

THE CONTENT, PREMISES AND FACTORS OF THE OFFSHORING OF BUSINESS SERVICES

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Abstract

The percentage of companies applying to the offshoring of business services is growing constantly. Large transnational companies play the most important role in the services offshoring phenomenon both through the captive offshoring and subcontracting to local suppliers. The analyses show however a different strategic approach in American and European companies. Hosting these corporations by a growing number of countries depends however on ensuring by the hosting countries of those factors that matter in the decision regarding the offshoring of business services.

Keywords: *offshoring of business services, international outsourcing, offshoring premises and factors*

Introduction

The outsourcing of the activities or functions resulting from the global segmentation of the value chain specific for the production and supply of any product or service, known simply under the name of outsourcing, involves the transfer of those activities or functions to other companies from that country or abroad, while offshoring involves the transfer of their production only abroad, either intra-firm, inside the subsidiaries of the mother-company abroad (captive offshoring), or extra-firm, to other firms (external offshoring).

Although internal outsourcing (to other firms in the same country) is widespread, because we are talking about globalization, we are referring to offshoring (captive or not captive).

Offshoring reflects, in essence, the resulting revolution from the services' commercialization. Traditionally, most services were until recently non-marketable, in the sense that this required the buyers and sellers presence in the same place and at the same time. Unlike goods, they could not be traded between parties placed in different countries (medical services, fitness services, etc.). Other services do not require physical proximity of the parties, but instead they have to be delivered face-to-face due to technical or traditional constraints (sharing, storage, processing and transmission of information). These services were non-marketable because:

- certain types of information could not be stored
- others could be stored, but could not be transmitted quickly and economically across borders for processing,
- others were traditionally processed inside the company (accounting, data storage, design),
- others, traditionally presumed face-to-face presence (medical, financial, legal consultancies).

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With the development and application of the new information and communication technologies (ICT), such barriers were more frequently demolished.

ICT enables the digitization, encoding and standardization of knowledge and, consequently, the production of a wide range of services which can be fragmented or modularized, the resulting components being relocatable, in order to obtain cost or quality advantages, economies of scale or another advantages. Thus, the arbitrage strategies of various factors on national and international level have become feasible in the sphere of services.

1. The content and premises of the services offshoring

There, too, is reason to believe that modularity in services is more complex than that from the manufacturing field. Also, new technologies often simplify the services' "production", and in this way enhances their relocation. The chapter "export of services" from the external balance of payment of different countries experienced with this revolution in services, a significant restructuring of content.

Thus, the U.S. recorded the largest increases in imports of services and increasing share in global imports of services from 1% in 1992 to 13% in 2002. In the category "other private services", the largest increases can be observed in the chapters "computer and data processing services" and "accounting services, auditing and recording data". The total value of U.S. services imports in 2002 were of EUR 205 billion dollars (see Table nr.1).

Table nr.1

Import of certain categories of services in the U.S.A in 1992-2002

Type of service	Average annual growth rate, %	U.S. services imports in 2002, million \$
Computer and data processing services	31	1057
Accounting, auditing and records management services	21	716
Management, consultancy and PR services	17	1188
Research, development and testing services	16	1040
Training services	14	361
Total business, professional and testing services	13	10732
Total other private services	11	69436
Total private services	7	205234

Source: UNCTAD, World Investment Report 2004, The Shift Towards Services.

Regarding the reverse flows, those of export services of the groups "other business services" and "computer and information technology", the highest increases were registered in the U.S., India, Ireland, England, Sweden, Spain, China and Israel (in this order).

Developing and emerging countries export a variety of services, among which include: 1. Cultural and audiovisual services: production and distribution of films and videos, radio and TV transmissions, audio, recreational services, cultural and sports news.

2. Business services: back-office processes, customers services, technical support. For example: indexing, input and data processing, electronic publications, translation of legislation, arbitration support, correspondence management, remote secretarial services, typing, telemarketing, design websites.

