THE IMPACT OF SERVICE OFFSHORING ON THE RISE IN EMPLOYMENT IN A POST ACCESSION PERIOD

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Abstract:
In this paper the similarities and differences between outsourcing and offshoring processes in the economy have been discussed. This has allowed a synthetic overview of the key factors influencing and determining the location of offshoring investments in a post-accession period. Furthermore, the evolution of offshoring investments in Poland through the prism of their expansion in the number of centres and an increase in their employment has been described. Additionally, the factors which are seen as opportunities for further development of the sector in Poland have been presented.

Introduction

Considering the functioning of the world economy it can be seen that it is perceived today by many authors as a global business conducted on the basis of large corporations and states that is unstoppable. The main incentive for business development on a global scale has become a global consequence of market trends and customer needs diversified in different parts of the world. The role of transnational corporations (TNCs) is still growing and is becoming increasingly important in the global economy. Transnational corporations operating on an international scale need to perform their own growth by making acquisitions and mergers with smaller and larger organizational units. Structural diversity and multiplicity of business lines located in different countries imply a lack of standardization and unification of systems and processes [7, 313]. The impact of economic globalization, understood as the increasing importance of foreign trade, capital flows, international finance, migration, information technology and the internet [6, 11] has enabled relocation services in international markets. Transnational corporations engage in search capabilities to extract and move to cheaper locations in support of their vital operating functions. As a rule, this requires processes, accounting, as well as back-office support. In the Polish economy post-accession period, the area and complexity of the activities entrusted to a separate external entities have expanded significantly. One has also seen a trend moving abroad more complex processes that require the employment of specialists in the field, which is commonly known as Knowledge Process Outsourcing, as well as the release and transfer abroad of departments of research and development (R & D).

In this paper, the main objective is to demonstrate the impact of outsourcing and offshoring on employment growth in Poland.

1. **Outsourcing vs. Offshoring**

Several definitions of outsourcing and offshoring can be found in the specialised literature. It is important to distinguish these two concepts according to geographical location of the operating business service and the ownership of the economic entity contracted to execute business processes [5, 13]. The relation between outsourcing and offshoring has been presented in the table 1.

TAB 1. **Relation between outsourcing and offshoring**

<table>
<tr><td colspan="2" rowspan="2"></td><td colspan="3">The geographical location of the transferred business activity</td></tr>
<tr><td>Location within the country</td><td>Location abroad in the same part of the world</td><td>Location abroad in a different part of the world</td></tr>
<tr><td rowspan="2">The form of ownership of the entity implementing outsourced business processes</td><td>Under the ordering company</td><td>Captive onshoring</td><td>Captive nearshoring</td><td>Captive offshoring</td></tr>
<tr><td>Outside the contracting company</td><td>Onshore outsourcing</td><td>Nearshore outsourcing</td><td>Offshore outsourcing</td></tr>
<tr><td colspan="2"></td><td>Onshoring</td><td>Nearshoring</td><td>Offshoring</td></tr>
</table>

Source: [3, 11]

Outsourcing (outside-resource-using) is to be understood as a form of separation from the organizational company structure and transfer into another economic entity [8, 13].

According to Liberska, offshoring is the transformation in functioning of an international business influenced by ICT (Information and Communication Technology) and stronger global competition, heading towards separating the part of services dealing with customer services or business service. The above mentioned services are offshored into the countries which offer lower labour costs. To be more precise, the process is called international service outsourcing or offshoring [1, 20]. Further, one can read [1, 18] that it is actually difficult to distinguish between outsourcing and offshoring due to some rapidly expanding enterprises and their IT development.

Two types of offshoring can be distinguished [1,21]:

- captive offshoring (corporate owned offshoring) – internal operations which aim to establish a branch or a subsidiary in a foreign country that would enable the control over business or production process.

- offshore outsourcing – transferring a part of business to an external company which operates in the foreign country.

There are ten aims which outsourcing and offshoring help to achieve [2, 16]: Cost control and reduction, Developing the focus on the company's core business, Access to high quality production capacity, Releasing the companies' own resources for other purposes, Obtaining resources which the organization does not have, Accelerating the emergence of the benefits of restructuring, Dealing with functions difficult to perform or impossible to control, Raising capital, Risk-sharing, Inflow of cash.

2. Investment attractiveness of Poland for service offshoring

The most important factors which determine investment attractiveness for service offshoring are [1, 66]:

1. Costs: workforce - the average wage of employees and managers in the country, infrastructure - expenses related to communication, internet access, electricity, etc., property - the cost of hiring or purchasing headquarters, corporate taxes - an estimate of the overall tax burden, tax breaks and other incentives used to attract foreign investment
2. Access to skills: workforce with the required education and skills, estimated size of the offshore sector in the country, as well as participation in international trade in services in the country's exports, number and size of companies specialising in IT or BPO services
3. External sector: government policy towards foreign direct investment, the complexity of tax law, the level of bureaucracy and corruption, business environment - compatibility of business norms and principles of conducting business and cultural similarity, conditions of living and GDP per capita, percent of persons infected with HIV, the number of crimes per capita, accessibility - distance flights, travel time, time differences
4. The market potential: attractiveness of the market - the amount of GDP and its growth temperature, access to nearby regional markets
5. Risk: the risk of unforeseen events such as natural disasters, political upheaval and strikes, threat to personal safety and property, exposure to terroristic attacks, fraud and crime, macroeconomic risks - inflation rate, freedom of movement of capital, risks associated with exposure to intellectual property - the level of protection of intellectual property
6. Infrastructure: level of telecommunications services, access to the Internet, speed and coverage of services, property - availability and standard, transportation - roads and their network, electricity - power supply reliability

Another factor that attracts companies to this location is the development of regional industry clusters or clusters. Dynamic Clusters, unlike a traditional cluster of urban centres and industrial complexes are clusters of high-tech industries. Clusters of this type attract and integrate knowledge-based resources and qualified companies seeking new business solutions [7, 208].

