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EMERGING EUROPE

SPECIAL REPORT: SOURCING IN EMERGING EUROPE 2018-2019

INNOVATION

From call centres to cutting edge R&D

SPECIALISATION

Why boutique, bespoke start-ups are finding fertile ground in emerging Europe

INSIDE TRACK

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FROM THE EDITOR

All over Europe, from the auditorium of the European Bank for Reconstruction and Development in London to the exhibition pavilions at MIPIM in Cannes, I have heard one phrase more than any other this year when discussing sourcing in emerging Europe: the region is right now in a sweetspot.

The reason is simple: when it comes to looking at the three main criteria sourcing companies consider when scouting new investment destinations - cost, location and access to talent - emerging Europe ticks all three boxes. It also offers a fair bit more.

Security, amazing digital infrastructure (often much better than traditional infrastructure) and, increasingly, innovation. This is no longer a region that robotically carries out repetitive processes at low cost. This is a region that is redesigning those processes. A region that is emerging from its shell and beginning to take the lead in creating a world in which digitalisation and AI will move us all beyond what we ever thought possible.

When we published the first edition of our now quarterly magazine *Emerging Europe* back in the spring, our cover story focused on the fact that large parts of the region could no longer be considered 'low cost'. We spoke to key players in a wide range of business sectors, and most agreed that cost was no longer the primary motive behind their decision to relocate businesses and services to emerging Europe: access to a wealth of talent is now far more important.

Price still has a role to play: talent must be available at the right price. But the evidence so far suggests that salaries have some way to go before emerging Europe will have to start worrying about becoming uncompetitive. The sweetspot has ample proportions. Indeed, it could well be argued that a far more pressing concern for emerging Europe is not that salaries are too high, but that they are too low. If the region wants to make sure that the talent currently attracting increasing numbers of investors is still around in five years time, then emerging Europe could probably use a pay rise.

This is probably the biggest challenge the industry faces in our region. The demographics are not promising: that has to change, and all stakeholders – including business and government – need to ensure that the matter is given more importance.

In this special report we have brought together some seriously good talent of our own. Contributors from across the world of sourcing who can all boast a wealth of experience in dealing not just with the many challenges the industry faces, but who also know how take best advantage of the many opportunities which continue to present themselves. It's rare to find so much knowledge in one place, but so deep is the interest in emerging Europe at the present time that we found most industry insiders all too keen to share their insight.

To everyone who helped make this special report happen, we extend our thanks. Here's to the sweetspot.

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PUBLISHED BY
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ISSN 2399-7605

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> *Outsourcing and IT are playing increasingly important roles in supporting economic growth in emerging Europe.*

While 2018 feels like the year when the steps taken by entrepreneurs in emerging Europe are coming to fruition, but as you would expect there is still much more that can and will be done.

The World Bank Report of 2018, that looks at all global economies, clearly identified Europe and Central Asia as having the highest share of reforming economies. Outside of the highest OECD companies, emerging Europe also had the highest scores for ease of doing business.

According to the EBRD's Regional Economic Prospects Report, released in May 2018, GDP in the EBRD regions could rise by 3.8 per cent in 2018, which is significantly ahead of the majority of developed economies. Strong investment and high exports will drive the growth and progress being made in business and technology services is a contributing factor.

To give some examples the outsourcing industry in Bulgaria contributed to 2.85 per cent of the country's GDP in 2014, by 2017 that had risen to 3.6 per cent. By comparison the IT sector in Latvia is believed to contribute 4.7 per cent to their GDP and the HOA Benchmark Survey of 2017 said 72 per cent of businesses that use Hungary for service provision brought new services to the country over the course of just that one year.

Accolades for innovation and digital advancement have also continued to rise. The Global Innovation Index of 2018 recognised Moldova and Hungary for high quality innovation, the 2017 Bloomberg Innovation Index placed Estonia 33rd in the world and the Czech Republic came 24th out of 136 countries in the KPMG 2017 Change Readiness Report.

KPMG ranked 136 countries globally on how private and public enterprises responded to change and cultivated opportunity.

Reform and regulations as the driver of culture

Emerging Europe recently ranked each of the region's nations by combining the Corruption Perception Index and the World Bank's report on ease of starting a business. In some cases the results were surprising and the countries at the top of the list were not necessarily those with the largest market share. What it did indicate was that where business regulation reform has been at its strongest and there is improvement in the investment culture, this can be a spark for growth.

For example, Lithuania, which was fourth on our list and 16th in the world for the ease of doing business, also has the second highest employment rate in Central Europe and the Baltic States, and this year joined the OECD. While Georgia, which appears second on our list, has also been recognised by the EBRD for having the highest number of business regulations over the course of the last 15 years.

The scores for each country can be found on the *Emerging Europe* website along with the rating criteria.

Focus on research and development

Elsewhere in this publication we talk

more about the emerging talent gap as we look to move up the value chain. More in depth analysis appears there, but it's important to mention it because investment in education and greater cohesion between governments, commerce and education will play a big part as we look to grow over the coming years.

In 2015 Bulgaria became the leading European Outsourcing Destination and held on for a top three spot in 2016 and 2017. One thing that stands out has been the country's ability to move higher up the IPO value chain by adopting and building more complex processes, conducting analytics and moving into the FinTech arena. According to the Intelligent Sourcing Report of November 2017, 50 per cent of the working population in Bulgaria now has a university degree. This has meant that the services they now provide in the BPO sector are also moving up the value chain including marketing, sales, accounting and human resources.

There are other great examples in the region of governments, education and business working together. In 2017 Croatia launched a national reform programme focused on boosting competitiveness and employment by linking education with labour market needs. A four-point reform plan introduced in February 2017 is making improvements and addressing the investment culture in Georgia and in Albania customs procedures are being improved in line with EU standards. Meanwhile, in Belarus, a new digital law with an active framework to liberate the business environment in high worth sectors has been passed.

Despite the success Bulgaria has had in moving up the value chain, it's worth highlighting that the country is not resting on its laurels, and further state sponsored education initiatives are in place to ensure they have the workforce of the future.

If the region is to continue to grow, and more importantly narrow the economic gap with wealthier (but no more able) economies, as well as compete with other emerging markets, research and development (R&D) will need to focus more prominently.

Without the workforce of tomorrow it won't be possible to realise research and development ambitions and as we continue on a more global path, it will become ever more difficult to compete with other emerging economies let alone the developed ones. According to the 'How countries invest in R&D' report by the Unesco Institute for Statistics there are already eight of our emerging Europe countries investing 1 billion US dollars or more a year in R&D and a further five investing more than 500 million US dollars.

The highest is Poland, which is investing 8.5 billion euros, but that pales into insignificance when compared to the 95.4 billion euros invested by Germany. Elsewhere, around the world there has been a boom in digital advancement in China and to use just one other example the outsourcing industry has grown exponentially in Thailand following a 10 year programme of STEM education and now boasts significant global players such as Intel, IBM, Nokia and Microsoft.

According to the Economist, R&D spending in Poland reached one per cent of GDP in 2017, up from 0.5 per cent in 2017, but the goal is 2.7 per cent which would bring them in line with the US, Germany and Sweden. Economists across all our countries are well aware of the impact of investment in R&D and collaboration that makes our region better placed to succeed and should be applauded.

Value for money is not a thing of the past yet

For now, and there's no way of getting away from the now, investors will continue to look at value for money on service provision. Interestingly, the Ryan Advisory — UK Offshore Favourability Report of October 2017 had four emerging Europe countries in their top 10, namely Romania, Poland, Bulgaria and Hungary with Macedonia coming in next highest at 18. Whereas, a recent comparison of the ease of doing business to hourly labour costs suggested that Estonia, Lithuania and Latvia slightly pipped the Czech Republic and Poland as the leaders in quality and costs.

According to the KPMG Invest in Macedonia report of May 2017, FDI in Macedonia increased to 354 million euros in 2016 from 197 million euros in 2014. The labour market is highly skilled and well educated, but low wages means it has significant potential for labour intensive investments.

The size of the emerging Europe sourcing sector is not 100 per cent clear, but we do know it's growing. In 2016 Poland had 245,000 full-time employees (FTE) working in the sector with the Association of Business Service Leaders in Poland having this figure as 269,000 in 2018. Romania was the next highest with 121,000 followed by Hungary 55,000 and Lithuania over 10,000.

Slovakia reportedly has 22,000, although reports from SARIO suggest that could now be over 30,000. In Bulgaria this has been reported as over 30,000 by Intelligent Sourcing and the Latvia Investment and Development Agency gives a figure of 8,700 with 11.9 per cent of Riga residents working in shared services centres (SSCs).

According to Kelly Hallard at the Global Sourcing Association, Ukraine has over 100,000 IT sector employees making it one of the largest pools of IT specialists in the CEE region. OSKA, a system set up by the Estonia Qualification Authority that co-ordinates and develops skills says the ICT sector employs over 20,000 IT specialists, while there are over 21,000 IT professionals in Moldova. EVN reported in 2017 there were an estimated 20,000 software developers and engineers in Armenia and more than 40,000 working in the IT sector in Belarus. Invest Slovenia reports over 20,000 working in the ICT sector.

Investment and working together

Foreign Direct Investment (FDI) will continue to be a significant factor for the sector especially bearing in mind the EU Structural and Cohesion Fund is to be reviewed in 2020 and is likely to mean less investment directly into emerging Europe.

New and emerging destinations are still plentiful in the region and none of our countries are even close to saturation point when it comes to the services it can offer. With talent in short supply across the world and no sign of any let-up in demand, the future seems bright so long as supply for the now and supply for the future can be made available.

ESTABLISHED OUTSOURCING MARKETS FACE EMERGING COMPETITION

WORDS YOAN STANEV

> *While the [CEE] region may not yet be of the size and scale of India as an outsourcing delivery destination, its progressive nature and rich talent pool of highly educated resources, together with a culture embedded in innovation and matched with the desire to deliver service excellence across the STEM (Science, Technology, Engineering and Mathematics) industries, is gaining increasing recognition across the UK, German, Nordic and US outsourcing markets – and rightly so.*

TOM QUIGLEY
CEO, Emerging Europe Alliance

Many countries in emerging Europe have established themselves as outsourcing destinations for foreign companies. Tom Quigley, CEO of the Emerging Europe Alliance for Business Services, Innovation and Technology, points out that there are four main reasons (amongst others) that make central and eastern Europe (CEE) a region that stands out above others for outsourcing: language skills and education, culture, government support and small time zone differences.

