

**Classification JEL: F6, L10**

OUTSOURCING AS A TOOL TO INCREASE COMPETITIVENESS IN INNOVATIVE BUSINESS

Lobanov Natalia

PhD Professor

ORCID 0000-0003-3800-9038

ASEM

Abstract. *The intensification of the development of human society has led to an increase in the complexity of activities in enterprises, thus favouring higher levels of investment in machinery, research, methods and high-performance organisational techniques, which has led to the emergence of dimensions that can no longer be controlled and managed by a single enterprise. In order to be as flexible as possible, companies have adopted a strategy of reducing internal complexity, both in terms of production capacity and technological and process know-how, through outsourcing. In order to focus on core competences and respond as effectively as possible to the demands of the environment and scientific and technical progress, companies have started to outsource the provision of various services or activities to third parties. By outsourcing some of their own services or activities, companies can better develop the remaining core activities and optimise their organisational structure in order to become more innovative and flexible.*

Keywords: *outsourcing, business model, economic specialitization, strategy, techological capacity.*

Re: *This article is part of the research of the project within the state programme "Shaping innovative business in the context of regional competition" with the number 20.80009.0807.42.*

The term "outsourcing" is of Anglo-Saxon origin, coming from "outside resourcing", meaning to procure from outside. The term has been taken up in economic language to designate the situation in which a company uses external resources to develop its activity. It should be noted that in

Gartner Group, the information technology research and advisory company, defines outsourcing as "a contractual relationship of more than one year between an enterprise and a vendor to which the vendor assigns the management of some or all of the activities in its IT system" [1].

"Outsourcing is a generic term that can be used to describe any outsourcing activity, from the provision of lunch and internal mail service, to much more advanced processes for the company, such as information technology, administration or logistics, which become managed by a supplier, able to ensure quality and results", say authors F. Mangioni and F. Maiotti [2].

The transnational company "Koch Industries" approaches outsourcing as a "way of sourcing from outside, which involves buying components, goods or services through subcontracting" [3].

Definitions of outsourcing can take on different connotations depending on the field they refer to, but the essence remains unchanged. Thus S. Ciobu and I. Lucian, M. Pisaniuc define outsourcing of banking activities as a contractual commitment whereby a bank transfers to a third party (from the Republic of Moldova or abroad) the performance of activities (operations) that would normally be performed by the bank, in order to ensure higher quality of services, reduce costs and make the activity more efficient [4, p. 139].



We note, that all these definitions refer to the delegation of activities, functions or components of the business-process to a sub-producer, external contractor or specialised company.

If the term outsourcing is relatively new, then the concept of outsourcing is not entirely new. Companies have always outsourced services for various types of internal operations, precisely in order to cope with tasks that they could not do as successfully on their own.

Outsourcing is widespread in the contemporary business environment, and in order to understand why some companies resort to it, we will look at some of the theories most often used to explain the outsourcing decision [5, p.208]:

1) Transactional cost theory - allows to explain the decision to outsource by reconsidering the analysis of optimizing the organization by resorting to vertical integration. The optimal organisational form for a transaction should minimise production and transaction costs. In general, there are three fundamental dimensions that characterise a transaction and determine the optimal organisational form: uncertainty, frequency of change and the degree of specific investment required to complete the transaction. These 3 characteristics influence the organisational behaviour of economic agents and transaction costs. In terms of outsourcing, we can mention:

- Uncertainty is related to the customer's dependence on his provider. Also, by outsourcing, the client exposes itself to the risk of losing control;
- Frequency is associated with the repetitiveness of tasks and their degree of complexity. The more cost-effective and less complex the tasks, the more they can be outsourced;
- The specificity of the assets (tangible and intangible) is the most important dimension that relates to the choice of management structure. It determines whether or not it is possible to reuse the assets in another economic context, without affecting the value of production and thus transferring them to another economic agent who will take over the transaction.

2) Institutional theory. Roberts and Greenwood analyse the institutional environment by highlighting two types of constraints: - Frequency is associated with the repetitiveness of tasks and their degree of complexity. The more cost-effective and less complex the tasks, the more they can be outsourced;

- Pre-conscious constraints: factors that economic agents do not perceive, because they consider them obvious (e.g. conduct guidelines);
- Post-conscious constraints: economic agents are aware of the need for change and the factors that condition the solution. At the same time pressure prevents any change (e.g. a company does not outsource because of lack of references).
- After all, throughout the process, the organisation's choice is influenced by multiple constraints: cognitive, pre-conscious, post-conscious.

3) Resource and knowledge theory - allows to explain the use of outsourcing as a means of optimising the use of resources and the recourse to the complementarity of the offer of external providers as soon as it is considered more efficient than internal performance. The issue of skills management is placed at the centre of the company's attention once the question of managing the reintegration of the outsourced function



arises.

Resources are considered to be all the assets, capabilities, organisational processes, firm attributes, information, knowledge, controlled by a firm, which enable it to design and exploit strategies likely to enhance its effectiveness. In terms of competences, this is the set of individual and collective resources that enable an activity to be carried out, which is made up of organisational skills or represents a process. These competences will be strategic if they are the basis of a competitive advantage and if they are sustainable and difficult to transfer. In the context of outsourcing, this theory allows [6, p. 287]:

- Justify outsourcing by transferring to a provider competencies considered non-strategic in order to focus resources on strategic competencies;
- Elucidate the need to develop new competences considered strategic, which allow to lead the relationship with the provider due to the incompleteness of contracts, in particular the creation of resources and competences necessary to reintegrate functions.