3. Computer and computer related services, which include hardware and software installation, data processing, database services, computer and office equipment maintenance and repair.

4. Higher education and training services, where content can be provided in audio/ video or Internet format (distance learning, training and retraining, etc.).

5. Financial services covering insurance and insurance related services, banking and other financial services. The most common organizational forms are joint ventures and subsidiaries of transnational companies from developed countries.

6. Health services include medical services, dental care, bodycare, paramedical, hospital and social services. For example, delivery of laboratory samples, diagnosis, consultation, X-ray or CT scan interpretations.

7. Internet services: installation, content providing, audio-visual services, business services, computer services.

8. Professional services: legal representation, accounting, auditing, taxes, fees, architectural and engineering services, accounting services, document management, personnel and IT services.

9. Film animation in the context of new 2D and 3 D requirements.

By the training level required, services are classified as:

a) basic qualification services (call centers, data entries and records, etc..)

B) average qualification services (financial, accounting, programming, routine analysis, back-office services, etc.),

c) highly qualified services (research - development, design, architecture, medical tests, education, training, etc.).

Requirements for these services to be relocatable are:

- to involve face to face interaction
- to have a high information content
- the working process must be compatible with the distance transmission and the Internet
- to involve large wage differences
- installation barriers to be insignificant
- social protection requirements to be modest.

Factors that prevent compliance with these requirements and consequently prevent the offshoring of services are:

- technological limitations (such services can not be digitized or separated from other activities)

- need face to face interaction (marketing, delivery, etc.),

- the need to be close to customers (fashion, creativity, innovation, medicine, privacy, etc.)

- occupational requirements, labor market restrictions, lack the necessary qualifications or knowledge of foreign languages,

- law and intellectual property rights protection

- risk aversion.

As time passes, more and more of these barriers are overcome, or seem to be overcome, both in terms of technological developments and government policies.

In many respects between the factors that determine the modularity and the globalization of production of goods and services there are many similarities, but some differences persist, such as:

- the offshoring of services is structurally simpler and faster in terms of resources, endowments and equipment necessary, than the offshoring of production,
- the offshoring of services mainly affects white-collar workers, not the blue-collar workers from the manufacturing sector,
- the offshoring of services potentially addresses to a larger number of companies in all areas,
- the offshoring of services require less investments and links with local suppliers.

The market of services offshoring was still in an early stage back in 2002, both in absolute size and in comparison to the outsourcing market¹.

For example, the offshoring market (external outsourcing) for IT services was estimated at U.S. \$ 1.3 billion, which is less than 1% of the global outsourcing market for these services (data are not yet associated with the entire group "IT services", because they do not include the outsourcing of software development services and other IT services). But the growth forecast shows a U.S. \$ 24 billion level for 2007, with an increase of offshoring in the total outsourcing from 1% in 2002 to 14% in 2007.

The share of companies that rely on the offshoring of business services is growing, although in 2004 a study on the first 500 companies in Europe, conducted by UNCTAD in cooperation with Roland Berger Strategy Consultants (RBSC), found that only 39% of them experienced the offshoring of business services, equivalent to 20,000 jobs, but 44% of them were planning to increase it in coming years. In the U.S., the share of companies that adressed to the offshoring of services was 25% and 23% in Japan.

Large transnational companies play the most important role in the phenomenon of services offshoring, both through captive offshoring, and through subcontracting to local suppliers. The captive offshoring can be implemented both for their own activities and / or to serve third parties. Offshoring is not limited however to transnational companies, but is implemented also by smaller companies.

Attracting these corporations by a growing number of countries in pace with the amplification of the above mentioned trends depends also on ensuring a proper and higher skills level, according to the increasing complexity of services. At least for now, the increased complexity of services generated a process of agglomeration of the possibilities of offshoring at a relatively small number of countries.

