

## **Outsourcing Management: Outsourcing Services Worldwide and in Romania**

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### **Abstract**

*Being competitive and profitable in the era of technology and business digitization is a real challenge and in order to survive economically, companies have to keep up with the innovations and transformations of the business environment. Today's management now focuses on creativity, social intelligence and "out of the box" thinking, in this context outsourcing services is gaining ground, as companies choose not to internalize all types of activities, but to call on specialists, thus benefiting from their expertise to provide the necessary support. Therefore, we can say that outsourcing is revolutionizing the global business environment. This paper analyzes outsourcing management with emphasis on financial accounting services.*

**Key words:** globalization, outsourcing, advantages, business environment, profit

**J.E.L. classification:** L24, M16

### **1. Introduction**

The English outsourcing term corresponds in Romanian to the general outsourcing term, which means the delegation of tasks or activity to external entities, but there is no conceptual difference between outsourcing the task/service in the territory of the country of origin or outside its boundaries.

Nowadays, globalization affects every aspect of the world economy, politics and society, attracting a number of benefits and a number of negative aspects. On the whole, however, if it is found a balance between outsourced and internally outsourced activities, the global impact of outsourcing is positive.

### **2. Theoretical background**

Since the Industrial Revolution, outsourcing (services) previously called "subcontracting" has helped hundreds of companies to be profitable by increasing efficiency. At present, almost every company in Europe or the USA outsources some of its activity, such as production units that are no longer built in the US or the UK, but in China, Eastern Europe, South Korea, Taiwan, the Philippines or India. Due to the development of modern means of communication and increasingly robotic devices, the number of employees has decreased and some activities can be done anywhere in the world, no longer linked to the place of production, such as financial-accounting services. The obvious principle of globalization is competition. As long as there is globalization, competition will accompany it (Brown, 2005, 56).

Currently, the outsourcing industry attaches great importance to costs. Low wages, as well as other lower taxes or financial benefits from certain states make them attractive for outsourcing services. Also, access to expertise and technology, know-how, raw materials or the ability to enter specific markets determines the outsourcing industry to outsource their businesses to certain

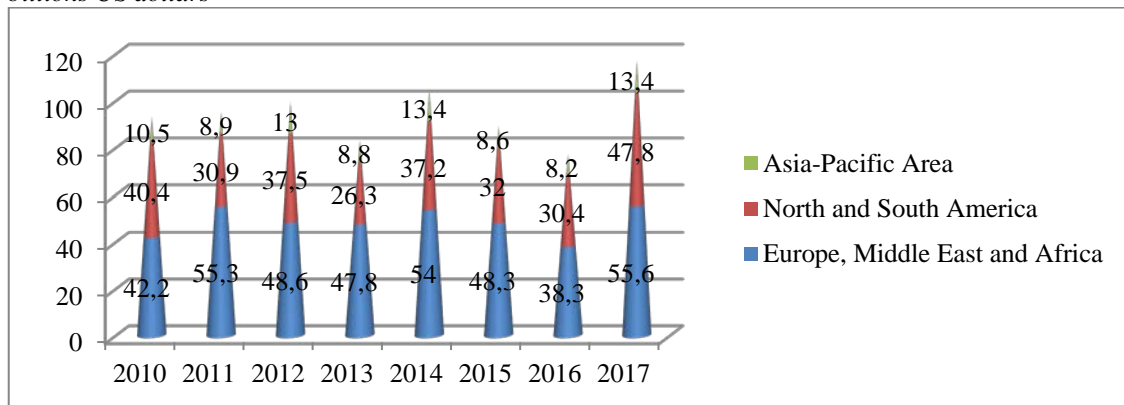
countries. As the costs of production or services are lower in Asian or Eastern European markets, customers are also demanding lower prices, which creates additional pressure on outsourced service providers. Therefore, the main reason for companies when they choose to move their production or services is profit. In this respect, a number of factors play an important role in choosing where services are to be outsourced (Sheffield, 2013, p.95).

### 3. Outsourcing services worldwide

In general, the main reasons why companies outsource their services are to ensure a high a level of productivity and to offer maximum quality to their own customers.

The area of outsourced services is vast, this including but not limited to: BPO (Business Process Outsourcing) that includes customer direct services, analysis services, financial services, HR services, procurement services and ITO (Information Technology Outsourcing) that includes management, operation and IT support as well as operations involving knowledge and technical expertise.