Outsourcing has seen a greater expansion in the last twenty years and will continue to grow as a "must have" for the survival and development of the enterprise, regardless of sector, size or scope. The need for flexibility has led to a multitude of outsourcing options, used in all areas of business, giving companies the opportunity to create and sustain competitive advantage, to increasingly diversify their product, work and service offerings in order to increase flexibility in their business and to better meet the diverse demands of consumers (who are increasingly numerous and attentive to market offerings).

When a company decides to enter the global outsourcing market, a number of factors contribute to this decision. These include, but are not limited to, risks, costs and market opportunities.

At the end of the 20th century, organizations began to reorganize and create organizations that outsourced most of its functions. The distinctive features of outsourcing, due to which this concept cannot be considered as synonymous with the procurement of goods or services, are presented in Table 1.

Production outsourcing or industrial outsourcing involves handing over parts or stages of the production process to a subcontractor. This type of outsourcing is used by companies when production costs are higher than those obtained by outsourcing [7, p. 210]. It is also possible to divest own subdivisions to other companies and interact with them already in the outsourcing scheme.

International experience allows us to note the following advantages of transferring secondary activities to outsourcing:

- ✓ Possibility to focus on the core business. Operational costs are reduced and managers' attention is not diverted to secondary areas of activity;
- ✓ Optimisation of the number of employees, a part of the operational costs is shifted from fixed to variable costs;
- ✓ Minimising financial risks and being able to reallocate resources to products that primarily increase the value of the company;
- ✓ The introduction of outsourcing is a significant factor in developing relations with external investors, as it increases the investment attractiveness of the company;



- ✓ Outsourcing makes it possible for companies to make use of their expertise in processes that are not part of their core business;
- ✓ Outsourcing companies invest in improving their own technologies, methodologies and staff. They are interested in researching and implementing innovative business management methods [8].

Table 1 - Distinguishing characteristics of procurement of goods/services and outsourcing

<i>distinctive characteristics</i>	<i>GOODS and SERVICES</i>	<i>OUTSOURCING</i>
the essence of the supplier's business/ activity	the supplier on his own initiative produces the goods for their subsequent sale on the market.	the supplier produces the goods or provides the service only on order of the beneficiary.
the supplier's income guarantee.	of sale of goods and receipt of profits is missing, as it is determined by market conditions	the customer's wishes the beneficiary guarantees the repurchase of goods and their payment on predetermined terms.
type of goods/services	good/service is produced according to the supplier's specifications and is standard for all buyers the	good/service is produced according to the technical requirements of the beneficiary.
the purpose of the goods/services	the good/service may be produced to meet the recipient's own needs or for commercial purposes the	the good/service is intended to be used for commercial purposes by the recipient.
participants in the transaction	participants can be natural and legal persons. participants can only be legal persons.	if the company delegates a task to a natural person, then it is an employment relationship.
the price formation mechanism	the seller sets the price of the goods/services itself, and in some cases gives the buyer discounts.	the supplier provides the beneficiary with cost information, after which they jointly determine the margin for the supplier's goods/services.

Source: developed by author based on [7, p.14]

The distinctive features listed above are complex. An even simpler characteristic can be found in the literature: if the recipient is able to provide the service or produce the good itself, but for some reason still uses a third party - this is outsourcing. If the beneficiary is not able to satisfy his needs on his own from the outset, this is outsourcing [8, p. 66].

Types and reasons for outsourcing. There are multiple classifications of the outsourcing process in the literature. IT-Outsourcing (ITO) involves the partial or total transfer to a specialized company of functions related to information technologies, namely:

- Software development;
- Creation and administration of networks;
- Planning, design and management of IT systems with subsequent upgrading;
- Placing corporate databases on servers of specialised companies, etc.

Business Process Outsourcing (BPO) involves outsourcing processes that do not form the core of the business but serve it:

- Accounting and financial auditing;
- Marketing and logistics activities;
- Personnel management, etc.

Thus, outsourcing is an effective tool for increasing the competitiveness of enterprises in the knowledge and innovation economy. Companies are turning to



process outsourcing as a business strategy and as a lever for business transformation and optimisation to overcome the commercial and financial challenges they face. As a consequence of the increasing use of outsourcing strategies, the international outsourcing map has undergone some changes.

Today, outsourcing is taking on a new dimension, becoming a global outsourcing trend. Although cost optimisation remains the key factor when deciding to outsource a process, other rationales are becoming increasingly important, including access to innovation, the emergence or proximity of new markets, etc. At the same time, outsourcing involves several risks such as: selecting the wrong supplier, losing control over the outsourced activity, the risk of hidden costs, the risk of dependence on the provider, the negative impact on employees (job cuts), the risk of the outsourcing contract not being properly implemented. However, through proper planning of the operation and monitoring of the outsourcing contract, these risks can be reduced.

Therefore, the main purpose of outsourcing is to achieve operational cost savings and increase the quality of products/services offered to beneficiaries, based on the transfer of an operational process or certain activities to entities/organisations with specific expertise in a given field, higher productivity and optimal infrastructure.