Among the well-established outsourcing destinations in the region is Bulgaria, a recipient of the Global Sourcing Association Award for Offshoring Destination of the Year 2015. The country was also in the top three places in 2016 and 2017. Undoubtedly, Bulgaria has since then developed its outsourcing industry further – the country has transitioned from a location for relatively basic outsourcing services, such as call centres, to offering more advanced and complex services such as business process outsourcing (BPO) and information technology outsourcing (ITO) services, subsequently becoming one of the world's leading outsourcing destinations.

Poland is another outsourcing success story in emerging Europe. "It is largest and most mature outsourcing destination in the region," says Mr Quigley. A lot of the pull-factors for outsourcing in Poland are not too different to those of Bulgaria: a highly-skilled workforce, a dynamically growing IT market, an extensive pool of IT graduates and graduates with a professional level of (at least) English, a similarity in cultural and work ethics, low labour costs, good quality technological infrastructure, attractive tax incentives, geographic proximity to major European financial centres and time zones, second-tier towns (such as Kraków) to name a few.

However, there is emerging evidence that the outsourcing sector in some of these established destinations may be plateauing. "The outsourcing business in Bulgaria is entering its matured stage," says Stefan Bumov, co-founder and COO at HeleCloud. "While growth is still visible, it has dropped to approximately 10-15 per cent year on year" Stefan Bumov, co-founder and COO at HeleCloud, told *Emerging Europe*. Although second-tier cities, such as Plovdiv, Varna and Kraków are subsequently attracting investors that are already established in the capitals and seeking to grow their local structures, lesser known countries in emerging Europe are emerging as outsourcing destinations.

MOLDOVA

One of these new destinations is Moldova. The country is developing its IT and telecoms sector and has managed to attract large companies, such as Endava – a technology company, with over 17 years of experience, and Pentalog – a French-based IT services platform focusing on the offshoring and nearshoring of IT operations. Second-tier IT companies have been successfully using the country's capital Chisinau for sourcing operations for 15-20 years, and it is likely that large global players will open centres in the country soon. Moreover, Moldova is one of the few countries in Europe to boast a minister of technology and can offer labour costs cheaper than those in Romania or Bulgaria: junior developers earn approximately 300 euros a month, and experienced developers an average of 860 euros.

Another advantage that Moldova can boast over other outsourcing destinations in emerging Europe is the Russian language factor. Outsourcing companies have recognised the compatibility of Moldovan culture with both the western world and the Russophone world. Analyst house IDC published a report in 2014 in which it emphasises the locals' linguistic proficiency in Russian, as well as French, English and Spanish. The report also mentions many of the advantages that are shared by the rest of the region: low taxes, dedicated professionals and decent broadband speeds. "Getting in Moldova sooner than later will enable companies to take full advantage of its benefits … It is probably just a matter of time before large global players open centres," IDC added.

Just like the established outsourcing destinations in emerging Europe – Bulgaria, Poland, the Czech Republic, Hungary, and Romania – Moldova has generated a disproportionate amount of IT talent given its size. "We are estimating a 40 per cent increase of the IT sector in the following years, but we're trying as hard as we can to double its income by 2020. The growth in the telecoms sector will be slower compared to IT alone," says Ana Chirița, executive director of the Moldovan Association of ICT Companies. The government's business-friendly policies have indeed contributed to raising Moldova's imagine as an outsourcing destination: free economic zones and industrial parks have been created, not to forget the favourable corporate tax regime.

However, Moldova is still too small for service centres that need thousands of workers handling tens of thousands of enquiries or requests per day. Plus, an efficiency-minded business culture is still in the works. Although management practices and leadership have improved considerably in the past decade, more is still to be done in terms of best practices, expectations, and process establishment. While Moldova remains a relatively under-established outsourcing destination in emerging Europe, it is suitable for companies interested in smaller, high-end operations and has the potential to grow into a major outsourcing destination, only if it manages to successfully tackle one of its most threatening problems – brain drain.

KOSOVO

Despite its difficult international status and ongoing tensions, Kosovo is also emerging as an outsourcing destination with great potential. According to recent government figures, Kosovo has the youngest population in Europe: 53 per cent of Kosovars are aged under 25. Furthermore, the country has recorded a 20-30 per cent growth rate in recent years and its BPO and ITO sectors are developing quickly. And despite almost 40 per cent of its citizens still lacking access to any type of electronic computer device, it is the country's economically active population – young, educated and skilled people – that make up the other 60 per cent that enjoy a high rate of internet penetration and information technology acceptability. According to the Outsourcing Journal, Kosovo has become an attractive location for ITO in particular, mainly due to low costs and an educated and multilingual IT staff.

However, Kosovo still needs to work on its nation-branding and a strong international reputation is key for its outsourcing potential, especially within southeastern Europe (where, essentially, all nations share many of the strengths required for outsourcing) in order to leverage the benefits of this large market. Kosovo remains amongst the very poorest nations in Europe and serious problems, such as corruption, organised crime involving human and drugs trafficking, remain unresolved. Another of Kosovo's disadvantages is its (lack of) EU potential. Established outsourcing destinations in emerging Europe, such as Poland, Bulgaria and Hungary, have enjoyed the benefits of EU membership, which provides a level of political and economic stability, as well as a favourable legal environment. Kosovo, on the other hand, is nowhere near EU membership – it is not even recognised by various EU member states and still does not enjoy UN membership. These problems, coupled together with incomplete reforms on the rule of law and minority (mainly Serb) rights, despite concessions Pristina made to Belgrade in EU-mediated talks in 2013, place Kosovo at the very back of the queue of Western Balkan countries hoping to join the Union.

Politics aside, there is nonetheless hope for Kosovo's outsourcing sector. There is increasing demand for outsourcing to the country, due to the ongoing development of the country's IT exports, both software and IT services, and the young citizens' multilingual skills: students are usually taught American English and studying a second or third foreign language is not uncommon. Approximately 60 per cent of the IT companies operating in Kosovo were founded after 2010 and a similar percentage do outsourcing for international companies. As many as 70 per cent of Kosovo-based companies offer software development services, 67.5 per cent – IT/software services and 40 per cent – hardware services. This indicates that software development in Kosovo is on the increase. These may be early days, but Kosovo is an outsourcing destination in emerging Europe worth watching.

BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina (BiH) can boast a booming IT sector. Young software developers have begun establishing their own start-ups, upgrading the digitalisation process in BiH, and are now working side by side with large outsourced multinational companies. Just like much of the rest of emerging Europe, the country offers inexpensive IT labour rates, EU-compliant legislation, attractive tax breaks, but has the lowest inflation in southeastern Europe. BiH continually seeks to improve the quality of its IT education by collaborating with American and European universities, encouraging student work abroad programs, and establishing partnerships with European research institutions. The country recognises the multilingual talent of its young professional and therefore encourages its outsourcing sector to go one step further, mirroring Bulgaria's development. BiH aims for even greater IT specialisation, encouraging its students to take up technical degrees in software engineering, information science, and telecommunications. Many leading corporations have utilised their access to talent in BiH, including Siemens, Microsoft, Cisco and Oracle.

According to estimates made by BIT Alliance, an umbrella association for the software development industry, around 1,400 companies and about 2,500 to 3,500 programmers are now working in information technology, communications, and computer programming in BiH. In 2014, the European Bank for Reconstruction and Development (EBRD) partnered with BIT Alliance to create a six-month ICT boot camp – an intensive education programme for crucial ICT skills, with practical training from experienced IT practitioners. The students came from all sorts of different educational backgrounds, from the fine arts and archaeology to criminal sciences, electrical engineering and economics. What united them was a desire to retrain in a field that both interested them and where they saw opportunities to put their skills to practical use. This intense focus on training young professional and developing their IT skills and potential is crucial for BiH's emerging outsourcing sector.

ARMENIA

Armenia's IT sector is booming and is expected to be a core driver of the country's economy. A 2016 study by the Armenian Enterprise Incubator Foundation states that about 450 IT companies operate in Armenia, generating an average annual growth of 10 per cent. About 88 per cent of these companies are based in the capital – Yerevan. "Local universities have dramatically elevated their curriculums and are producing top global IT talent. Many engineers are coming out of school looking for new and innovative places to work," Hovhannes Avoyan, CEO of PicsArt, told *Emerging Europe*.

The good news is that the public administration and commercial sector have undertaken efforts to support the growth of companies operating in the rest of Armenia: the Shirak and Lori regions are leading due to the development of their educational and scientific infrastructure. The United Arab Emirates is the biggest importer of services from Armenia, focusing mostly on outsourcing accounting, banking, and financial services. In addition, the highest proportion of companies, 18 per cent, deals with customised software and outsourcing.

Yet many investments have been withdrawn from Armenia over the past few years, leading to a level of economic instability that worries businesses. Foreign direct investment from the UK plummeted between 2016 and 2017, and Armenian entrepreneurs also showed signs of worry. PicsArt, the well-known image editing application with over 100 million monthly active users worldwide was founded by Mr Avoyan in Armenia, but he then moved the company's headquarters to the US.

Nevertheless, Mr Avoyan is positive about Armenia's potential in the IT sector: "[The positive education reforms enable] PicsArt to recruit and retain great IT talent. We're actively teaching local students AI and machine learning (among other disciplines), and we've gone on to hire many into full-time positions," he says.

As emerging outsourcing destinations, such as Moldova and BiH, are finding ways to establish themselves, more developed outsourcing centres, such as Poland and Bulgaria, are finding ways to maintain their healthy outsourcing sectors by focusing on technical specialisations and more nuanced skills, rather than multilingual skills. The emerging destinations are mirroring these developments. What may stop them from catching up is a lack of EU membership and the stability and legal guarantees the EU brings.