The expanding volume of services offshoring was a factor in the restructuring or the emergence of some transnational companies in a position of service providers to other companies, similar to the appearance of contract manufacturers in production.

Since outsourcing is most developed in the U.S.A., most contract services suppliers originate from this country. Some of them have turned into global players, establishing branches all over the world, and being requested by FDI promoting agencies in many countries.

The advantage of these transnational companies in their position of contract services providers is twofold:

- they benefit from the existing connections with customers in the U.S. and Europe
- they have, due to their global network of subsidiaries, a greater flexibility in offering the perfect solution for every client.

Within the call-center services, the leading service providers are the U.S. companies Convergys, ICT Group, Sitel and Sykes (see Table 2.).

¹ UNCTAD, World Investment Report 2004. The Shift Towards Services.

Table nr.2

The largest transnational companies, contract providers of call / contract centers services in 2003

Company	Company turnover (\$ billion)	Number of employees	Year of foundation	Year of first relocation through offshoring
Convergys	2,3	55000	1998	2000(India)
ICT Group	0,3	11000	1987	2002(Filipine)
Sitel	0,8	26000	1985	2001(India)
Sykes	0,5	16000	1977	1997(Filipine)

Source: UNCTAD, World Investment Report 2004, The Shift Towards Services.

After initiating the process of international relocation these companies have rapidly expanded their network of branches. Thus, Convergys founded until 2003 branches in India, Argentina, Brazil, Mexico, Indonesia, Philippines, Singapore, Korea, Taiwan, Thailand, Sri Lanka. Sitel has established subsidiaries in Canada, Colombia, Mexico, Panama, Jamaica, Morocco, India and Philippines.

However, in 2003, only less than 10% of services supply took place through the network established in less developed countries, the rest being covered by the existing subsidiaries from the developed countries. But this proportion is changing from year to year, in favor of locations in emerging countries.

In the field of outsourcing of business processes and IT related services there is also an increasing number of suppliers, the largest being IBM Global Services, EDS, Accenture and Hewlett-Packard. Only in India in 2003, IBM had 15,000 employees, while the other companies had 3000 employees each.

Notably, companies prefer to outsource a wider range of services, or an even more limited, but with wider geographic distribution, if they work with a single global supplier, instead of concluding several contracts with a number of local suppliers, from different countries. So, the companies providing services with a global presence are in a better position to attract customers.

The supplying companies from the emerging countries try to overcome this disadvantage by reverse relocation to the U.S.A. and Europe, in the latter case seeking to find the best locations in terms of cost. Several Indian companies have made this strategic step since the years 2003-2004: Infosys with the business consulting subsidiary in the U.S.A., Satyam with software development centers in the Czech Republic, Hungary and Poland, Tata Consultancy Services with the software development center in Hungary, Progeon (created by Infosys for back-office services) with the call-center in the Czech Republic. This strategy is also adapted to an other western customers' requirement who often pretend joint solutions, while a part of the outsourced services is provided locally, in the country, and the other part by abroad situated locations.

2. Decision factors of outsourcing and offshoring of services

Any offshoring decision means the company's option to relocate functions of services which were achieved by then in their own country within the company, to suppliers from other countries (to their own foreign subsidiaries or other firms).

Propensity towards offshoring can be estimated partly also by services outsourcing development on national level. A company that has outsourced an activity to an independent provider in her country, is more prepared to explore, in the next stage, the search for independent foreign suppliers.

The outsourcing of the business processes on the local market is not a new phenomenon, but it was developed in the U.S.A in the late '80s, when the companies began to focus more strongly on their core competencies and capitalize as much as possible the new information technologies and telecommunications, in order to be able to outsource to third parties other competencies. A growing number of companies have outsourced business processes, related both to the front-office (customer interaction) and back-office operations (data processing, financial activities, accounting, human resources, research). If, at the end of the year 2002 the global market of this outsourcing was estimated at U.S. \$ 110 billion, the level of 2007 was estimated at 173 billion dollars U.S..