The use of outsourcing as a management strategy is actively used by leading corporations around the world. Major players in the outsourcing market are consulting and auditing companies KPMG, Deloitte, Ernst & Young, PricewaterhouseCoopers; automotive companies such as General Motors, Ford, Toyota and others; IT companies "Electronic Data Systems Corporation", "Oracle" and others; logistics companies: UPS, FedEx, DHL etc.

Today, most managers see outsourcing as a convenient solution for a company seeking to become more efficient by reducing costs and gaining access to cutting-edge technologies without spending a lot of money on research and development.

Contractual framework for outsourcing

Outsourcing as a business model involves long-term contracts. As there is no separate contract for outsourcing activities, companies use a range of contracts, which are considered "outsourcing contracts":

a. The service outsourcing contract is the most commonly used contract, because with this contract, one party involved assumes (by organising the necessary means and managing its own risk) the performance of work or provision of a service to the other party to the contract, in return for a cash equivalent.

b. Associated contracts are used when outsourcing requires the performance of several "linked" activities. In this case the client company and the supplier may use several linked contracts. Each contract has its own rules and legal effects, but they are not independent (i.e. the invalidity of one contract may imply the invalidity of the others).

c. The mixed contract involves the accumulation of the characteristics of different types of contracts, which makes it more difficult to establish the rules of application. In this situation, the "absorption" clause is usually used through prevailing contractual rules. In other cases, the "combination" clause of different rules may also be used, leading to a single contract [9].



The contract for the provision of outsourcing services is concluded in the framework of long-term partnerships. Hence, it must accomplish the following tasks: define the services to be provided and the standards to which they must conform; describe how these services will be implemented; define the framework in the event of changes to the services over time; provide for the sharing of risks and rewards; establish a basis for dispute resolution; determine the owner of the intellectual property created as part of the services provided; provide the beneficiary with the opportunity to perform checks; allow the beneficiary to stop the services and terminate the contract.

Structurally, the service agreement consists of terms, conditions and a plan, containing technical, commercial and operational details, which gives a certain transparency to the contract, but also helps in the negotiation process. The danger, however, is that this service delivery plan is sometimes seen as a separate agreement, which comes from its typical name - Service-Level Agreement (SLA). Timely drafting of the contract is a prerequisite for a successful outsourcing partnership. It is also important to address in the contract any less positive situations or outcomes that may arise, specifying how disputes will be resolved and, not least, risk sharing. Finally, it is important to create a partnership by building a flexible, rather than limiting, framework.

The types of risk that are relevant to the outsourcing agreement depend on the nature of the services/products covered by the agreement. These risks are usually classified into three categories:

- 1) Financial risk, which refers to possible financial losses;
- 2) Technical risk refers to the impossibility of creating a system that will prove technically functional;
- 3) Business risk, related to the success of the business, market conditions, etc.

In this context, one solution to mitigate risk would be to include in the contract the possibility of renegotiating the terms at certain intervals throughout the duration of the contract. The biggest disadvantage of this is that flexibility imposes costs. A long contract duration without the possibility of renegotiating terms can discredit an agreement that is important for both parties.

Establishing partnership relationships between the outsourcing company and the service provider reduces the need for detailed monitoring of the latter's performance. Long-term relationships can strengthen mutual trust between partners and the perception of common interest. To facilitate the establishment of common interests and better understanding, companies seeking to outsource their services often look for providers with similar culture and values. At the same time, this similarity is not always the key to success for a lasting and trusting relationship between partners.

Inevitably, there will be disputes during the contract. Dispute resolution procedures are often detailed in outsourcing contracts. These may be situations where one party refuses to participate in the collaboration, or has breached contractual terms, or is suspected of intellectual property infringement.

One of the mechanisms for resolving disputes usually involves escalating proceedings to the level of the parties' representatives. For example, the managers responsible for the contract in question may be the ones, who try to resolve the problems that have arisen and, if they fail to do so, the given issue is passed on for



resolution to finance directors or even executive directors. The intention behind these procedures is to resolve problems as far down the organisation as possible, without seeking a solution outside the contractual arrangements, such as going to court.

However, sometimes following escalation procedures is not the best solution. This is the case, where the conflict situation stems from a lack of performance, which entails significant costs for the outsourcing company. Following escalation procedures can take too long. On the other hand, there is also the danger of a bad claim, in case of a direct appeal to the court. Moreover, the court also involves costs and time; and if the company has outsourced its IT services and the dispute is technology-related, the judge will have to hire an expert to better understand the dispute, which again involves costs [9].

Another way of resolving disputes would be mediation - an alternative way of settling disputes amicably with the help of a third party who has special training in the field. The mediator's role is to help the parties find a suitable and lasting solution to their problem and reach a consensus that satisfies all parties. The mediator acts impartially and neutrally. He or she cannot impose a solution, it must emerge in the process of negotiations, but is responsible for developing the most effective communication techniques, facilitating discussions and building agreement between the parties.

It should be noted that a company that is looking to outsource certain activities should first and foremost consider the costs of concluding the contract, such as negotiating and drafting the contract. Some companies try to reduce them by minimising the budget for finding the right provider, which in turn leads to unfavourable contracts for these companies, which will then have to renegotiate the contract and incur new costs.