IT OUTSOURCING'S NEW WAVE

WORDS SHAKHIL SHAH

ICT outsourcing is inevitable, costs are going up, talent is becoming harder to find in mature and developed markets, offshoring/nearshoring are the way forward. There is a plethora of markets to choose from, IT outsourcing is huge in Asia, Europe and other parts of the world. However, in the hope of keeping costs down, it is easier to outsource closer to home.

That said, one of the fastest growing sectors in emerging Europe is IT outsourcing. There are a myriad of reasons for this, for example the fact that markets in Central and Eastern Europe (CEE) are only a few hours away by flight from their key markets in Europe, there is also a cultural aspect, people from CEE share in the same culture and traditions as most western European countries. In addition to that, emerging Europe countries for the most part are in a similar time-zone to the rest of Europe.

Eastern Europe is one of the best places for software development, the sector has seen significant growth in the last few years, not to mention the fact that countries are investing heavily into IT infrastructure as well as creating special programmes to promote the advancement of the sector. Countries like Ukraine, Poland, Hungary, Belarus, and Romania have already defined IT as a major catalyst for their sustainable growth and technological advancement.

Deloitte's analysis of the global market

According to Deloitte's Global Outsourcing survey 2018, there were three major trends that increased outsourcing globally. The findings of the 2018 survey show a significant shift from Deloitte's findings from 2016.

Then, the survey had already established that there was a shift occurring and that outsourcing was more than a simple cost saving solution. However, in the 2018 report one of the key trends as we read is that outsourcing is enabling competitive advantage:

"While cost optimisation is still a critically important criterion for outsourcing, it is no longer at the top of the list (nor even in the top five), since disruptive outsourcing, when executed well, can deliver competitive advantage by transforming the way organisations operate, and making them more agile, efficient, and effective. The advantages are obvious to respondents: approximately

84 per cent of them have either initiated discussions, conducted pilots, or have implemented at least some disruptive solutions," reads the report.

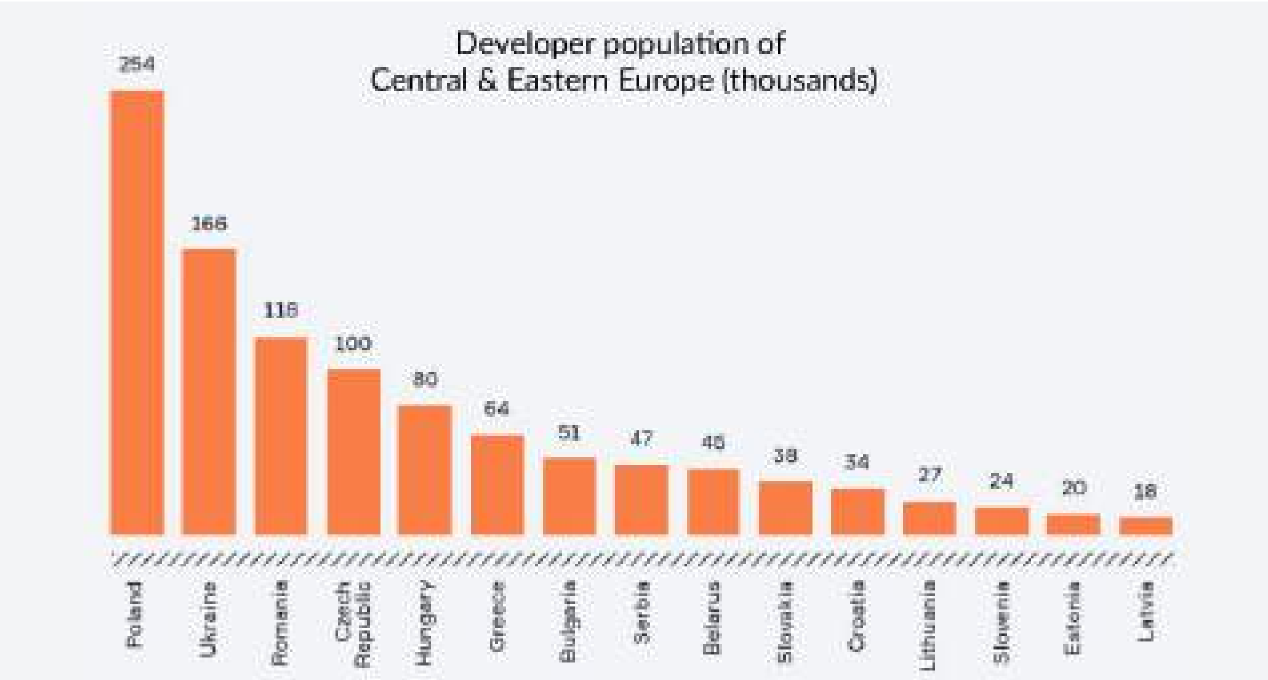
Another interesting finding in is that organisations are embracing disruptive outsourcing technologies such as cloud and robotic process automation (RPA).

"The vast majority of organisations—93 per cent—are considering or adopting cloud solutions and 72 per cent are considering or adopting RPA solutions. Seventy per cent of respondents believe their service providers have a reasonable or advanced ability to implement disruptive solutions."

In other words, the new trend is a move to cloud based solutions, with a key focus on innovation and choosing providers that will help provide innovative solutions and keep your company ahead of the pack. As the report suggests and is titled: *Traditional outsourcing is dead. Long live disruptive outsourcing*.

Doug Plotkin, managing director of Deloitte Consulting LLP writes: "In the past, organisations typically used outsourcing to improve back-office operations through cost reduction and performance improvement. Today, disruptive outsourcing solutions are enabling competitive advantage by accelerating changes within those organizations that have the audacity and skill to leap over the technology chasm… The focus has shifted from traditional work transfer to upfront transformation and automation. Organizations are recognizing that disruptive solutions can revolutionise the way they do business, and that buying capabilities in the marketplace is generally faster and more scalable than developing capabilities internally. Emerging solutions incorporating cloud and automation are empowering organizations to work smarter, scale faster, reach new markets, increase productivity and, ultimately, to gain competitive advantage."

While the report would suggest that traditional outsourcing is a thing



of the past it does highlight the fact that there are real challenges with adopting disruptive solutions: "Data migration, security requirements, and application optimisation/change are just a few examples of challenges related to cloud adoption. Organisational resistance, highly fragmented processes, and regulatory restraints are common challenges related to RPA adoption."

What does this mean for emerging Europe?

The region is quickly adapting to new trends and are ahead of the game in terms of innovation. The region is embracing 5G technology and in many ways are at the forefront of implementing said technologies. Orange Polska have begun outdoor trials of their 5G equipment in September 2018, Romania boasts one of the fastest internet speeds in the world, and Lithuania lays claim to having the fastest public WiFi in the world. Investments and the development of RPA are also becoming more popular in the region, with Romania being on of the countries ahead of the rest.

Several markets in the region have grown and developed very well over the years, and some are beginning to take off. Based on the different rankings out there and how scores are calculated the results vary based on the various criteria being measured. One thing is certain, countries in emerging Europe have a huge talent pool, and are among the top countries in Europe and globally according to some rankings. However, a common theme is that the following countries have had a huge impact on the growth of ICT in the region: Belarus, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Romania and Ukraine.

Grzegorz Borowski, co-founder of InfoShare tech conference, said to be the biggest tech conference in CEE, published a report in July 2018, which highlights just how diverse the region is as a whole: according to his report, there are roughly one million professional-grade software developers across CEE, which accounts for six per cent of global developers. In addition to the developer population they also look at the types of coding used in each country and how they compare to other parts of the world.

According to NiX, a Ukrainian and Polish based provider of software development outsourcing services, Eastern Europe remains one of the most attractive outsourcing destinations due to the constant growth of the IT industry and strong technological expertise. Based on their analysis, countries such as Ukraine, Poland and Romania are taking the lead when it comes to the software development market. Countries like Bulgaria, and Belarus may be falling behind market leaders in terms of innovation adoption and overall technological capacity however they have introduced a number of incentives to foster IT industry development. On the other hand, Baltic countries have launched a number of e-programmes and have created a favourable business environment in the region. One of their key takeaways is that: IT outsourcing in the region is viewed as a major business enabler of digital transformation rather than just an attractive cost-cutting option.

In the world of ICT outsourcing as well as in many other walks of life, research indicates that there is no such thing as one-size fits all, each client will have different requirements, and the talent in one country in the region may not be a perfect fit compared to another.

The region is diverse and each of the markets do have different specialisations when it comes to the talent pool, some are strong with Java, and others with PHP or Python. Whatever the needs are the emerging Europe region can cater to them.

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FROM CALL CENTRES TO R&D

WORDS SHAKHIL SHAH

In less than a decade the markets of emerging Europe have developed rapidly. From a time in 2013-14 where companies were outsourcing their call centres to Bulgaria, Croatia or Poland or any one of the countries in the region in an effort to cut costs, what we see today is large multinational corporations from all over the world investing in the region, but not merely in call centres as they once did, but into Research and Development (R&D) hubs.

Eurostat, the European Union's statistics arm, provides a great explanation as to why innovation and R&D are important: In modern societies, the benefits of research and innovation increasingly form a vital part of our everyday lives. They contribute to resolve environmental threats, make food safer, lead to the development of new medicines to prevent and fight illness and disease, and foster communication and entertainment. Indeed, science and technology can tackle successfully some of the major challenges facing society today, and by so doing, can act as a driving force for economic growth and job creation.

According to Eurostat data, the countries of emerging Europe have not been spending the suggested three per cent of GDP on research and development, as adopted in the Europe 2020 Strategy back in 2010.

In fact according to a Eurostat report, there were nine Member States that reported R&D expenditure below one per cent of their GDP in 2016. Each of these either joined the EU in 2004 or more recently, with the lowest R&D intensities recorded in Romania (0.48 per cent) and Latvia (0.44 per cent).

However, the situation is not as bad the figures make out. Luděk Hanáček, a partner at Deloitte, explains in the 2018 CEE Corporate R&D report:

"R&D expenditure across the Central Europe region is still much lower than the EU average (Slovenia being the sole exception). Based on the survey's results, however, the overall picture is encouraging. Companies in the region are planning to increase their R&D activities in the years to come."