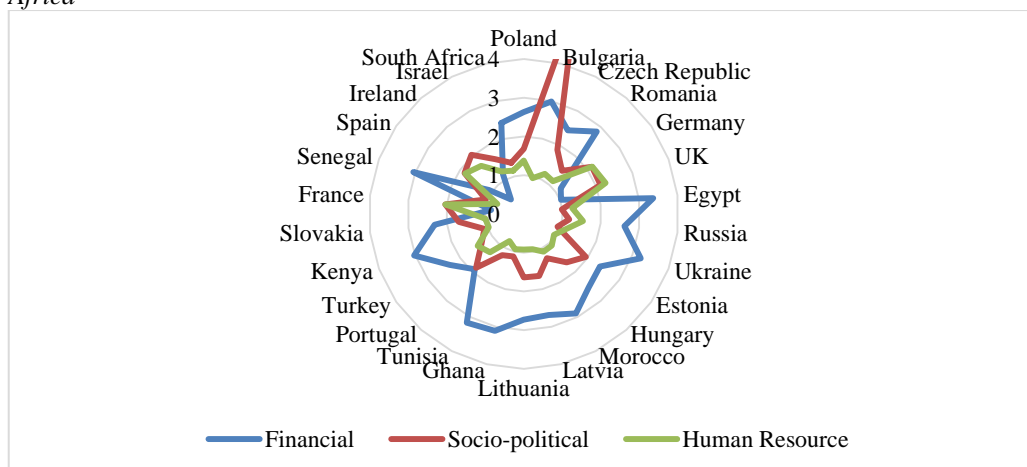
Figure no. 1. Global revenue from outsourcing industry between 2010-2017, by region of origin, in billions US dollars



Source: Retrieve data from the Global Outsourcing industry revenue report from 2010 to 2017 by region (in billion US dollars), [www.statista.com](http://www.statista.com)

As far as income area is concerned, as shown below in Figure no.1., between 2010 and 2017, Europe, the Middle East and Africa are the areas that generated the most revenue, while The Americas are on second place, the last position being held by the Asia-Pacific area.

Figure no. 2. The most attractive countries for outsourcing services in Europe, the Middle East and Africa



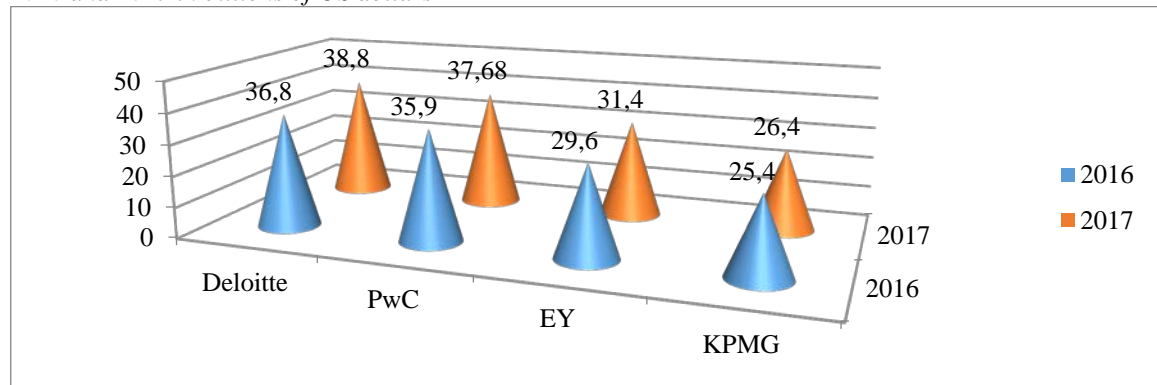
Source: Own processing based on information from Arjun Sethi, Johan Gott - 2017 A.T. Kearney Global Services Location Index - The Widening Impact of Automation, [www.atkearney.com](http://www.atkearney.com)

Because there are currently many outsourcing companies with a range of diversified services, the choice to choose the right provider is not an easy one. In the decision-making process regarding outsourcing of services, the managers of the companies must take into account several factors including the planning of the budget related to outsourcing as well as the necessary resources, the collection and analysis of the suppliers' offers, as well as their negotiation.

In figure no. 2. we can see the ranking for Europe, Middle East and Africa. Egypt is the most attractive country in terms of cost, followed by Bulgaria, which is also the most sought-after country in terms of socio-cultural conditions. UK and France are the most sought-after states for employee competence.

Some of the most outsourced global services are **financial accounting services**, generating much of BPO's revenue. The largest global players in this area are Deloitte, PwC (PricewaterhouseCoopers), EY (Ernst & Young) and KPMG (Klynveld Peat Marwick Goerdeler), making the so-called "The Big 4" offering BPO services such as: accounting, auditing, corporate finance or insurance services.