Main international/regional outsourcing destinations

Based on the level of rapid development, outsourcing can be a solution to the efficiency problems for companies of different sizes. There are multiple models, but a typical classification relates to the geographical aspect:

- inshore outsourcing is outsourcing services to a provider in the same country;
- onshore outsourcing is outsourcing services to a provider located in the same market;
- offshore outsourcing, outsourcing to a supplier in another country;
- nearshoring, is the outsourcing of services to a supplier in another country in close proximity to the outsourcing company's home country [17].

In the early evolution and development of the outsourcing industry, cost optimisation and a skilled workforce were the basic factors taken into account. The Asia-Pacific region, which offered both opportunities, has developed as the main provider of offshore outsourcing services. As experience has accumulated, corporate outsourcing strategies have expanded beyond the cost dimension. Changing priorities in outsourcing strategies and the growth of the outsourcing market have allowed other locations to develop. Since then, IT outsourcing has become an essential part of any corporate strategy.

The emergence of new outsourcing destinations, with different combinations of benefits and risks, has provided a variety of options for outsourcing. Because cost



optimisation is a common to all outsourcing destinations, such parameters as business sustainability, workforce quality, cultural and linguistic concordance have become differentiating factors between outsourcing destinations.

Outsourcing is now taking on a new dimension and becoming a global trend. Although cost optimisation remains the key factor when deciding to outsource a process, other rationales are becoming increasingly evident, including the emergence of new markets, risk mitigation and the qualification and professionalism of staff.

According to the experts at Global Services, there are six categories of factors (Table 2) that need to be analysed in the context of choosing an outsourcing destination [10, p.50]:

Table 2 - Influencing factors in the choice of outsourcing destination,

	<i>Factors</i>	<i>KEY PARAMETERS</i>
1	financial attractiveness	income tax, cost of labour, cost of management and human resources, cost of business registration, property prices, etc.
2	the level of services provided	size of the outsourcing industry and its specificities, presence of ITO and BRO companies, multilingual capabilities, etc.
3	human capital	quality of workforce, number of graduates from higher institutions, capacity, sustainability, etc.
4	infrastructure	level of internet services, number of technology parks and free economic zones, air connectivity, road infrastructure
5	risk	crime rate, financial risks, workforce risks, social and geo-political risk, etc.
6	business environment	government support, social environment, quality of life, bureaucracy, time and cost of registering a business, etc

Source: developed by the author based on [10]

1. *Financial attractiveness*: cost optimisation has always been a basic criterion and remains so. Costs can generally be classified into personnel costs and operational costs. Personnel costs (salaries, administration costs, staff management costs, etc.) make up about 40-50% of the total cost. Operational costs (property prices, telecommunication costs, income taxes, travel costs, etc.) are also an important criterion for analysis.

2. *Service level*: usually measures the capacity of the location and its place on the outsourcing map. The presence and type of services provided by large ITO (Information Technology Outsourcing) and BPO (Business Process Outsourcing) companies is the basic indicator to determine the maturity of the location. The size of the outsourcing industry market, multilingual capabilities, services offered, industry specifics are some factors, which can allow to create a global view on the service maturity of a location.

3. *Human capital*: global competitiveness is driving the growth of markets and as organisations grow, the need to focus on core business becomes paramount. Human capital, in this context, becomes the main success factor for maintaining and increasing core competence in the global outsourcing market. Availability of a well-trained and skilled workforce, sustainability in a competitive environment are just some of the key



parameters to be considered. An evaluation of the future location as an outsourcing destination, involves the analysis of the educational system, which will meet the future demand for the workforce. A high number of graduates leads to low wage inflation and high productivity in the labour market. The number of universities, the number of employees in ITO and BPO also need to be considered.

4. *Infrastructure*: there is a clear need for a well-established infrastructure that meets global standards. Infrastructure must involve physical connectivity by air, sea and land. Industrial infrastructure in turn presupposes the availability of technology parks, the presence of free economic zones, as well as business infrastructure (availability of office space, telecommunications, etc.).

5. *Risks*: involves careful analysis of labour risk, financial risk, security risk, geopolitical risk, social risk, etc.

6. *Business environment*: while a location may be financially attractive, mature in the context of the services provided, with a sizeable workforce, a success factor for locations is also the business environment it has. Business culture, quality of life, government support, procedures, time and costs of registering a business - these are key aspects that also need to be analysed [10, p.50].

Outsourcing destinations (regions) can be divided into three basic regions: a) Asia-Pacific, b) South America, c) Central and Eastern Europe [11, p.56].

Asia-Pacific: is the most dynamic region with a high growth rate. The development of the Asia-Pacific group as an outsourcing destination is primarily due to such countries as India or China, but over the years, Malaysia, Sri Lanka, Vietnam and the Philippines have also come to prominence on the global outsourcing map.

The parameters that determine Asia-Pacific as a competitive outsourcing destination are: low costs, languages spoken, a large number of service providers, experience and maturity. Most of the outsourcing destinations in Asia offer savings of 20%- 50% on labour wages compared to America and Europe. The availability of highly skilled labour at low cost gives Asia a significant competitive advantage, even though wages in India have risen due to inflation, they are still well below those in the US or Europe.