As Mr Hanáček explains, the planned increase in R&D spending in the region is not only driven by EU funding, but by the fact that CEE is starting to lose its' competitive advantage when it comes to providing low-cost labour.

According to the Deloitte report, in comparison with the findings of 2016, of the 329 companies across nine countries (Croatia, the Czech Republic, Estonia, Hungary, Lithuania, Poland, Romania, Slovakia and Slovenia) surveyed, 67 per cent plan to increase spending in R&D. In addition to that, 62 per cent of respondents see the skilled talent pool as one of the key drivers behind investment.

So what are the driving forces behind the increased investment in R&D facilities in the region?

On average there are about 200,000 engineering and science graduates every year coming out of CEE universities, and most if not all have EU citizenship which means they can move freely to any of the other countries in the region. Yet even with such a vast pool of young talent, there is also a lack of skilled and experienced researchers. Which begs the question whether governments should revise their immigration policies and open their doors to researchers from Asia, for example.

Another reason for increased investment - according to the Deloitte report - is a new kind of

public support, in the form of grants or tax relief. Most countries in the region offer some find of Free Economic Zone where companies can set up businesses and benefit from various tax benefits.

Some of the biggest companies in the world have opened up R&D facilities in the region or alternatively have invested more capital into their existing network to develop further. For example of Samsung Research's four R&D locations in Europe, two are in the emerging Europe region (Poland and Ukraine).

Infosys, an Indian multinational that provides business consulting, IT and outsourcing services, set up shop in Croatia in 2017, and has been focused on IT and engineering skills in the areas of power generation, design and development of large gas and steam turbines among other things.

Siemens Czech Republic has also announced plans to invest over 220 million British pounds in the development of their new R&D facility and investment in to industry 4.0.

Other heavy hitters that have invested in R&D in the region include, IBM, Hewlett Packard, Wipro, and Devexperts a multinational custom software development company that announced the opening of their new R&D centre in Bulgaria:

"It is a great honor and challenge for us to choose Bulgaria as the R&D center for Devexperts. We were considering different destinations, including Hungary and the Czech Republic, but then realised this country has more to offer to us, and decided to invest here. I believe that in Bulgaria there are many qualified and well-trained specialists, as well as good business conditions," commented Michael Babushkin, CEO of Devexperts.

BREXIT AND OTHER POLITICAL CHALLENGES

WORDS CLAUDIA PATRICOLO

Few sectors straddle borders like outsourcing. The European Union made borders meaningless allowing the free movement of goods and people. Now Brexit is building those borders again, giving up to a lot of business and legal advantages the UK enjoyed under the EU's umbrella.

There are many scenarios on the horizon, and nothing is certain. But if the UK will cease to be part of the EU falls back to trading under WTO rules, barriers and tariffs will rise again.

A future of uncertainty

Despite Brexit, the outsourcing sector seems to be responding well. Although some people are preparing for the worse, others are more optimistic and look at Brexit as an opportunity for the industry.

"Overall, it is a bad thing," says Romek Lubaczewski, a partner at PwC Poland. "There are many benefits of being part of a whole. But what is really interesting is that nobody knows what the outcome will be. Many clients are expressing concerns, especially those with big accounts in the UK, and they are thinking about offshoring."

"It will definitely have a significant impact but people are looking beyond. Businessmen are no longer looking for places with the cheapest living costs, they are looking for low-cost labour forces plus transformation, technology and all the innovation we have seen over the last couple of years," Charles Aird, partner at Sanford Black & Co, tells *Emerging Europe*.

"It is a combination of all these things that have an impact. Clients are more sophisticated than theyr were five years ago and they are looking for service providers that do more, like help them transform standard processes in more efficient ways."

In this sense the UK might turn into a cheaper destination, and therefore more competitive not only for economic reasons but also because of the advanced technologies it has already developed.

"We do not know what Brexit actually means. There are good signs for manufacturing and goods but outsourcing services have not been addressed so far. My clients are preparing for a hard Brexit," says Elias van Herwaarden, EMEA service leader at Deloitte.

"But let's be realistic and think that business has survived for millennia, facing many challenges. Brexit is just another challenge, it means finding solutions. Of course, companies that have done the same things for many years will find it more challenging. But change is always good for business. More specific problems will include GDPR and data exchange," he tells *Emerging Europe*.

"I'm always optimistic because history has shown that on a macro scale market corrections always follow initial shocks," adds Tom Quigley, CEO at the Emerging Europe Alliance for Business Services, Innovation and Technology.

"Already at market level businesses are forming new partnerships and collaborating on ways to move forward irrespective of what respective governments are proposing. There is an old saying that 'water will find its own level everytime' and this is my belief about the market, where there is a demand someone will find a way to provide a supply. There continues to be political posturing and perhaps even the odd politician will fall on their sword, but after the short term pain that Brexit will inevitably cause, the market will prevail."

Cheap is not always good

Overall, there are many challenges that need to be addressed. Right after the vote in 2016, the UK Stock Exchange plunged and the pound was down 10 per cent against the dollar and more than seven per cent against the Euro. A cheaper currency allows Poland, the Czech Republic and Hungary to remain competitive on cost.

"If the GDP drops, salaries could drop as well. However, it is quite unlikely that salaries in the UK will drop in a way that becomes competitive with CEE from an outsourcing perspective," PwC's Mr Lubaczewski tells *Emerging Europe*.

"It's a challenge to determine the truth from the scaremongering perpetuated by the press and the politicians," adds Mr Quigley.

Aside from the weakness of the pound, we need to take into account the weakened position of the UK from a trade negotiation perspective and the potential constraints around labour mobility.

"The Chequers Plan has fallen flat and already there has been significant fallout from within the government itself. If the trade bills continue to gridlock the process there could still be another referendum yet," he continues.

It is estimated that five per cent of the UK's GDP will evaporate during the exit process. As a result, the overall level of investments in innovations and new technologies will decline, creating negative impacts on the entire IT industry. Lacking clarity, companies may delay large outsourcing projects, slowing down order flows to big IT service providers.

"Cheap doesn't mean good," says Deloitte's Mr van Herwaarden. "Costs are important but throughout the outsourcing industry clients are more interested in innovation, people, teams. The days of cheap outsourcing are over. Sometimes clients cannot find what they need in the UK and they have to look to Warsaw for example, or Belarus, or Moldova, to source more talent."

Offshoring is not the way

Robert Barbus, operations director for the Slovakia-originated Soitron Group, said that Brexit will more than likely lead to an increase in offshore outsourcing in order to compensate for less freedom of movement of skilled workers into the UK.

"Offshoring might require language skills other than English and in this sense, central and eastern Europe is doing much better than India. India has skilled people and technology but there are many things that cannot be done there," Mr van Herwaarden argues. "Today there is an increasing need for interaction and it is easier for someone to travel from London to Prague than to New Delhi."

"I think there will be a continuing trend of work activities (not necessarily whole jobs) being undertaken in other countries (the terms outsourcing and offshoring are becoming increasingly obsolete as most mid-large sized businesses these days have operations in other countries either directly or indirectly through partnerships," Mr Quigley adds.

"A big problem for the UK (and this isn't the result of Brexit) is the dearth of IT skills available in the country which is going to be a considerable problem over the next five years. Brexit might well hamper the movement of such resources into the country but most IT work activities can be undertaken remotely these days, so it will matter less if it's done in the UK or Romania."

Can Trump affect the movement of people?

But it is not only about Brexit. Many other political challenges are shaping business worldwide. The latest is US president Donald Trump's trade war.

After having launched an investigation aiming to find out whether car and truck imports are weakening the US economy and affecting national security, Mr Trump imposed a 25 per cent duty on steel and 10 per cent on aluminium imported from the EU, Canada and Mexico and he is thinking of applying a 20 per cent tariff on cars imported from the EU.

"Outsourcing is about people and therefore salaries. The current import-export tariff which has been imposed is targeting products and materials so I don't see this having much an impact to the outscoring industry as this is more about labour movements and costs," Mr Lubaczewski tells *Emerging Europe*.

"Executives in our industry are starting to pay attention to the possible impact of tariffs on services. I have just returned from an outsourcing conference China. The Chinese executives in the outsourcing industry and who are also involved in the "Belt and Road" initiative, are very concerned about partnerships, investments and acquisitions in the US especially," Dr. Aird adds.

Populism in emerging Europe

Mr Trump is not the only far-right conservative politician causing problems. Hungary's Viktor Orbán and Poland's Mateusz Morawiecki are raising concerns due to their policies targeting migrants, foreigners and NGOs.

"Populism has always existed, in particular in the US and in parts of Europe, it is just becoming more apparent because it is being leveraged more publicly as a political football," comments Mr Quigley.

"From an outsourcing perspective, the political volatility of a potential outsourcing delivery destination has always been a factor in the decision-making process so that in itself isn't new. I think protectionism is more prevalent in the European Union rather than the rest of Europe, and I think this provides a clear advantage for the CEE region from a sourcing perspective; in my experience the CEE region is more welcoming than its western European neighbours and has been working harder than ever to attract FDI (foreign direct investment), all the way from central and local governments down through IPAs to the service providers themselves. If these countries can continue to integrate their working practices, labour policies and infrastructure further they will be in a very advantageous position to attract substantial investment post-Brexit."

However, delisted hard strategies, all these governments are not targeting business so far.

"I have received questions from clients about political situation and stability but my answer is always that in my experience I don't see it having an impact on the industry," Mr Lubaczewski says.

Mr van Herwaarden points out that 265,000 additional jobs will be created in the region by 2020 and this is what people are looking for. "Far right movements are not stopping business from growing." he says.

Neither does Brexit appear to dissuade British companies from outsourcing, especially if the lack of competent IT professionals will further strangle the British economy. According to London Technology Week, the demand for IT professionals in Europe will reach 850,000 by 2020, while the UK alone needs 180,000. This can push up the salaries of locally-based UK IT professionals, forcing British companies to further leverage outsourcing. As the UK is no longer able to resort to intra-EU immigration, it could become more open to high-skilled immigrants from other non-EU countries.