In the second stage of the decision analysis, if it was established that offshoring is advantageous, the company has to decide the optimal variant of the alternatives:

- to "produce" services in the company, by forming a subsidiary in a foreign economically justified location,

- to buy services from one or more independent firms.

Statistical data of 2002 show **differences in strategy among American companies, more likely to establish foreign affiliates, and European, more likely to contract service providers in other companies.**

Thus, the intra-company trade represents over 71% of the "business services, professional and technical" imports of the U.S.A and in 1997-2002 the value of the intra-firm imports rose even more faster than the import of these types of services from independent sources.

Instead, in Europe, only 45% of the largest companies which have a rich experience in this field preferred the services offshoring to their subsidiaries or joint ventures set up abroad, and 48% have outsourced these activities to third parties.

Should be noted also, that a company can decide the offshoring of two types of services to the same foreign location, in two different ways:

- by offshoring to their subsidiaries or joint ventures,
- by outsourcing to independent suppliers.

For example, Bank of America has established a subsidiary in Hyderabad, India, to transfer there all the back-office operations of its U.S. units, with over 1,000 employees in 2005, while software implementation services have been outsourced to Indian companies such as Infosys Technologies and Tata Consultancy Services in Bangalore in Mumbai.

Similarly, Exxon Mobil and GE have established subsidiaries in Hungary for back-office operations, while K & H Bank has outsourced these operations to a local supplier, EDS.

The main factors that have influenced this decision are the following:

1. **The need to control those activities**, especially when involving intellectual property rights or sensitive information. As in other economic activities, the more strategic those services and closer to the core competencies of the companies are, the less willing are the companies to outsource them. In this situation there are, for example, the financial services or the research and development activities, preponderantly transferred to their own subsidiaries (transnational companies such as Oracle, Texas Instruments, General Electric, Cisco, Hewlett-Packard, IBM and Microsoft have established research and development centers in India).

2. **The internal interaction degree** involved in the respective activity. When the services can be split, but involve a closer connection with the other business activities (services, manufacturing, research and development) to ensure a greater efficiency, they will not be outsourced. By contrast, the back-office and front-office operations that can be easily standardized

and separated from the other activities are more easily subject to outsourcing. The same thing happens when the software developments are outsourced: the standard or routine activities are contracted with Indian corporations, for example, and the most sophisticated are kept in business.

3. The existing of the service providers in the emerging countries. The activity of such providers in the emerging countries is a relatively a recent phenomenon and has become an alternative to the strategies of the western companies, for about a decade. For example, when transnational companies began to transfer their back-office functions to India, they couldn't find there local companies to undertake the outsourcing. Therefore, in 1998, American Express had to set up their own subsidiaries. Only after 2000, other airline companies that wanted to outsource similar services have found local Indian companies able to take over. For example, Delta Air Lines has outsourced some of the services booked by the call-center company Spectramind, a subsidiary of Wipro company. Also, Swiss International Airlines, Austrian Airlines and Sabena have outsourced the accounting services for the revenues resulting from the cargo and people transport, ticket booking, flight schedules and administration support to air navigation to the company AFS, a subsidiary of Tata Consultancy Services, the largest Indian software company. There is also a range of services, which was developed more rapidly in the emerging countries, as the software services, for which local suppliers competitors can easily be found, while other services have evolved later, so that competition is lower (for example the financial analysis services). Availability of local suppliers in emerging countries is correlated with other factors such as intellectual property protection, cultural and linguistic differences, the information availability on local business.

4. The volume of the activities that can be outsourced. From the analysis of the corporate decisions can be seen that there is a greater temptation to keep in the company those activities with a bigger workload or added value, in order to benefit from the efficiency surplus resulting from the operations of the large yield series. Offshoring's version to subsidiaries is the most frequently used. At smaller sizes of activities, the offshoring to third parties enter into discussion with more power.