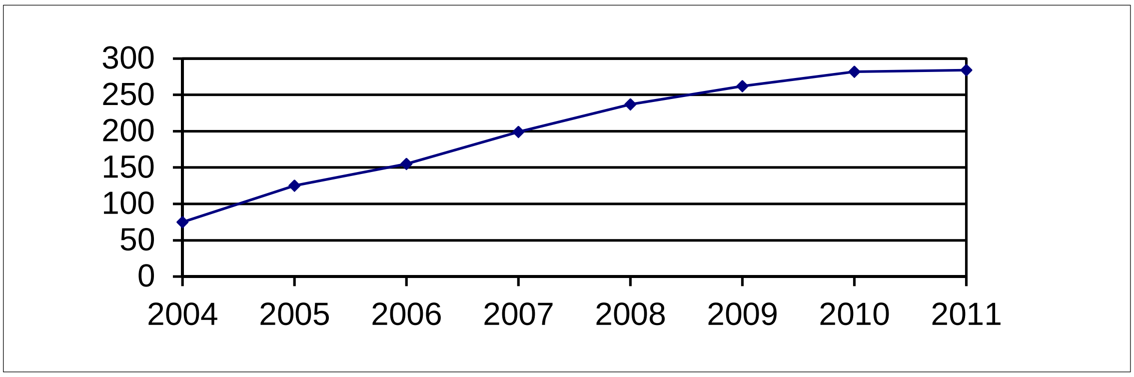
The main advantages of Poland as an investment location for service offshoring are [5, 56]:young and well-educated personnel, availability of qualified specialists speaking foreign languages (besides English), geographical localisation - excellent location for nearshoring from Western Europe, cost attractiveness in comparison to Western Europe, political and economic stability, over a dozen academic centres, well developed infrastructure, graduates well-adjusted to the needs of the labor market, existence of branch organisations, representing the companies in their contacts with authorities.

Additionally, the following factors are seen as opportunities for further development of the sector in Poland [5, 56]: dynamic development of knowledge-based services (Knowledge Process Outsourcing), growing share of companies from Western Europe including nearshoring in their operational strategies, unstable political situation in some competitive localizations.

3. Development of service offshoring in Poland from 2004 to 2010

The amount of service centres in Poland has grown systematically from 2004 to 2010 (graph 1.). There are currently 282 service centres in Poland. A continuing growth in the number of service centres is forecast for 2011. Employment in service centres has grown from 46 500 in 2008 to 69 000 in 2010. The estimated number of the employees of the sector at the end of 2011 is 75 500.

Graph 1 The number of service centers in Poland from 2004 to 2010



Source: compiled by author basing on data from [3]

Interesting is the structure of BPO market in Poland, where the largest share of services is in customer relationship management (32%) and in financial and accounting (29%). The smallest share of the market are payroll services (22%) and the lowest HR services (8%), purchasing management services (5%) and other (4%) [4].

TAB 2. **Comparison of number, size of employment and growth in the size of employment in service centers in the main locations**

City	Number of centers	Size of employemnt	Growth in the size of employment (%)	Growth in the size of employment (thousands)
Warszawa	>40	>10	<40%	3-4
Kraków	>40	>10	<40%	3-4
Łódź	30-40	5-10	60-80%	2-3
Wrocław	30-40	>10	>100%	>4
Poznań	10-29	2,5-5	80-100%	1-2
Trójmiasto	10-29	5-10	40-60%	2-3
Szczecin	2-9	1-2,5	80-100%	>1
Bydgoszcz	2-9	1-2,5	40-60%	>1
Katowice	10-29	2,5-5	40-60%	1-2
Lublin	2-9	1-2,5	<40	>1

Source: compiled by author basing on data from [3]

Most service centres are located in Warszawa (54 centres), followed by Kraków (43), Wrocław (38) and Łódź (31). In the table 2 the size of the sector in the key locations for offshoring was compared. The comparison shows that since 2008 most new jobs were created in Wrocław (more than 5000). Significant job growth was also recorded in Kraków and Warszawa (over 3000), Łódź, and Trójmiasto (over 2000).

Conclusions

The economic analysis of offshoring and outsourcing processes and its results indicate the financial and economic crisis impact on employment growth in the sector. The development of services of this nature has contributed to the occurrence of the following changes in the Polish economy:

1. The economic downturn on the global markets has led to a drop in demand for outsourcing and offshoring and the negative financial results of companies therefore they are forced to search for new savings;
2. Outsourcing and offshoring appear to be the most effective processes to reduce costs by extending the scope of services provided to comply with external suppliers, which subsequently broaden the outsourcing companies offer;
3. In the coming years further development of offshoring services is expected to happen and should concern advanced services based on knowledge and research and development departments, which provide greater value added. Poland due to its strong academic centres, which provide a steady supply of young and educated workforce, meets the conditions to become a major location for offshoring knowledge-based services and research and development departments.

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