DESTINATION OUTSOURCING

WORDS ANDREW WROBEL

ANDREW WROBEL,
CHIEF STRATEGIST,
EMERGING EUROPE ALLIANCE

"Listen first, then sell," writes Timi Nadela, in her book, *Get To The Top: It's About The Heart Sell, Not The Hard Sell*. And bearing in mind her experience as a senior business development professional working with Fortune 100 companies such as American Express, JP Morgan Chase, Delta Air Lines, she seems to know her subject.

Do emerging Europe locations listen to the needs of prospective investors? My observation is that they more frequently talk at those business people than they talk to them. Just imagine a location pitch at a conference — the same power point presentation regardless of the sector discussed or of the country those investors represent, always emphasising the strategic location as one of the country's strengths.

A bit confused

David Haigh, the founder and CEO of Brand Finance, tells me that audiences from other geographies often lack clarity on what differentiates emerging Europe's nation brands from each other. "Governments, agencies, and trade bodies in charge of managing nation brands from the region need to rigorously evaluate their countries' strengths and weaknesses as well as the resources they have available to market their nations' unique selling propositions effectively," he says.

On top of that comes confusion regarding whether to promote a region, a city or the entire country. I spoke to Elias van Herwaarden, EMEA service leader for global location strategies at Deloitte's Brussels-based Centre of Excellence for Corporate Site Selection and Foreign Direct Investment Services. He says that from an investment promotion agency's perspective, each investment project counts and individual regions are as crucial as the entire country. "But of course, there might be huge differences between the cities, and their value propositions should reflect that," he tells me, citing the examples of Bratislava and Košice or Prague and Brno.

"There are cases when the potential investor is interested in getting an analysis of up to three countries in the CEE cluster and then select cities. There is also an approach, which is becoming more popular, to start the location analysis with a selection of cities within the CEE cluster or even compare cities from the global selection. The main driver though, is the overall strategy on target operating model considered," says Violetta Małek, managing partner at Gekko advisoryNOW and formerly director, management consulting at KPMG Poland.

What really matters

Globalisation and advancements in technology are making it less of an issue (in terms of geography) in which country the work is placed, as communication channels are ever-improving — as long as the primary safety factors such as the lack of earthquakes or military conflicts are ticked.

"What is critical is access to ongoing resources like graduates or ably-qualified people, the steady supply of future skills like IT, design-thinking, programming etc. On top of that, considerations like how easy it is to do business in the country, how supportive is the local municipality — even looking at capabilities like do they have an international airport with regular daily flights, or fast broadband," says Tom Quigley, director of outsourcing at *Emerging Europe*.

Till Hahndorf, managing director at German BW Business Bridge, which identifies and certifies high-quality ICT product and service offerings for the German market, shares Tom's view. "For a potential buyer, it generates little value to meet a group of companies whose only common capacity is that they all came from the same country. Let's value domain focus over geographical focus or the actual solutions' content over where the solution comes from," he tells me.

Still on the rise

Interestingly, emerging Europe keeps on strengthening its position on the outsourcing map.

"Our clients are still very bullish on CEE," says Charlie Aird, global leader at PwC Shared Services and Outsourcing Advisory and Business Services Transformation. Avinash Vashistha, the founder and board member at Tholons, admits that the region might not be the cheapest but its strength is the talent and the quality delivered.

And increasingly more countries see their potential as an outsourcing destination, as far as business process outsourcing and shared services or research and development centres and ICT are concerned. Over the last six months, I have spoken to at least half a dozen government representatives who tried to convince me that their location is excellent for business services.

"The main part is advertising and making people understand that the capability is there," Charlie tells me.

"Perception is key because people don't like what they don't know," Elias says, and gives an example of Poznan in Poland, which was unknown several years and is now one of the leading BPO/SSC destinations in the country.

Consistency needed

"But that requires work. You need to take part in conferences and seminars, and before you can sell your location, you need to elicit from potential investors and consultants what they know about it, what their concerns are and what they are looking for. Most importantly, listen to them. Then you need to sit down and look at your strengths — how you can use them for your benefit, and at your weaknesses and see how you can mitigate them," Elias adds.

David tells me that the recipe is simple: work out what you can promote, who you want to target, and how to do it cost-effectively. "The difficulty, however, lies in garnering the universal support of different political, social, and business stakeholders within the country to ensure that all identify with the strategy and adhere to it in their marketing and communications activities," he adds.

And if you are service providers, join your efforts with other vendors to change the perception or raise awareness about your capabilities.

Kerry Hallard, president of the Global Sourcing Association, shows Ukraine and Romania as examples. "Few people know that Ukraine is a significant player, the potential it has as a destination to set up in, nor the strength of Ukrainian service providers. There are some key service providers, all battling one by one to raise the profile of Ukraine. Certainly, there is a general awareness of Romania as an outsourcing destination, amongst the most critical section of the sourcing community — the buyers, but the fact is that the country lacks real presence in the UK in this area on a macro level," she tells me.

Better together

Avinash advices taking this joint approach to another level. "There would be a lot of power of having a more regional collaboration," he tells me.

Tom Quigley thinks it makes sense as buyers or investors will typically look at a region first, and then country and then city. the reason for this is that they want to understand the political, economic, social and technological environment of the broader region. "The region is stronger together and countries can complement one another, thus serving buyers and investors better with your service or location," he tells me. "I was at the World Economic Forum in Davos this year and the region is not visible there," Olga Grygier-Siddons, CEO at PWC Central and East Europe, adds. "We do need to come together to be visible."

As Farshad Asl, the author of The "*No Excuses" Mindset: A Life of Purpose, Passion*, and Clarity, wrote

> "*Selling is serving, helping others find solutions, impacting lives positively with passion and integrity.*"

WHY WE NEED TO LOOK AT MORE INTELLIGENT GOVERNANCE IN SOURCING RELATIONSHIPS

WORDS CHRIS HALWARD

We were super excited when the deal was signed. It was months of hard work and finally we'd got it done. This was going to be a big change to what had gone before. The service was going to be faster, more resilient and cheaper. That was over three years ago, and now the excitement has all gone. My stakeholders are not convinced that the service we are getting is what is needed. The supplier is proving to be unhelpful. I really don't look forward to governance meetings – and I don't think anyone else does either. We are stuck in a hole that we can't get out of. Where did it all go wrong!

In my time working in the strategic sourcing industry – well over 20 years – I've heard variations on this scenario many times. It isn't always the buyside either. Suppliers are often just as frustrated with the sourcing relationship. When I ask people to explain exactly what they think is wrong they usually come down to three issues: poor focus; poor control; lack of trust.

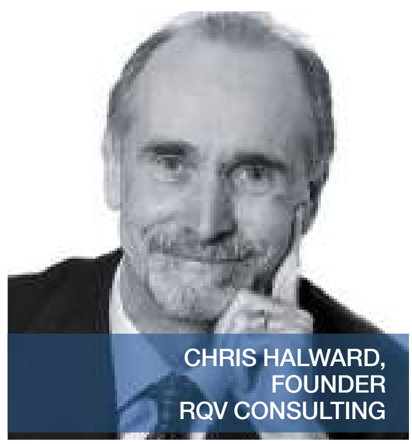
The first of these, poor focus, is very common. Too often in strategic sourcing arrangements unless the parties involved work well together priorities can become unclear. In turn this leads to resources being used inefficiently and with stakeholders being disappointed with what is being delivered. The original contract may well have been very clear about focus and priorities, but it may be much less clear about how focus and priorities need to change in response to the inevitable changes in the operating and market context.

Maintaining focus in a constantly changing world is critically important, and so is maintaining control. Unplanned costs, concerns around information security and inadequate risk management are regularly criticised. Many people have argued, for example, that a major reason why Carillion failed was as a result of a lack of control. Strategic sourcing arrangements will often be highly complex operations in which the parties involved have invested many millions. Unsurprisingly, stakeholders expect that at very least there is effective control that keeps surprises to a minimum.

Focus and control are key but will be difficult to achieve without there being trust. We see evidence of a lack of trust all too often: demotivated teams, unresolved operational issues and poor levels of management and stakeholder commitment and buy-in. Once distrust sets in it can undermine any strategic sourcing arrangement.

The solution to all of these ills is effective governance, and effective governance means intelligent governance. My frustration over the years has been the way in which governance has been viewed. Invariably it is seen as dull and difficult. Few people look forward to governance meetings. The result is that governance is not effective. The reason why governance is viewed in this way is that not only is it "dull and difficult" it is also dumb! It does not show any intelligence. It just follows the process as laid out often years earlier. It focuses on what has happened and rarely on what will happen, so whilst there may be oversight there is no real insight. It is pre-occupied with exchanging information rather than making decisions. It doesn't have the right people involved to make things happen. Too often it is unable to hold anyone effectively accountable.

Governance that is about getting decisions made, about enabling all parties to keep aligned and about better and faster execution. Intelligent governance has change at its centre. It recognises that for governance to work it must be continually looking for what is changing. It engages with its stakeholders continually to understand their needs in this changing world. Intelligent governance is able to effectively analyse, to establish options to address challenges and to effectively decide the best actions to take and then drive those actions. It is a governance culture of change, focus, control and trust. Who wouldn't want to be part of that governance team!



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Lublin, the capital city of the Lubelskie Region, is a driving force of Eastern Poland and a growing BPO/SSC/IT hub, boasting more than 60 R&D centres

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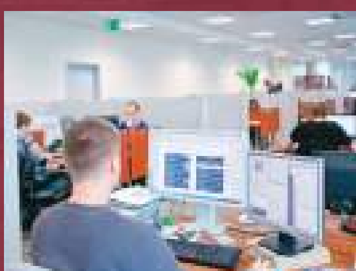

Over 50% of Lublin's residents are under 40, and almost two-thirds of the 350,000 population is of working age. One in five of Lublin's population is a student

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Biznes lubelskie

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GOING FOR GOLD

WORDS KERRY HALLARD

KERRY HALLARD, CEO, GLOBAL SOURCING ASSOCIATION

Throughout the last few years, the business services sector has been impacted by several disruptive trends, principally the sheer volume of new technologies being implemented, driving increasingly rapid change in and to many aspects of the workplace and approaches to service delivery. New technologies, to include digital, cloud computing, IoT, data analytics and intelligent automation, combined with the ever-changing political and financial landscapes have created an industry divided about the speed at which to embrace these changes. The introduction of these technologies has created a tumultuous atmosphere with automation initially being met with uncertainty and resistance within key delivery destinations. This turbulence has inhibited outsourcing's ability to achieve its full potential as buyers and service providers struggled (and continue to do so) to mutually align their objectives - with the service providers too often still seeking to maximise the number of full time employees deployed and the buyers aiming to extricate as much value as possible through outcome-based models.