5. The costs reducing is one of the main motivations of offshoring, as confirmed by numerous studies. Cost reduction can be achieved either by searching for locations with lower costs, or by consolidating operations and reduce the costs with infrastructure, personnel training and management. Any international bank that has, for example, 50-60 data centers, each with infrastructure, specialists and maintenance costs, can strengthen them in 5-10 centers. This means costs reductions and allows the creation of centers of excellence, and if combined with lower labor costs, the savings can be considerable. It is estimated that the U.S. banking industry saved by offshoring to India about U.S. \$ 8 billion in 1999-2002. In Europe, about 80% of the largest transnational companies with offshoring experience reported savings ranging between 20-39% and another 10% of them showed even greater savings. In call-centers, labor costs in developed countries represent 50-70% of total costs. In India, the salaries were at the beginning of this decade 80-90% lower than in England. However the savings derived from wages are diminished because of higher costs of infrastructure, personnel qualification and travel. Overall the savings are situated in the margin of 30-40% compared to the costs in England and something more compared to that ones from the U.S.A.

6. A better quality of the services is another important factor in the decision of services relocation. Many transnational companies have been surprised to find this, the factors in this respect being of two categories:

- when the "back-office" services of the services customer become "front-office" services of the services provider, the latter gives a higher attention to the quality of the services
- mostly, the low-cost locations use a more educated staff than the one used in developed countries. If in India they are university graduates in industrialized countries are school or college graduates.

3. Foreign direct investments (FDI) market connected to the services offshoring

If in 2001, the offshoring of the most services was concentrated in a small number of locations, namely (in this order) Ireland, India, Canada and Israel, countries that held 71 % of the total offshoring services market (mainly software development and other IT services), later, due to the costs raising in many locations usual at that time, and due to the improved conditions from other countries, the number of locations of interest has increased considerably.

An analysis from 2004, regarding the attractivity of the first 25 offshoring destinations, shows that India ran detached, followed by China, Malaysia, Czech Republic and Singapore. Brazil is on the first place in Latin America, South Africa in Africa and among the developed countries, Canada and New Zealand were headed.

For the big European transnational companies the distribution is similar. Almost one third of the offshoring projects were led to India, 29% to Western European countries (Ireland, Portugal, Spain, England), 22% to Central and Eastern Europe (Hungary, Poland, Romania), 8% to Latin America and under 4% to Africa.

FDI flows play an important role in offshoring:

- through captive offshoring,
- through the founded subsidiaries of specialized service providers.

It is true that, while such investments create more jobs, they do not involve large capital flows and have not a significant share in FDI statistics. For example, in 2001, in India, the FDI related to offshoring services were of U.S. \$ 300 million, respectively 10% of the total FDI.

From the methodological point of view, it should be mentioned that it is difficult to find accurate statistical figures on services offshoring, based on the currently existing industrial classification. It is easier to use statistics based on the projects number (not value) of the transnational companies making "greenfield" service activities, or expansion of investments in export-oriented services.

The main categories of export-oriented services are:

1. Back-office services (shared services centers),
2. Front-office functions (call / contract centers),
3. IT services (including software),
4. The regional districts.

The content of these statistical categories of the export-oriented FDI projects is presented in Table nr.3.

Table nr.3

The definition of the export-oriented FDI projects related to the offshoring services

Projects categories	Content
Call / Contract Centres	Support services Support/Technical consulting Post-sales Job application Claims Support/Client consulting Market Research Services Call Services Prospecting

	Information Services Customer Relationship Management
Shared Services Centers (back-office services)	Claims Processing Accounts Transaction Processing Questionnaires Processing Customers Relationship Management Processing Pay Processing Services Data Processing IT Outsourcing Logistics Processing Quality Providers Billing
IT Services	Software Development Testing Application Engineering and Design Product Optimization
Regional General Districts	General Districts Coordination Centres

Source: UNCTAD, and OCO Consulting

The share of the developing countries and of the Central and Eastern European countries in the total FDI projects related to the offshoring services has increased from 37% in 2002 to 51% in 2003. The four categories of services had in 2002-2003 a significant proportion, of 12% from the total FDI projects.