Figure no. 3. The evolution of world revenue generated by financial accounting outsourcing between 2016 and 2017 in billions of US dollars

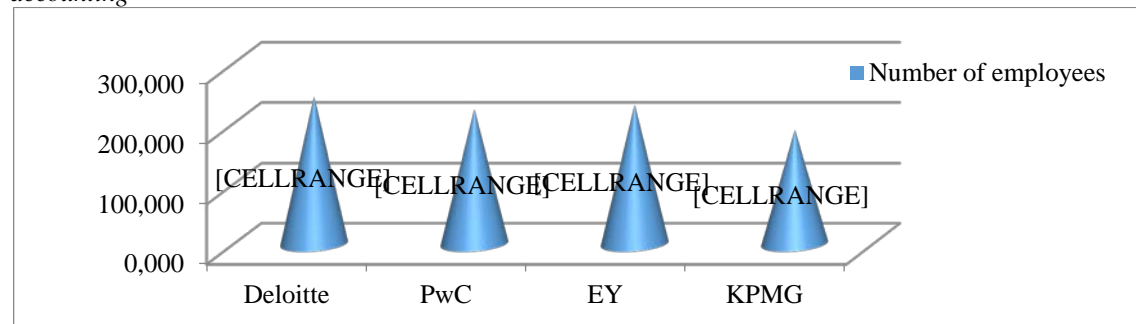


Source: Own processing from the data at [www.statista.com](http://www.statista.com)

Thus, comparing world-wide earnings from outsourced financial and accounting services to the level of 2016 and 2017, we can observe that in the top-ranked companies there is generally a tendency to increase as follows: Delloitte's revenue grew in 2017 with about 6% still holding the lead, followed closely by PwC, with a 5% increase. EY, the third-largest company, recorded a revenue increase of about 6% in 2017, while KPMG's overall revenue increased in 2017 with 4%.

Regarding the number of world-wide employees in 2016, the ranking is as follows in the figure below.

Figure no. 4. Worldwide number of employees at the level of 2016 in outsourcing companies in financial accounting



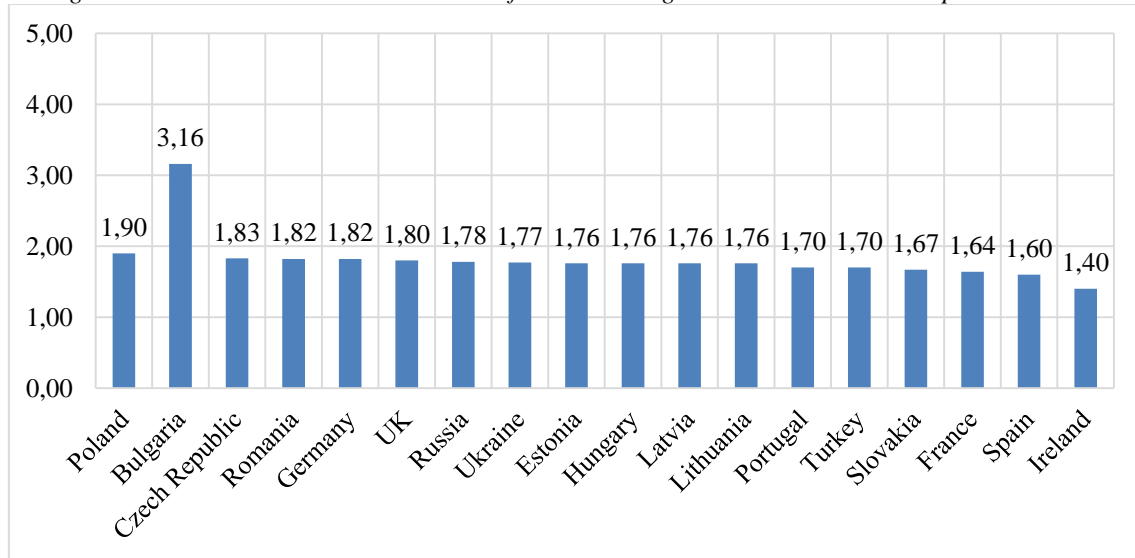
Source: Own processing from the data at [www.statista.com](http://www.statista.com)

Headquartered in New York with about 244.400 employees in more than 150 countries around the world, Deloitte leads the top four in terms of earnings and employee numbers.