The UK is certainly struggling to come to terms with this transition within the industry. The political uproar and media furore following the collapse of Carillion, a major provider of services to the British Government, earlier this year only sought to accentuate an already volatile situation, with an invigorated opposition party advocating for the dissolution of public sector outsourcing. This has created the most capricious working climate in recent memory and thus amidst the turmoil, it is integral CEE countries and companies help promote the virtues of outsourcing, whilst simultaneously seizing this potential opportunity with both hands – the potential being that British companies now more than ever need fast access to flexible, innovative and skilled labour to help them achieve their quickly changing business objectives.

CEE countries are perfectly positioned to take advantage of the situation created by the transitional changes occurring within the industry. A relatively recent entrant onto the business services scene, these countries have garnered a reputation for producing high value services through the use of a highly skilled labour force, operating at consistently high rates of productivity. The labour force possesses a conscientious and diligent work-ethic, with high levels of English fluency, a quality that objectively appeals to many nations in the Western world.

Unlike other leading delivery destinations such as India and the Philippines, the CEE countries have typically been awarded contracts on a smaller scale, but consisting of higher value transactional work. The smaller size of these contracts means their talent pools are not under the same level of threat to automation as countries such as India, who are predicted to lose about a third of their current work to robotic process automation (RPA), which has led to a wholescale upskilling and repositioning exercise for India. This therefore places CEE countries, who also benefit from close proximity and aligned timezones and cultures, in a strong position to continue growth, providing they continue their investment in talent and infrastructure and maintain an appealing environment for investors.

Over the last couple of years, the

GSA has witnessed huge growth in its member companies investing in CEE countries such as Poland, Czech Republic, Romania, Bulgaria and the Ukraine – for the delivery of business services ranging from customer service through finance and accounts to software development – with the Ukraine being the most recent destination to cement its reputation as a key tech hub within the global sourcing landscape. The investment has come in the form of direct investment in establishing and growing shared service centres, as well as through partnering with domestic players. Companies such as Ciklum, Nix Solutions, Epam, ScaleFocus, 60k and N-iX are all examples of CEE-based companies that have gained stable footholds in the global sourcing eco-system, helping to diversify the UK service provider community whilst enhancing the reputation of CEE-based operations – driving growth for all firms.

However, for CEE countries to take full advantage of this opportunity open to them, it is integral standards do not drop or stagnation occur. They cannot sit on their laurels and it is imperative that talent continues to be developed and nurtured, specifically at middle management levels, where an on-going dearth is predicted. Furthermore, as the landscape continues to evolve at a pace, the CEE-region must ensure it stays value competitive – a significant increase in costs or attrition rates will negatively impact their opportunity to capitalise on the advantage afforded to them. This could and should be a golden period for the CEE-region to prosper as a leading delivery destination serving buy-side companies directly, as well as service providers, around the world.

I only wish the UK government would take the opportunity afforded by the business services sector a fraction as seriously as the CEE region does – in the UK this remains an under-valued and under invested sector – which is playing directly into CEE's hands. Please grab the opportunity, but simultaneously please help us promote the positive virtues of the sector globally, to help stave off the anti-outsourcing rhetoric that's sweeping British politics and if successful could have significant repercussions globally!

EMERGING EUROPE: A REGION ON THE RISE

WORDS DEBI HAMILL

The stakes are high today, as we continue to live in a period of intense global economic volatility. Here in the US, with the US-Mexico-Canada Agreement (USMCA), we're finally starting to see the light at the end of our trade dispute tunnel with Mexico and Canada. However, the dispute continues with China and the European Union. It's inevitable that going forward we will witness an ongoing major restructuring of global supply chains. This affects everyone.

For sourcing industry investors, increasing their exposure to foreign markets—specifically the emerging Europe region—is good business. From Digital Transformation, Cloud Computing, Big Data and the Internet of Things, to Data Analytics, Cognitive and Intelligent Automation, Blockchain and the Future of Work, emerging Europe countries are on the rise.

I recently spoke with Marko Kovacevic, Chairman of IAOP's European Outsourcing Council and member of IAOP's Strategic Advisory Board, regarding the value proposition for sourcing in emerging Europe.

According to Kovacevic, "The new trend is emerging and that trend is the 'added value sourcing' rather than the 'cost arbitrage sourcing.' The European market is maturing with more skilled human capital, innovation, process excellence and new technology integration now happening together in the sourcing industry."

Kovacevic feels that "digital transformation is happening in all industries and as well for sourcing. We can see it in the startup community growth and its synereses with traditional business for next level sourcing. In particular, agile outsourcing companies are pivoting now toward a Digital Sourcing Platform approach."

The future looks bright. Kovacevic believes "the future looks promising if we are not afraid of automation and AI, and if we see it as an opportunity to develop new business models for outsourcing – with focus on sustainable education programs for people working in the industry to take the next level of creative work and services delivery. Human touch will always remain important since that's the essence of who we are."

In 2017, Emerging European countries were up more than 20 per cent as measured by the MSCI EM Europe 10/40 Index. To date this year, they're returning close to 1.2 per cent.

In recent years, most of the emerging European economies' PMIs (Purchasing Managers' Index) are above that crucial 50 mark, which separates growth from contraction. Based on five significant indicators—new orders, inventory levels, production, supplier deliveries and the employment environment—PMIs are an excellent indicator of growth in the emerging Europe region.

From everything I've seen, this economic rise has no plans on slowing down. Earlier this year, the Vienna Institute for International Economic Studies stated that "political noise notwithstanding, the region's economies are in a sweet spot, and should continue to ride the booming Eurozone wave" throughout the foreseeable future.

Global organisations tend to operate multifaceted infrastructures internationally, most often with several locations throughout multiple countries. When one of these organisations decides to transfer activity from one site to another, everyone is affected: suppliers, distributors, service providers and consumers.

Trends have always shown that proximity, cost and language skills are the most significant determining factors for many businesses seeking services outside their native country. Culturally speaking, this is important for emerging Europe as it gives these countries a nearshore advantage. When it comes to emerging European countries, at the end of the day, another advantage they have over other

DEBI HAMILL, CEO, IAOP

global markets is their friendliness toward neighboring countries, which allows for business ease in gaining nearshore cost advantages.

With Brexit expected to play an essential role in the business services sector, it's sure to have an impact on job growth throughout emerging Europe. And with the business services sector continuing its rapid growth, the number of jobs in many emerging European countries will also see substantial growth. As an added bonus, the UK government plans to have a workable relationship with European countries, with the possibility of a free trade agreement. Add in their plans for a strong economic relationship and it looks like an optimistic future post Brexit.

A significant impact on day-to-day business – GDPR regulations. Now in place, GDPR requires companies to put proper security protocols in place, ensuring their operational processes are up to the latest standards. While it affects businesses globally, as a European regulation, it impacts all companies that collect and manage data on European citizens. This new legislation directly impacts all companies based in or doing business with, companies and individuals in the emerging Europe region – added nearshore incentive.

While the global economy remains threatened by market volatility and overall uncertainty, these positive developments in the emerging Europe markets are quite significant. Regarding the year ahead, I'm confident these emerging economies may just carry the day.

OUTSOURCING IN GERMANY: STOP TALKING AT AND START TALKING TO

WORDS TILL HAHNDORF

TILL HAHNDORF,
MANAGING DIRECTOR
BW BUSINESS BRIDGE

It is common knowledge that the German market for IT services is suffering from a severe shortage of IT skills. While the economy is thriving and order books are full across the production and service sectors, there's a cap on growth in the IT industry – there are simply not enough people to fulfil all the orders. Since the IT industry is characterised by a high intensity of labour, the lack of developers, project managers, quality assurance professionals and consultants is having a severe impact.

This demand for IT talent creates a huge opportunity for any provider of outsourcing services. The cost of labour is traditionally high in Germany and the combination of the lack of talent and high prices should make Germany the most attractive destination. However, Germany is notoriously hard to penetrate. For outside companies, it's an arduous exercise to find the right people to talk to, to be invited to meetings and/or to enter into meaningful conversations. It is true, also, that German companies do stand in their own way when it comes to contracting non-German vendors.

While most companies tried out the "offshore" world some 10 to 15 years ago, many returned from the adventure with suboptimal experiences and very little desire to try it again. However, the only way out of the supply bottleneck, currently seems to be contracting services from abroad. Since it is universally acknowledged that the German labour market is suffering from a structural flaw, rather than an economy effect, getting outside companies to work on German projects is the only way out – if only the German companies would understand that, too!

What a noisy market it has become; the global supply of outsourced services is putting tremendous sales' pressure on German companies. When the southwest-German industry association Baden-Württemberg: Connected (BWCON) surveyed their 600 members what the actual problem with contracting foreign vendors was, the answer was clear: "It's hard to identify the right vendor in the market, particularly when everybody seems to be out to win clients in Germany. Even if a company somehow manages to get in a shortlist of potential vendors, no one can make sense of the references and the stories these vendors tell. They all sound the same!"

"It's always the same story about the best people, the innovative spirit, how clients matter and how one absolutely must get in touch. This generates a kind of stupor — and decision fright sets in with the German companies. When there are no real differentiators, how can anybody make a decision?

For the vendor side, this means one can only set oneself apart from the competition by speaking competently about the potential client and their challenges and needs (instead of bragging about one's own company). This will likely strike a nerve and get the clients' attention. Everybody loves discussing their own business and their road ahead – and we all fear "the sales pitches".

This approach is based on understanding the market and understanding the target segment: its players, the challenges and shortcomings as well as the developmental paths of industries and individual companies. It requires market insight and a real understanding of the conditions under which business is done in Germany.