India, the Philippines and Malaysia have a predominantly English-speaking workforce. Thus they have attracted customers from America and Europe, Japan, Taiwan and Korea, outsourcing to countries in the Asia-Pacific region, primarily because of cultural affinity and language capabilities.

The large number of service providers offers a wide choice for companies choosing to outsource to this region. Maturity and rich experience in the outsourcing industry has allowed India and China to be competitive compared to other outsourcing locations. And the Philippines and Malaysia have developed as destinations due to the availability of a narrowly specialised workforce.

Latin America region. Despite the fact that this group accounts for only 10% of the global outsourcing market, Latin America is now becoming increasingly promising. Due to its economic stability and geographical proximity, this region has become particularly attractive to North American companies. Geographical proximity and time zones give this group of countries the unique advantage of one of the largest markets in the world - the United States. This region's competitiveness is also driven



by the US need for a Spanish- and English-speaking workforce. Mexico, Argentina and Costa Rica have large numbers of English speakers and often offer bilingual services. Cultural affinity with the United States is also an advantage for countries in this region.

In terms of costs, Latin America is quite advantageous for business-process outsourcing from the U.S. and EU member states. Chilean and Mexican labour is more expensive compared to Costa Rica and Argentina, but cheaper than U.S. or EU labour, making it an attractive alternative for outsourcing.

Central and Eastern Europe region. Western European companies' preference for "nearshore" outsourcing, as well as cultural and linguistic similarity, has given Central and Eastern Europe the opportunity to become a viable outsourcing destination. The Shengen area and the adoption of a single currency has played an important role in strengthening this region. Also, another advantage of this group is the similarity of higher education systems [11, p.58].

KPMG's 2018 research identified the top countries in providing quality outsourced services. The countries were evaluated according to criteria such as the volume and quality of the labour market, the level of development of the business environment, possible costs of infrastructure development, the level of possible risks and the quality of life of the population.

The leading positions in the outsourcing market were held by the Asia-Pacific countries: India, Indonesia, China, Philippines and Singapore. This region is characterised by low labour costs but high labour productivity and a large number of local firms in all sectors.

At the same time, such South-East Asian countries as Thailand, the Republic of Korea and Malaysia are virtually absent from this market. Only 4% of Western TNCs have hired staff from companies in these countries to provide outsourcing services.

The next most important region is Central and Eastern Europe. A significant amount of skilled labour is concentrated in this region, its cost is quite moderate and its geographical proximity to Western European countries makes outsourcing to countries such as Poland, Czech Republic, Slovakia, Hungary, Romania to be particularly attractive.

With the outstanding performance of the IT&C sector, Romania has consolidated its position as an outsourcing hub in Central and Eastern Europe and the region has become a new competitor to India. Romania's highly skilled workforce understands Western European culture better than its Asian rival.

Romania's BPO market includes more than 250 companies operating in the business services sector. Romania is the most attractive destination in Central and Eastern Europe, after Poland, for business service providers such as companies specialising in BPO, ITO, R&D or SSC activities, and this is due to an environment that offers a perfect balance between cost and quality, as well as to the outstanding language skills that the country's young people possess. Romania ranks second after Poland in the list of outsourcing centres, with more than 250 companies operating in this field. According to the A.T.

Kearney's Global Services Location Index 2016 Romania ranks first in Europe and sixth globally in terms of the number of IT professionals in relation to the total



population [12]. The industry's workforce is made up of over 64,000 university graduates. According to industry experts, the outsourcing and ancillary services market in Romania is valued at over €1.5 billion.

It should be noted, that despite the pandemic, the global outsourcing services market continues to grow and will soon reach USD 1 trln, of which about 60% is the ITO sector (5% growth per year), more than 32% is the BPO sector (7.5% growth per year) and more than 5% is the KPO sector, i.e. scientific outsourcing (more than 12% growth per year) [13].

Development of innovation outsourcing in the Republic of Moldova

Outsourcing strategies of enterprises in the Republic of Moldova began to take shape in the 90s of the 20th century by providing relatively simple services, such as cleaning, security, etc., and later expanded to specialized and highly skilled areas of activity. In the early 2000s, the first steps were taken to establish themselves in the field of IT and database management.

Analysing the current evolution of domestic outsourcing, we highlight the ITO (Information Technology Outsourcing) sector, as the Information and Communication Technologies (ICT) sphere has the potential to become one of the most dynamic and productive sectors of the national economy, offering more opportunities for innovative business development. Moreover, it can become a promoter of increased efficiency and innovation in Moldova's traditional economic sectors.

ICT is a complex field, composed of four industries, of which the IT industry is the top of the value chain and the other three: communications, manufacturing and equipment sales are support industries. In our view, the exploitation of outsourcing opportunities in the Republic of Moldova should focus on strengthening the competitiveness of the IT industry, as it creates significant added value, has one of the highest growth prospects, and contributes most to the transformation and efficiency of the national economy.

International rankings place the Republic of Moldova as a country with a developed electronic communications infrastructure, favourable for the development of business in the field of information and communications technology. ICT is one of the most innovative sectors of the Moldovan economy and is one of the priority areas for development and expansion.

