenomenon in the IT sector because their services are the most susceptible to international outsourcing. This is strongly supported by the development of new technologies allowing the delivery of services regardless of the location of either the service provider or the recipient. Based on the example of the IT industry, the evolution of outsourcing of IT services was analysed as well as strategies of companies using outsourcing solutions and different ways of organising outsourcing projects. There were also financial aspects associated with outsourcing projects and experiences of companies with international outsourcing analysed. Special emphasis was put on the development of new technologies and their impact on the IT services outsourcing industry.

The IT sector is one in which the phenomenon of international outsourcing is growing most rapidly due to the fact that, for a long period of time, IT services were regarded purely as business support activities and because they are largely susceptible to standardising and thus easy to move out of the organisation. Furthermore, the fast development of technology improves the ability to remotely provide these services. An example of such technology is cloud computing which, in a sense, represents the next generation of IT outsourcing. It also presents a number of benefits to businesses, especially small- and medium-sized. Over the years we have seen some evolution in the strategies of firms using outsourcing of IT services combined, in some way or another, with the evolution of the perception of importance of IT activities in a company. There was a shift from cost reduction strategies to those seeking the best cost-quality relationship.

Analysis of professions and functions most susceptible to outsourcing in the IT industry showed that they included mostly those which required the least advanced knowledge and skills. In these professions wage differences between countries such as the United States and the most popular outsourcing locations like India were the greatest and that represented cost saving opportunities. The most popular forms of employment in the context of outsourcing solutions include: external employment, employee leasing, outsourcing of the entire team, outsourcing the entire IT project and co-sourcing (combining both client and contractor resources). Various forms of employment and outsourcing of IT services are used not only because of the need to make organisational improvements but also because of the

potential benefits for balance sheet and financial accounts of a company and the ways of presenting company costs.

After analysing the experiences of companies with international outsourcing, one can draw the conclusion that many experiences of companies that have chosen to offshore their IT services were not as good as expected. Among them, we can point out a decline in customer satisfaction, increased staff turnover in offshore companies, difficult maintenance of competence level and a decline in innovativeness. When analysing the prospects of outsourcing in the IT industry, one should emphasise the impact of new technologies and innovative solutions which will require development of the right skills which will have to be acquired within the company or sourced elsewhere.

The fourth chapter examined the phenomenon, which is referred to by a number of researchers as outsourcing of “new generation”, of the development of online work platforms for freelancers, otherwise known as “working in the cloud”. The most important platforms of this type are presented, along with their specific modes of action, and their roles from the perspective of individuals, businesses and national and global economies. Special emphasis was put on the potential effects of the online work platforms for the labour market and the social security of freelancers. These platforms offer access to an unlimited number of contractors from all over the world and the possibility to outsource small individual tasks or short-term projects without being bound to a particular outsourcing company. These opportunities have influenced a rapid growth of this market (about 50% per year).

The use of online work platforms as a new source of services raises some controversy especially when it comes to providing social security to workers, contractors or freelancers performing many different tasks for companies scattered around the world. In this situation, it is necessary to introduce appropriate regulations and develop strategies within particular countries to use such platforms (a good example here are the projects undertaken by the government of Malaysia).

The appropriate use of online work platforms can bring tangible economic benefits. For individuals, the main advantage is the possibility of achieving a basic or additional source of income thanks to access to customers from all over the world and the ability to shape their working time flexibly and to find tasks most appropriate to their qualifications. When it comes to businesses they can gain access to talents from around the world, particularly in the case of a lack of staff with the right skills on the local market. It is also important for small- and medium-sized businesses which do not have adequate resources to source such skills in a different way. For the economy of a particular country online work platforms can become a

tool to export services and a way to reduce unemployment in case of local economic downturns. They can also be a good source of information for shaping the education policy in the direction of the most sought after competencies. The global economy can benefit from the use of these platforms by leveling the differences in access to the global labour market between developed and developing countries. Making full use of the positive aspects of online work platforms for the economy is possible only with the active cooperation of both private and public institutions in areas such as development of education policy, ensuring access to adequate infrastructure especially the Internet, as well as adjusting labour laws in order to protect the rights of online workers.

The fifth and final chapter analyses the development of the outsourcing market in Poland and its future prospects. The subjects of the study were the critical factors for the attractiveness of Poland as a location for both foreign investment and outsourcing. The study included the conditions for development of outsourcing projects in Poland, various types of incentives used by the Polish government to attract foreign investors, as well as measures used to stimulate innovation important for Poland's overall competitiveness on the global market.

The analysis of the main comparative advantages of our country on the global outsourcing market was the key point of this chapter. Factors included were skills, labour costs and workers' rights which are assessed by many experts as the main advantages. The analysis of these attractive factors in Poland to foreign investors has shown that for the most part they coincided with the factors determining the attractiveness of the country from the point of view of outsourcing. The most important factors (frequently mentioned in rankings comparing the attractiveness of different countries) include: general indicators of economic development, political stability of the state, level of infrastructure development, level of education and a frequently cited skilled labour force and its cost. The analysis of the latter indicated that Poland is one of the countries of the European Union with the lowest labour costs whether regarded in terms of average hourly wages or in terms of level of the statutory minimum wage. In addition, Poles belong to the longest working employees compared with residents of other countries in the world (taking into account the average number of hours worked annually) and salary increases do not keep pace with the growth of labour productivity. Polish labour law allows hiring employees on the basis of different temporary forms of employment which is also lowering labour costs and not giving adequate protection to employees.

Regarding the competences of employees, the level of their education can be described as high compared, for example, with workers from other EU countries. Nevertheless, there are still some skill gaps resulting in a shortage of workers with specific competences (particularly associated with the IT industry) which represent a barrier to the development of enterprises and to the general economic development of the country.

The structure and specificity of the Polish market of outsourcing services was analysed in order to show their level of advancement compared to other countries and to assess the prospects of further development. The most common processes supported by outsourcing centres include IT processes related to software development and user support, accounting and financial activities and other processes related to customer service. In general, the structure of supported processes indicates that most of them are less advanced and do not require high expertise. They rank at the lower levels of the global value chain of outsourcing services.

The progress level of “working in the cloud” and the use of online platforms was also analysed in comparison to other countries. One can notice an increase in its popularity in Poland but not as significant as in other countries, even in neighbouring Ukraine. The reason for this may be that Polish society is largely unaware of the benefits of using new technologies in the labour market. Hand in hand with this is a lack of clarity regarding the legal regulations relating to the execution of remote work for entities from other countries.

The strengths and weaknesses of Poland on the outsourcing market were compared to the two countries on opposite ends of the economic spectrum: Ireland and Ukraine. The comparison with these two countries, which are leaders in different areas of outsourcing, has shown that Poland was not fully exploiting its potential in developing workers' skills, education, innovation and use of new technologies.

There was also an attempt made to determine the recommendations for public and private institutions for possible actions aimed at developing the outsourcing sector and escaping from the “trap of average income”. The above findings indicate the relevancy of the thesis of the dissertation and conclude that inadequate or inappropriate use of the potential of Poland leaves us still in the group of countries whose competitiveness is based on low labour costs and adaptability of employment conditions to business needs. Changing this situation will require a joint effort from both private and public institutions. The author is hoping that this dissertation will prove to be a useful source of inspiration for both policy and activity of these institutions.