As a result of the survey, the BWCON industry association has kicked off an initiative called **BW Business Bridge**, to help foreign companies, especially from outside the European Union, understand the German market for IT services and products. It also supports their efforts to be attractive and relevant conversation partners for their German potential clients. In other words: to become signals, in a world of noise.

THE EMERGING GLOBAL TALENT GAP

WORDS TOM QUIGLEY

Notwithstanding the outcome of Brexit and wider international protectionism policies being played out across various regions globally, Europe stands looking over an abyss of severe talent shortages with unrealised output (of the EU countries alone) estimated in a recent study to total 1.323 trillion US dollars by 2030.

This is no longer breaking news of course, and although the telephone numbers socialised as a cost to the impacted economies might vary from report to report, both the certainty and magnitude of the gap have never been disputed. The problem, though, is not just a European concern, but rather a global one driven by a chronic shortage of skills rather than a shortage of people.

The World Economic Forum's Global Human Capital Report (2017) laid the blame squarely at the feet of governments, stating that failures to translate investment in education during the formative years into opportunities for higher-quality work during the working lifetime have been a significant contributory factor.

According to the Index the world has, on average, developed only 62 per cent of its human capital, with 14 countries currently leveraging less than half of their human capital. The Report, which measures 130 countries in a scale ranging from 0 (worst) to 100 (best) against four key areas of human capital development – Capacity, Deployment, Development and Know-How – placed five countries from emerging Europe in the Index top quartile:

- Slovenia (9);
- Estonia (12);
- Czech Republic (22);
- Ukraine (24);
- Lithuania (25).

The bottom-ranked countries in the region, Macedonia (67) and Albania (85), are reported to be hindered by high unemployment and underemployment rates across all age groups.

Another report, by Korn Ferry, estimated the impending talent shortfall in 20 major economies, modelling the gap between future labour supply and demand on three levels:

- Highly skilled workers (Level A);
- Mid-skilled workers (Level B);
- Low-skilled workers (Level C).

They found that all European markets in their study were expected to experience Level A deficits by 2030, resulting in 1.906 trillion US dollars of unrealised output across the region. What's more, all the indicators suggest that the free movement of labour, a key EU membership benefit, is unlikely to solve such skills shortages. So, whilst financial centres like Paris may hope to benefit from Brexit by attracting companies looking to move their headquarters away from London, their own highly skilled labour shortage could become a barrier to attainment.

That said, Korn Ferry also found that all European countries in the study could also expect Level C labour surpluses by the same milestone – providing a potential opportunity for alleviation through skills upgrading.

At market level, Manpower Group's 2018 Global Talent Survey of nearly 40,000 businesses across 43 countries also put the global talent shortage at a 12-year high, with 45 per cent of those businesses surveyed reporting the most difficulty in filling positions.

Out of the seven emerging European countries surveyed, Czech Republic and Slovenia performed better than the global average in recruiting, with Hungary and Poland slightly above average and Slovakia, Bulgaria and Romania reporting the most difficulty in filling vacant skilled positions.

In order to mitigate these issues some companies are establishing their own steady-access talent pools by hiring straight from school or college through the creation of apprenticeship schemes or in-house academies. The clear benefits are that young workers can be recruited at a lower cost and trained in the company's specific culture and ways of working.

But the future of work doesn't just require different skill sets and early access to talent potential. It also requires the adoption of entirely new ways of working for existing employees. The inability of firms to attract the 'right' workers and fill their vacancies may arise for many reasons other than genuine shortages of skill: unattractive wages, poor working conditions, lack of career prospects, geographic and other administrative barriers, such as lack of international recognition of qualifications. In this respect we're already seeing organisations having more open and flexible relationships with their people, with employees brought in on a per-project basis, working from home and using their own devices, plus taking responsibility for their own continuous professional development but with employer-supported access to the right programmes.

In the new hyper-connected economy, organisations will increasingly rely on an expanded 'bench' network rather than a large permanent workforce. This fluidity will only be possible if it is enabled by both private businesses and governments working together and in complete alignment. Workforce planning and a comprehensive understanding of the talent supply chain will be critical; leaders will need a deep understanding of talent marketplace economics to put the right planning and core propositions in place to ensure they have the skills their workplace needs.

Technology will undoubtedly continue to reshape the future of work, but organisations will be unable to leverage it without the right talent. It's only through vested partnerships and committed action between the workforce, their employers and the governments, plus leveraging the emerging technology astutely, that we'll be able to take the first tentative steps back from the abyss.

TOM QUIGLEY,
CEO, EMERGING EUROPE ALLIANCE

OUTSOURCING IN POLAND

WORDS WIKTOR DOKTÓR

The first known outsourcing company – although at that time it wasn't called as such – was set up in Poland in 1951. There won't be too much surprise when I say it was an IT company. Of course, the main growth of outsourcing and shared services began only in 2005. At that time the era of BPO, SSC and R&D began, with all kinds of modern business services grouped under the umbrella of Business Support Services (BSS).

Now, in 2018, the Polish BSS market employs over 250,000 people. There are different numbers given by various industry or statistics organisations as there are various ways to make those calculations. In some cases, the call contact centre industry is not taken into consideration while in others IT is not a part of the total number, especially when it comes to the IT contracting type of work. Nevertheless, a quarter of a million employees is a fact and every year there are around 20,000 new employees who join the BSS industry, and the dynamics of this trend do not appear to be slowing. I fact, it increases every single year.

IT is the fastest growing part of BSS operation centres in Poland, but it is still not the biggest player. That position is in the hands of the finance and accounting (F&A) industry.

Between 2005 and 2015, within 10 years, hundreds of F&A centres were established in Poland. Initially these mainly focused on Accounts Payables, but soon developed to include Accounts Receivables, General Ledger, Finance Analytics, Payroll and other types of services focused on finance and accounting. Within these types of services there have been significant changes. Initially large centres employing thousands of employees were created, while today the average size of a newly created centre is between 180 – 260 full time employees. There are still the larger investments taking place in Poland however, especially in Warsaw, like the recent entry of JP Morgan for example.

There are a number of reasons why Poland continues to be chosen by BSS investors.

The first is trust. No matter what political situation there is in Poland, over the last 20 years the country has proved to be the perfect location for international investments of various industries. The biggest international companies have chosen Poland and run either their BPO, SSC or R&D activities here. Within that group are big names including 3M, IBM, Accenture, Atos, Carlsberg, AVON, WNS, Genpact, Infosys, Amway, Luxoft, Capita and hundreds more.

Then there is choice. Over time, Poland has grown BSS locations across the whole country. The industry is no longer centred on Warsaw, Wroclaw and Krakow, but has spread to other locations such as Poznan, Łódź, the Tri-City (Gdańsk, Sopot and Gdynia), Lublin, Bydgoszcz, Katowice and others. In total there are at least 16 cities where BSS investments are present, developing and growing new business activities.

Poland is also multilingual. Few countries worldwide offer access to educated, trained and qualified resources who speak nearly every possible language. In 59 Polish cities, at 102 universities and colleges (54 public and 48 private), more than 50 foreign languages can be studied. Every year Poland sees 60,000 students graduate: 15,000 of these are graduates of language studies.

Costs are reasonable. It is no secret that Poland is not the cheapest of outsourcing destinations. If costs is all that matters, and is all that is being considered, then locations in Asia, Africa, South America or even elsewhere in the CEE Region offer lower costs. But lower cost is not followed by the talent pool, experience, skills, and other business factors. Poland may cost a little more but focuses on optimisation of business activities, complexity of service and ease of doing business. And that, in the eyes of foreign investors, is a key to success.

When discussing the Polish outsourcing market we must not forget about challenges. Probably the biggest challenge is being able to access the talent pool at the right time. But then access to talent at the right time is a challenge across the world, from California, through Western Europe, and CEE to Africa and Singapore.

In Poland the solution to this challenge is provided by the number of locations within the country itself. As I have said, there are at least 16 locations around Poland, with access to human resources, modern offices and which are close to airports, railways or motorways. Depending on the type of work and size of the business run in an operation centre, BSS companies can decide where to grow their business, how fast and in what kind of competitive environment. Real numbers confirm it: Poland is a BSS destination with no limits.

BYDGOSZCZ: AN INCREASINGLY SOUND CHOICE

WORDS ANDREW WROBEL

Bydgoszcz, Poland's eighth largest city with a population of 360,000 and with a strong manufacturing footprint, now has the highest share of IT specialists employed in the business services sector in the country.

The City of Bydgoszcz realised it has business services potential less than a decade ago. How have you utilised that potential over these years?

Yes, we started promoting the sector in 2010-2011. It was then that we had the first signals that Bydgoszcz had the potential, but at the time it did not offer business services. Back then, we had companies like Alcatel-Lucent with strong bases to attract other investments. However, there were so many other examples of such companies. Through promoting that sector quite intensively, initially through suppliers to Alcatel-Lucent we managed to actually build quite strong company base that is present on the market at the moment.

One of the best examples is Atos, which started as a supplier for Alcatel-Lucent with only 1,000 people and slowly but surely built their confidence. Then their headquarters assigned an additional project that would grow their capacity and from being only a supplier of one of the original investors in Bydgoszcz they became one of the strongest delivery centres in the Atos Group globally, and they now have more than 3,500 employees.

So that's the IT sector: the growth of that sector in Bydgoszcz at the moment is really significant. Of the 10,000 people working in business services in Bydgoszcz, 8,000 are employed in the IT sector, so you can see a strong specialisation in that field in the city.

Bydgoszcz historically has specialised in both telecommunications and electronics and we still do weill in these disciplines. However, we also noticed additional opportunities in terms of finance and accounting, call contact centres for companies to locate their operations in our city. And we also have some examples of companies that have managed to successfully build their presence here. One of the best examples is Polish Bank Pocztowy, which has an accounting centre here.

This sounds like an interesting trend indeed.

Yes, an additional trend that we noticed relates to another industry which is significantly present in our city. I mean manufacturing, which has always been present. With that in mind, companies that use their skills in delivering high-quality products in production space for the headquarters and for their distribution network. They have now received additional requests to deliver some service-oriented projects. One example is Germany's Frosta. It has had a production company operating in Bydgoszcz for many years, but has now announced the creation of an international service centre. The new centre will provide services to the entire Frosta capital group worldwide, mainly in the financial area.