Statistical data provided by UNCTAD include only the “greenfield” FDI and the expansion FDI for the existing facilities, not including acquisitions. Although the share of the latter in 2003 was minor (1-3%) the tendency was to increase. For example, in India, during 1998-2002, FDI in IT services was of 90% “greenfield”, 10% through joint ventures and less than 1% through acquisitions. In Europe, FDI in shared services centers have achieved 46% “greenfield”, 51% by expanding and 3% through acquisitions.

Call Centres

More than half of the 500 FDI projects in call-centers, recorded in 2002 and 2003, were orientated to the developed countries, especially to Canada, Ireland and England. It demonstrates that the geographical proximity and linguistic and cultural affinity are still important in offshoring decisions. In Ireland, 2/3 of the call-center industry employees working in subsidiaries of the foreign companies, are mostly American. Irish call centers are specialized in services such as telesales and marketing, customer support services, technical support and software for various industries.

Geographical distribution of FDI in call centers from developed countries shows that 80% were oriented to Asia, the main recipients being India (60 projects), China (30 projects), Malaysia (16 projects) and Singapore (16 projects).

In Central and Eastern Europe were located 31 projects, mostly in Hungary. Half of the projects came from IT companies and business service providers, followed by telecommunications and electronic companies.

Shared Services Centers

The developing countries and the Central and Eastern European countries attracted 65% of the export-oriented FDI projects, about a half going to India. In Central and Eastern Europe the priority destinations were Hungary, the Czech Republic and Poland (especially for European companies). U.S. companies have invested more in Chile and Costa Rica. Among developed countries, Ireland ranks first. Providers of projects were mainly financial and IT companies.

IT Services

The FDI projects in IT services were equally distributed between the developed countries and the developing countries, but with a significant gap growth (growth rate of over 100% in 2003, for locations of all developing countries, and only 6% for developed countries). Top locations for the category of developed countries were England, Germany, USA and Australia. Asia dominated areas in development. Of the over 300 projects directed toward developing countries, 37% were directed to India, 19% to China and 11% to Singapore. Czech Republic, Brazil and South Africa were the main receivers in the appropriate areas.

Regional Headquarters (RHQ)

Investments in RHQ have a far longer history without being tied to the cost of labor, lower in certain geographic areas. They are included in the statistical evidence for representing export-oriented services and many countries want to attract them. Almost 40% of FDI for RHQ were oriented in 2002-2003 towards developing countries, placing itself on the top China, Hong Kong, Singapore United Arab Emirates. Brazil leads Latin America and in Central and Eastern Europe the favorite destinations were Hungary and Romania. Among developed countries, U.S.A., UK and Canada have dominated the top locations. As suppliers of FDI, on the first places were the IT industry (25% of the projects), followed by electronics and automotive.

Table No. 4

Distribution on industries of the export-oriented FDI projects related to services offshoring in 2002-2003

Domain	Call Centres Projects Share No. in total	Shared Services Centres Projects Share No. in total	IT Services Projects Share No. in total	General Regional Districts Projects Share No. in total
Business Services	116 22	24 17	- -	17 35
Chemicals	3 0,6	1 0,8	1 0,2	15 2,8
Electronics	42 8	6 4,4	4 0,6	57 10
Energy	14 3	5 3,6	- -	15 2,8
Financial Services	30 6	4 29	2 0,3	32 5,7
Food and Beverage	3 0,6	4 3	- -	20 3,5
Hotels, Tourism, Leisure	3 0,6	2 1,5	- -	19 3