Thus, during the period 2015-2019, the IT industry recorded a more than 3-fold increase in annual sales revenue - from 2.1 billion lei to 6.6 billion lei, reaching a share of 3.1% of GDP and recording an increase of more than 1.32 billion lei in 2019 alone. In the reference year, together with the sales volume of the electronic communications industry - of 6.8 billion lei, the ICT sector accounted for 7.1% of national GDP.

The volume of exports of ICT products and services exceeded 5 billion lei in 2019, qualitatively changing the structure of Moldova's exports. IT exports alone increased 3 times - from 1.1 billion lei in 2015 to 3.5 billion lei in 2019, considerably surpassing traditionally exported products such as wines (by more than 400 million lei). 70% are IT services exported mainly to the UK, USA, France, Germany, Netherlands, Romania. About 1100 active IT companies are registered in the Republic of Moldova. The growth of the IT industry has been driven by Moldova's advantages as an outsourcing destination for IT services, based on cost, location and skills. The Republic of Moldova



has managed to progressively increase its IT exports by a factor of 10 over the last 15 years.

The balance between the development of digital content and electronic communication infrastructure speaks of a qualitative transformation of the ICT sector from Internet access networks and services to the highest value-added, export-oriented IT products and services.

The positive development in the ICT sector is also accompanied by an increase in the number of companies during this period - from 1700 to 2300, and in the number of staff employed - from 21300 to 29600 people, ensuring the best salary level in the economy. It should be noted that this figure includes only ICT specialists working in companies with the ICT sector as their main sector of activity, while a large number of specialists work in the ICT departments of companies in other sectors (banking and finance, education, energy sector, public administration). Other reports suggest that the total number of active ICT specialists may be as high as 40 thousand people. With the support of the IT Park's tax regime, the more than 600 resident companies have recorded an average payroll of about 29 thousand lei per month. This has been successful in motivating highly qualified IT engineers to stay in the country, who make an essential contribution to economic growth based on digital innovation.

The volume of investments in IT services doubled in the reporting period and reached 2.6 billion lei in 2019, increasing by about 800 million lei compared to the previous year. This growth speaks to the fact, that more and more is being invested in process efficiency and digital innovation in various economic sectors [14].

The ICT sector is open to the global economy and is largely influenced by import and export regimes. The ICT sector plays an instrumental role in building a regionally and globally competitive economy. The country's degree of progress towards this goal is characterised by its growing position in international ICT rankings. Thus, in 2017, according to the ICT Development Index, the Republic of Moldova was ranked 59th out of 175 countries [15]. In the e-government development index, the Republic of Moldova is ranked 79th out of 193 countries and 48th out of 128 in the global innovation index [16].

Moldova's information and communications sector attracts major investments focused on core hardware infrastructure such as server, storage, infrastructure software and network equipment deployment. In the long term, the IT services sector is expected to be driven primarily by large government projects, such as new e-government initiatives and technology investments in competitive sectors (financial, banking, telecommunications) and initiatives supporting IT alignment with business objectives.

The Republic of Moldova is recognised as the lowest-cost non-shoring location in Central and Eastern Europe, including IT. Located in Eastern Europe, between Ukraine and Romania, Moldova has become an attractive destination for companies looking for complex IT solutions, software and web development. IT companies in Moldova create software solutions for businesses around the world, and this speaks to the strengths and skills of the country's IT professionals, and encourages:

Professionalism and skill: according to the study by the International Data Corporation (IDC), Moldovan IT companies "contribute to the development of a wide range of domestic US and EU products in various fields, such as fintech, mobile apps



and telecommunications, using Big Data, Cloud and Internet of Things (IOT) technologies. It is worth noting that in 2018 the IT services market reached \$154.4 million, and by 2024 it is expected to grow to \$262.26 million, data from the study "Moldovan IT Players Priming for Worldwide Presence" shows.

Qualitative software development and competitive pricing: According to a Goal Europe study on outsourcing and web development services, the Republic of Moldova has been shown to be a professionally attractive destination for companies located in geographies with high operational costs and high salaries. Compared to Ukraine or Belarus, where outsourcing is in high demand, Moldova remains to maintain a position better in terms of cost-benefit ratio. Outsourcing software or web development projects to Moldova creates valuable opportunities for collaboration by providing access to the most complex technologies, highly skilled workforce, at reasonable and competitive prices. Tax breaks and low salaries, ranging from €350 a month for a young developer to €1000 for an experienced one, have attracted business to Moldova.

Net monthly salaries in Moldova for BPO workers in the industrial sector range from €250 to €650, depending on the location and professional level of the employee. Compared to other Eastern European countries, Moldova's unit labour cost is stable and growing slowly. Areas in high demand are IT, industrial production, engineering, foreign language operators. Moldova's workforce combines competitive costs and high productivity, reflecting the key factor for strong business performance.

Cultural affinity, language skills and accessible destination: Moldova is known for its technically skilled workforce, which is defined by a European mindset, cultural affinity and strong language skills. Multilingual workers are a strong advantage of the Moldovan market. Moldova is also an attractive destination for outsourcing because of its professional and ethical culture, which is compatible with that of Western Europe as well as Eastern Europe and the Commonwealth of Independent States.