#### 4. Outsourcing services in Romania

With an area of approximately 240.000 km<sup>2</sup> and a population of about 21 million inhabitants, Romania ranks 18th overall in 2017 in the top of attractive countries for outsourcing services and 4th place among the countries in Europe present in A.T. Kearney Global Services Location Index (A.T. Kearney Global Services Location Index, 2017).

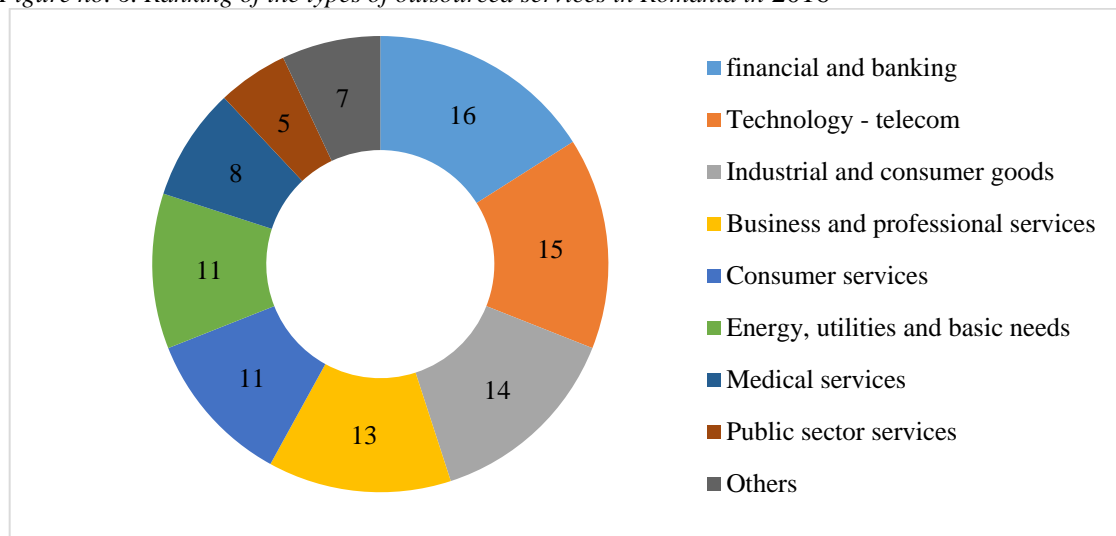
Figure no. 5. The most attractive countries for outsourcing services in 2017 in Europe



Source: Own processing based on information from Arjun Sethi, Johan Gott - 2017 A.T. Kearney Global Services Location Index - The Widening Impact of Automation, [www.atkearney.com](http://www.atkearney.com)

The development of the ranking took into account the economic, socio-political factors as well as the human resource of the countries participating in the study. Romania benefits not only from membership of the European Union, which brings some advantages, as well as a well-available labor force, well qualified and at low cost in comparison to other states.

Figure no. 6. Ranking of the types of outsourced services in Romania in 2016



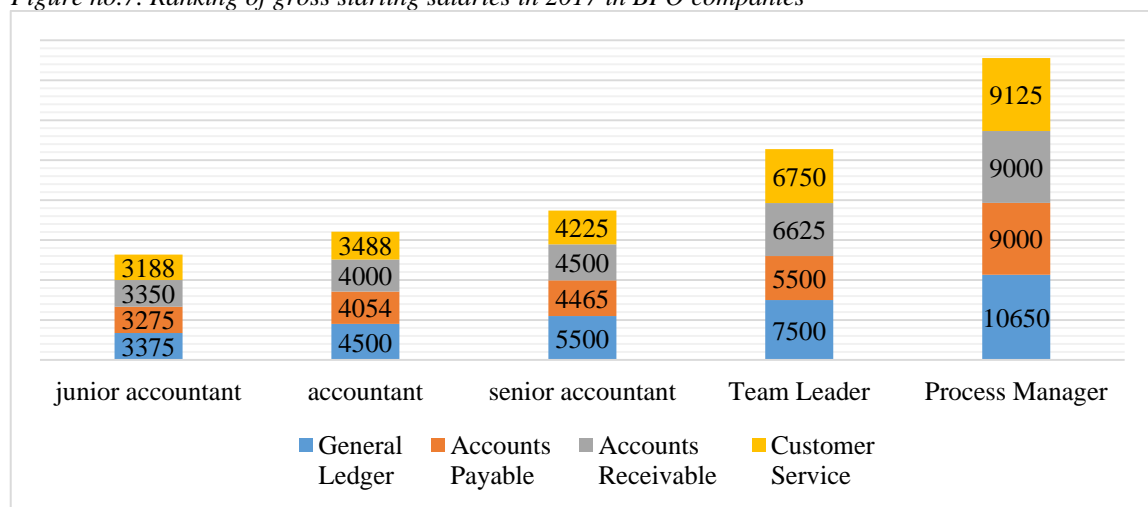
Source: Own processing based on the FRD Center report - "BPO Sector in Romania, Players Activity and M & A", [www.frdcenter.ro](http://www.frdcenter.ro)

At this moment, in our country over 100.000 employees work in the field of outsourcing services, and the top sectors are financial, banking, technology and telecom, industrial and consumer goods.