Internet	12 2	1 0,8	- -	8 1,5
IT and software	154 30	33 24	618 97,8	132 23
Natural Sciences	7 1,3	3 2	- -	51 9
Light Industry	2 0,4	2 1,5	- -	20 3,5
Machinery and industrial goods	18 3,5	1 0,8	- -	28 5
Metals/Mining	5 1	1 0,8	- -	10 1,7
Telecommunication equipment	20 4	3 2	4 0,6	15 2,8
Telecom Services	30 6	- -	3 0,5	25 4,4
Transport Equipment	30 6	6 4,4	- -	55 9,7
Others	24 5	6 4,4	- -	47 8
Total	513 100	138 100	632 100	566 100

Source: UNCTAD, World Investment Report 2004, The Shift Towards Services.

Table No. 5

Geographical distribution of export oriented FDI projects related to services offshoring in 2002-2003

Region/Country	Call Centres Projects Share No. in total	Shared Services Centres Projects Share No. in total	IT Services Projects Share No. in total	General Regional Districts Projects Share No. in total
Total	513 100	139 100	632 100	565 100
Developed countries	279 54	48 35	293 46	339 60
Western Europe	174 34	38 27	208 33	200 35
UE	169 33	38 27	198 31	185 33
Germany	20 4	1 1	34 5	22 4
Ireland	29 6	19 14	14 2	15 3
UK	43 8	7 5	73 12	64 11
Canada	56 11	3 2	14 2	25 4
USA	15 3	2 1	26 4	80 14
Australia	19 4	3 2	26 4	24 4
Japan	11 2	- -	16 3	8 1
Developing countries	203 40	72 52	315 50	209 37
Latin America and Caraibean	29 6	5 4	22 3	10 2
Asia	167 33	66 47	283 45	195 35
South, East and South-East Asia	149 29	64 46	265 42	158 28
Central and Eastern Europe	31 6	19 14	24 4	17 3

The Czech Republic	9 2	6 4	5 1	- -
Hungary	11 2	7 5	4 1	4 1
Poland	3 1	5 4	4 1	3 1
Romania	1 -	- -	2 -	4 1

Source: UNCTAD, World Investment Report 2004, The Shift Towards Services.

Conclusions

On the ground of the data analyzed for the period 2002-2003 (and the trend was valid for the following years also), we can say that:

- while **the number of the FDI projects related to the services offshoring is higher in the developed countries, their growth is more dynamic in the developing countries.** If, in the case of the latter, 63% of projects are located in South and South-East Asia, this region dominates especially in IT services (80% of projects).

- because a large number of projects went to developed countries, it indicates that **the factor cost/ low wages has not owned a 100% share of the offshoring decision.**

On the base of the conducted surveys, it resulted the following hierarchy of factors in services offshoring decisions towards the developing countries and countries in transition:

a) For call centers:

- lower costs
- the existence of qualified personnel
- foreign languages
- ICT infrastructure
- Legislation or business environment

b) For shared services centers:

- lower costs
- the existence of qualified personnel
- foreign languages
- ICT infrastructure
- infrastructure and logistics
- legislation or business environment

c) For IT services:

- market growth
- qualification of the workforce
- customers / markets proximity
- low costs
- technological institutes / universities
- industrial parks
- ICT infrastructure

d) For regional headquarters:

- market growth
- qualified workforce
- clients proximity
- legislation or business environment
- infrastructure
- ICT infrastructure

It is also worth mentioning the fact that **the European transnational companies are less prone to services offshoring than the American companies.**

Thus, in 2004, over 2/3 of Indian exports of software services was oriented towards the U.S.A. For the FDI projects it could be observed the same trend, the U.S.A. being on the lead with 2/3 of the IT services projects, 60% of call-center projects and 55% of shared services projects.

In Europe, even among the large transnational companies, less than 40% had experienced in 2004 the offshoring of services and over half of them had no such plans for the near future.

The interest in offshoring varies from country to country. U.K. is the next closest to the U.S.A. model and ranks first in all four types of services (in Europe).

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