With automation emerging as a key trend in BPO, Moldovan IT services or products in the field of BPO automation have attractive potential for Western European companies. The major areas of BPO are call and contact centres, payroll processing, accounting, business intelligence, data entry, IT service and R&D, product design and development, interior design, fashion and textile design. BPO is proving to be a real job generator, especially for young people. There is potential in other cities with university centres such as Balti, Comrat, Cahul, Taraclia.

Moldova has a solid educational base for the development of BPO services, including IT-enabled BPO services, and all the necessary conditions for a growing BPO sector, especially as it is at the intersection of different specialisations. The IDC report estimates that this sector will reach a value of USD 30.4 by 2024.

Several co-working spaces (over 6000 sqm) are being created in Chisinau, bringing together start-ups and freelancers. These spaces include Tekwill, ARTCOR Centre for Creative Industries of Moldova, iHUB, Dreamups, ZIPhouse Center, 404 Not Found, Generator Hub, IT Incubator for Business Applications, Digital Park, Work Point.

On 1 January 2018, the first IT Park in the Republic of Moldova started its activity (Government Decision No. 1144 of 20.12.2017), a platform created by the Government to stimulate investment and development of IT business, research, development and



digital innovation. Moldova IT Park offers a number of benefits and incentives to its residents:

- Simplified taxation model (single tax of 7%)
- Virtual operating regime (residents operate their own offices in any location in Moldova)
- Extended list of eligible IT and IT-related activities (software development, IT services, digital graphics and design, research and development, educational projects)
- Simplified interaction with public authorities
- Possibility to attract foreign specialists on a long-term basis through "IT visa".

The number of Moldova IT Park residents has exceeded 600 companies, of which 100 companies joined the IT Park during 2020. Almost 50% of the residents are companies created after the launch of Moldova IT Park. Resident companies are founded by investors from Moldova and 34 other countries. The top five countries from which foreign capital originates are the United States (22 companies), Romania (15 companies), Italy (13 companies), the UK (12 companies) and Germany (9 companies). About 16% of the sales revenue, i.e. over 341 million lei, was made thanks to local contracts, and over 1.8 billion lei - from services rendered outside Moldova. The number of employees of resident companies Moldova IT Park is also growing and reached 10 500 people [18].

Business-process outsourcing has been identified as one of the most competitive sectors with the highest potential for significant growth of Moldovan exports, together with agriculture, especially organic agriculture, food processing, the automotive industry, which includes machinery and equipment manufacturing, machinery and parts manufacturing, electrical equipment, light industry, including textiles, clothing, footwear, accessories and leather, information and communication. These sectors are the main pillars of the national economy, whose products are the most export-oriented, as well as the areas where the most new jobs are created [19].

The crisis caused by the COVID-19 pandemic has changed the plans of local and foreign investors. Large companies and international concerns operating in our country have halted their expansion projects as well as new investments for 2020. The main difficulties for companies are the lack of raw materials due to the disruption of international suppliers, the decrease in demand for goods, labour shortages and insolvency. Economic developments predict a more difficult recovery for companies in some sectors, such as HoReCa, tourism, land and air passenger transport and services, but others may have room to expand. These include business process outsourcing (BPO) services, which could create around 60 000 new jobs in Moldova [20].

According to the Investment Agency of Moldova, BPO services currently account for about 12% of Moldova's outsourcing market. Companies operating in this segment already offer a wide range of services such as customer relations, data processing, engineering, etc.

Companies need innovation and new skills. Today they are even more important than making savings. One of the ways to achieve this is business process outsourcing. It is no coincidence that the total volume of such transactions, according to experts, is



growing by about 25% annually worldwide. To foster business innovation, service providers work together, and the best form of interaction is partnership. In a crisis, it is essential to reduce fixed costs, including fixed salaries. A permanent payroll fund requires resources, and reduces mobility. The situation can be improved by changing the pay system and increasing the proportion of remote, independent employees. In crisis conditions the business will become faster, and HR technologies can be used to manage the updated business, using remote employees' work and outsourcing some functions.

Conclusions

Companies need innovation and new skills. Today they are even more important than making savings. One way to achieve this is outsourcing.

Outsourcing is a business model that promotes the development of small and medium-sized businesses. It contributes to increasing the number of small businesses as well as the number of employees in this field, to the transfer of capital in the field of production, in innovative businesses, etc. Business-process outsourcing as a strategic objective can fundamentally change the future of an organisation that builds long-term relationships with its partners. It benefits not only companies that outsource. Specialised service companies are also interested in outsourcing as service providers. The Republic of Moldova is becoming an even more attractive location for new investors, including outsourcing companies, due to the fact that it has an educated and skilled workforce; employees know several languages (Romanian, Russian, English and often German, French, Spanish, Italian, etc.); it is one of the lowest cost locations in Central and Eastern Europe; legislation is being harmonised with EU rules; similar tax and customs framework is being harmonised with that of the EU; there is similarity of European culture and business.

At the same time, the Republic of Moldova has competitors in strong positions. The most significant advantages of the Republic of Moldova (relatively low wage costs compared to neighbouring countries, sufficiently large presence of skilled labour) could gradually disappear. Therefore, in a medium-term perspective it is possible that the Republic of Moldova will enter the top of the most attractive countries in Europe as a destination for outsourcing in terms of conditions and costs, but with the development and maintenance of human capital in the country.