At the level of 2017 in Romania in customer support and financial services, salaries for a post entry level ranged from 3188 lei gross while salaries for a management post ranged from 10650 lei gross and could reach up to 15807 lei gross. In addition, there are also non-financial benefits such as meal vouchers, flexible working hours, various discounts (sports halls, certain shops), private medical insurance, the possibility of winning a bonus, public transport reimbursement (FRD Center Analysis, 2016).

In the figure below, we can see the evolution of the gross starting salaries expressed in lei in 2017 in Romania in the BPO companies that provide financial accounting services of general ledger (general accounting), accounts payable and receivable (processing payments - receipts) and customer service (helping customers). Thus, a junior accountant is considered an accountant with less than 1 year experience who works under the supervision of senior colleagues who have a work experience of over 3 years. The Team Leader is the person in charge of a team of 5-10 employees while the Process Manager is responsible for the whole process and coordinates a team of over 20 employees.

Figure no.7. Ranking of gross starting salaries in 2017 in BPO companies



Source: Own processing based on the HAYS & ABSL report - "Romania 2017 Salary Guide, Business Services Centers"

Thus, a junior accountant is considered an accountant with less than 1 year experience who works under the supervision of senior colleagues who have a work experience of over 3 years. The Team Leader is the person in charge of a team of 5-10 employees while the Process Manager is responsible for the whole process and coordinates a team of over 20 employees (Hays, Absl, 2017).

One of the reasons why the outsourcing market in Romania in recent years has seen a rapid development is the diverse language profile. In the year 2014 over 90% of university graduates have English language skills, 26% of French, 17% of Spanish, German 8% and 5% Italian (Colliers International, 2016). Along with these, in the country are offered services in Dutch, Portuguese, Hungarian, Czech, Slovak, Bulgarian or Russian.

Another reason why Romania is among the top outsourcing countries is its proximity to Western Europe, not only geographically (at about 2 hours flight time), but also from a cultural and business ethics point of view. Also, Europe's first place in internet connectivity speed and positioning among countries where download speed is maximum, gives our country market advantages.

Although in terms of infrastructure our country is underdeveloped compared to the other countries in the area, the main cities of the country and also the main centers for the outsourcing market are well connected to Europe by direct flights to countries such as Germany, Austria, France, Italy, Spain, Great Britain, Greece, from the airport in Bucharest there is also connection with the Middle East or North Africa.

## 5. Conclusions

At present, outsourcing has become a global phenomenon that has revolutionized the business environment. If at first only simple services such as data entry were outsourced, now outsourcing has become almost a habit. By outsourcing companies are optimizing their costs, gaining time, accessing specialized skills, qualified staff, and from a strategic point of view they can even penetrate other markets to expand their business and improve their portfolio.

Every year new countries penetrate this market, competition in the field is steadily rising and investment in specialized centers are becoming more and more numerous. Outsourcing is a global phenomenon that in the future not only will not disappear, but will grow and diversify. From small to multinational companies, they are increasingly present in the online environment, on social networks or in the cloud, while investors and management are scattered around the world.

Outsourcing is more present than ever, and the type of impact that this field can have on the economy lies with each state. Investing in infrastructure, education, openness to innovation and innovation itself can make a difference in the long run.

Regarding our country, it is an attractive destination for big companies and in 2017 it was included in the top 20 destinations worldwide for outsourced services. Benefiting from the advantages of specialized workforce, a very good internet infrastructure, low costs and a varied language profile, services such as financial banking, technology and telecoms or industrial and consumer goods are outsourced in Romania. Other reasons for which our country is one of the preferred destinations of outsourcing companies are represented by the territorial and cultural affiliation to Europe.

For the year 2019 a rapid growth of the industry is expected, and by 2025 there is expected a doubling of the labor force in the field, Romania thus falling into the global trend. The trend of the future is that outsourcing focuses more on core business activities, leaving managers free to focus more on company development and strategy. Also, more and more small organizations prefer the support of specialists in certain activities and the digital environment gains more importance.

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