In the Republic of Moldova, business process outsourcing has been identified as one of the most competitive sectors with the highest potential for significant growth of Moldovan exports. However, the majority of business leaders perceive outsourcing as a cost-saving tool rather than a mechanism for increasing competitiveness through the application of new intellectual resources and advanced technologies. Also, domestic companies are oriented towards short-term contractual relationships, whereas outsourcing involves long-term contracts.

Bibliography

1. GARTNER. Outsourcing. <http://www.gartner.com/it-glossary/ru/?s=outsourcing+definition>
2. Elaborarea strategiei întreprinderii în contextul dezvoltării durabile. <https://www.google.com/ --- /112064104,d.bGQ>



3. KOCH. Outsourcing. <http://www.kochfacts.com/kf/>
4. CIOBU S., LUCHIAN I. Integrarea sectorului bancar din Republica Moldova pe piața internațională de outsourcing. Competitivitatea și inovarea în economia cunoașterii: conf. șt. intern., 24-25 sept. 2010. Chișinău: ASEM, 2011, vol. 2, p. 139-144.
5. LOBANOV N. Outsourcing: Dimensiuni Globale. Studia Universitas, 2007, Nr 8, p. 208-212.
6. LOBANOV, NATALIA, ZUBCO, ROMAN. Dezvoltarea activității de consultanță și outsourcing internațional în condițiile globalizării economice. Chișinău, 2016, 280 p., ISBN 978-9975-75-843-7
7. КОТЛЯРОВ И. Современные формы аутсорсинга управления брендом и сбытом. Практический маркетинг, 2010, N8 (162), p. 12 – 16.
8. ЗЕНКИН Д. Аутсорсинг в сфере HR: Какой вариант выбрать? Управление персоналом, N12, 2009, с. 64 – 68.
9. ПЕТЕР ГОТТШАЛЬК, ХАНС СОЛЛИ-СЕТЕР. ИТ-аутсорсинг – построение взаимовыгодных отношений, 2007.
10. VASHISTHA A. Choosing the right offshoring destination. Destination Compendium, Global Services 2010, p. 50 – 52.
11. VIRAL T., NISHARD M. Rise of IT-BPO Outsourcing Frontiers. Regional Analysis. Destination Compendium, Global Services 2010, 142 p.
12. PISANIUC, Maia. Strategii moderne ale STN în țările emergente și evaluarea posibilității de încadrare a businessului autohton în aceste scheme. In: Republica Moldova: 20 de ani de reforme economice: conf. șt. intern., 23-24 sept. 2011. Ch.: ASEM, 2011, vol. 1, pp. 416-420. ISBN 978-9975-75-587-0
13. PISANIUC, Maia, Necesitatea încadrării întreprinderilor autohtone în lanțurile valorice regionale, Analele Academiei de Studii Economice a Moldovei; ed. 12, nr 1, pp. 341-346. ISSN 1857-1433, ASEM, 2014
14. PISANIUC, Maia. Determinarea factorilor și formelor de proiectare al întreprinderilor din țările emergente în lanțurile valorice globale. In: Competitivitatea și inovarea în economia cunoașterii: conf. șt. intern., 28-29 sept. 2012. Ch.: ASEM, 2012, vol. 1, pp. 312-317. ISBN 978-9975-75-628-0.
15. România, cea mai atractivă piață pentru outsourcing din Europa Centrală și de Est, după Polonia <https://www.businessmagazin.ro/actualitate/romania-cea-mai-atractiva-piata-pentru-outsourcing-din-europa-centrala-si-de-est-dupa-polonia-16812209>
16. Аутсорсинг в стратегии цифровой трансформации 2020 <https://ict2go.ru/events/20851/>
17. Sectorul TIC a devenit una din locomotivele creșterii economice în Republica Moldova <https://mec.gov.md/ro/content/sectorul-tic-devenit-una-din-locomotivele-cresterii-economice-republica-moldova>
18. Рейтинг стран мира по уровню развития информационно-коммуникационных технологий <https://gtmarket.ru/ratings/ict-development-index>
19. Рейтинг стран мира по индексу развития электронного правительства <https://gtmarket.ru/ratings/e-government-development-index>
20. MARK D., MINEVICH F., JÜRGEN R. The Global Outsourcing 2005.



Global Ventures Inc., New York Horasis, Geneva 2005, 48 p.

21. Ministerul Economiei și Infrastructurii. IT parcuri
<https://mei.gov.md/ro/content/it-parcuri>

22. Perspectivele de promovare a exporturilor și sporirea competitivității producătorilor autohtoni prezentate la ”Moldova Business Week” 2017
<https://mei.gov.md/ro/content/perspectivele-de-promovare-exporturilor-si-sporirea-competitivitatii-producatorilor> // [//mei.gov.md/ro/content/perspectivele-de-promovare-exporturilor-si-sporirea-competitivitatii-producatorilor](https://mei.gov.md/ro/content/perspectivele-de-promovare-exporturilor-si-sporirea-competitivitatii-producatorilor)

23. <https://mybusiness.md/ru/novosti-biznesa/item/13960-sektor-autorsinga-biznes-protssesov-mozhet-sozdat-v-moldove-60-000-novykh-rabochikh-mest>