Without people the business services sector is not going to grow, so how do you see the talent pool in Bydgoszcz and the so called agglomeration?

You're absolutely right. The talent pool is the most important element and that's why we keep working with our universities, to keep their educational profiles strongly related to the market trends. Within Bydgoszcz itself, we have more than 30,000 students. However, we always count on the agglomeration and with neighbouring cities like Toruń, we can provide more than 60,000 students and that translates into more than 15,000 graduates each year, within the fields of economics, IT, business/marketing etc. So there is a strong talent pool for future investment.

Demographics is another thing that we have to bear in mind. And every city is struggling with demographics at the moment. However, we see that the new brands and new investment projects that are coming to the city act like a magnet for talent.

It is clear that not every location is ideal for every business services project, for example, because of the talent pool available there. What projects is Bydgoszcz ideal for?

First of all, I would say that the trend now is going towards downsizing. We don't see many projects these days with 1,000-2,000 employees. The majority of projects require about 100-200 full-time employees (FTEs). However, that doesn't mean that those projects which do need 1,000 people are impossible in Bydgoszcz.

I said that Bydgoszcz's specialisation in IT is highly recognised and we have something like 8,000 people working in the IT industry, while at the same time we have something like 1,000 people working in finance and accounting. So I would say that we are now ideal for finance and accounting activities. With our capacity within local universities, which could be something like 14,000 students with an economic profile, a finance and accounting project would be easy or to install in a city like Bydgoszcz.

If you ask me to successfully secure 1,000+ employees for an IT project I would definitely say that would be a huge challenge. However, if you would say that to finance and accounting, I would say it is highly possible in the regional cities like Bydgoszcz. Why? Because of the situation on the market.

Michał Kornacki, team leader at the Bydgoszcz Regional Development Agency, speaks to Andrew Wrobel about the trends typical of Bydgoszcz.

IT is specialised, with a lot of expertise. However, finance and accounting is not yet recognised in this way. That's why we are focused on promoting finance and accounting.

What about office space? Tier-2 cities like Bydgoszcz sometimes find it challenging to match the demand.

Well, just a few years ago we had something like 50,000 sq metres of office space. At the moment we are reaching 100,000 sq metres, so we can see significant improvements in that area.

This is again something for the regional market. This market has to be developed by local developers who know the market, who know particular areas of the city, who know where the best locations to invest are.

Recent investments delivered at the highest standard have all been delivered by local developers and these projects seem to be successful because at the final stage of building, most of these buildings are already 60-70 per cent occupied.

So what is your city's ambition as far as the business services sector is concerned in, say, five years?

We definitely still want to promote and progress and grow the IT sector, but as I mentioned we are now also concentrating on developing finance and accounting.

POLAND'S LUBELSKIE REGION: ALWAYS LOOKING TO THE FUTURE

WORDS SHAKHIL SHAH

Poland's Lubelskie region, located in the eastern part of the country, is perceived as traditionally agricultural with farmland accounting for 70 per cent of the region's territory, compared to an average of 60 per cent across the country. That has not, however, been an obstacle for another sector — IT and business services — to grow exponentially. Companies such as Convergys, Billennium and DataArt, to name just a few, all now have bases in the region's largest city, Lublin.

"Lublin is our biggest delivery centre in the world. We started from scratch, and have achieved this thanks to the great cooperation we have with local universities as well as the local authorities," Bartosz Łopiński, CEO of Billennium, tells *Emerging Europe*.

"Currently, Lublin is the most rapidly developing urban area in Poland. As in any other large city with a rich industrial history, its current and future economy is determined by past experiences," says Łukasz Goś, deputy director of the Department of Strategy and Investor Relations at Lublin City Hall. "The changes which have taken place over the last few years have been aimed at creating a transport infrastructure and business space of superior quality. Consequently, Lublin's image has been enhanced dramatically," he adds.

All about the people

According to City Hall, over the last five years 53 new companies have decided to run their business activities in Lublin, both in industry and the service sectors.

"Our Lublin office was set up because the city has a lot to offer," says Paweł Krasowski, HR manager at DataArt Poland. "First there are a lot of IT companies, a lot of people with experience who have the right skill sets, both linguistically and technically. Out of all the cities that we looked at we chose Lublin because of the availability of people, cost and a friendly environment."

The pool of talent available in the city and the region is a frequent reason cited by businesses which have moved to Lublin. On average the cost of running a business in the city is approximately 10-15 per cent lower than, for example, Warsaw. One in five inhabitants of Lublin is a student, and each year nearly 20,000 graduates enter the labour market. There are currently 4,600 students enrolled on seven IT programmes in five out of nine universities.

"BPO is one of the sectors of the future and it will grow in Lublin. Working in this sector used to have a bad reputation because people thought that it meant having an unskilled job in a call centre. But more recently they've realised it is much broader and that you can make good money in this industry," says Zbigniew Pastuszak, associate professor and Dean of the Economic Department at Marie Skłodowska-Curie University (UMCS) of Lublin.

"There is a great university ecosystem, that really cooperates well with local government. We have our own lecturers teaching at the universities. Our goal is to put theory into practice," says Billennium's Mr Łopiński.

There are already almost 8,000 people working in the BPO/SSC/ITO industry. PKO Bank Polski, Orange and Generali are just some of the companies which chose to locate one of their large centres in the city.

IT is the future

"The local government works very closely with universities in Lublin and the Lubelskie region, creating programmes such as Lublin IT Upland. They cooperate with businesses and academia to prepare students for the future," says DataArt's Mr Krasowski.

There are 14 incubators and business accelerators in the region. Their network is created both by institutions affiliated with universities and spaces operating within a commercial business model. Their offer is focused on small, mainly technological companies and start-ups.

Ewa Dąbrowska, senior director Eastern Europe at Convergys, says that while this is something that happens across Poland, in their experience academia's commitment to cooperation and partnerships is nowhere near as efficient as Lublin.

"On average total operating and personnel costs in the modern services sector are around 20 per cent lower than in Polish tier-1 locations," says Artur Habza, director of the Department of Economy and International Cooperation at the Marshall Office of the Lubelskie region. "And when it comes to office space, the price difference is more than 10 per cent."

Lublin vs. Warsaw

"Lublin is well positioned to lay claim to being the gateway for the outsourcing community, to Eastern Europe and Asia," Kerry Hallard, president of the Global Sourcing Association (GSA), assures *Emerging Europe*. "It's refreshing to see outsourcing alternatives emerging in what is becoming an increasingly saturated, and therefore expensive, Polish delivery market. This can only help continue to drive up standards in outsourcing, as well as to keep costs competitive," she adds.

"One of the main reasons why we chose this city is that it is much closer to Warsaw than Krakow is," explains Michał Wierzbowski, director of the Shared Service Centre at Orange Polska, whose company debated which city to choose, about a decade ago.

"Lublin has the ambition to be a keystone in this part of Europe, it is a city at the crossroads when it comes to its administrative, cultural, economic and academic functions," argues Lublin's Mayor, Krzysztof Żuk.

It is true that Lublin is located less than 800 km from Berlin, Prague and Vienna to the west, and 600 km from Vilnius, Minsk and Kyiv to the east, which puts it truly at the heart of Europe. However, the geographical position is not the city's only asset. It also has a very rich history of openness.

"Lublin always has been a meeting point between East and West. We have this melting pot in our genes. In the past centuries, Lublin's economy was built by Catholics, Orthodox Christians, Evangelists and Jews, whose companies flourished here," argues Mr Żuk.

At the crossroad

Lubelskie shares borders with both Belarus and Ukraine, and in recent years there has been a huge influx of talent coming from those countries.

"We have seen a lot of talented people coming in, but even though there is demand for them, it remains a lengthy process to get work permits issued for them. It takes up to six months to sort out the paperwork of a non-EU worker. It is time consuming and costly, especially as we want to hire people permanently," says Convergys' Ms Dąbrowska.

Lublin's proximity to Warsaw is another advantage of the region, as the city is less than 200 kilometres away from Poland's capital. However, as the Marshall Office's Mr Habza confirms, the region is still struggling with infrastructural accessibility.

"Given its close proximity to Warsaw you would think that getting to Lublin is easy. Unfortunately, it has been made harder by the ongoing construction of a new highway and updating of the railway," says Billennium's Mr Łopiński.

"Currently there are a number of huge projects being implemented to improve infrastructure, including construction of the S17 express road from Lublin and Warsaw which will be completed by 2021, as well as modernisation of the railway from Lublin to the capital. Once completed, travelling time between the cities will be down to 90 minutes. These investments will complement the operation of the Lublin Airport, which was opened in 2012 and is one of the most modern regional airports in Poland with daily flights to London Stansted and Luton, as well as regular flights to Doncaster Sheffield and Liverpool," says Mr Habza.

Easier to reach

That's just connections to the UK. There are also direct flights to Oslo, Tel Aviv, Stockholm, Milan, Eindhoven and Dublin, which not only enhances business but also tourism. According to the Marshall Office, in 2017 the region was visited by 3.7 million people, of which 1.6 million foreigners.

"Over the last five years, the number of hotel facilities has skyrocketed," says City Hall's Mr Goś. "These include hostels, apartments for several dozen guests, tiny hotels, inns, and also large chain hotels. The city has one five-star — the Alter Hotel in the Old Town — and four four-star hotels."

"Lubelskie is a tourist destination where you can find UNESCO world heritage sites, unique architecture, historic buildings, remarkable landscapes, over 350 km of Green Velo bicycle paths, two national parks, 67 natural lakes as well as ski slopes and ice rinks," Mr Habza adds. "In the north-eastern part of the region there is a town called Małaszewicze, which is home to a dry cargo port. The place creates huge possibilities for the development of logistic parks and the shipment of goods imported from and exported to China."

Thinking of the future

Now, the city hall has a vision of Lublin's future development.

"We launched a two-dimensional strategy. The first axis was about laying down foundations to catch up to other cities which have become smart cities: promoting business opportunities, citizen's participation and building infrastructure. The second is about creating mechanisms to possibly even overtake the top Polish cities. So, we encourage foreign students to come here to foster multiculturalism, and we are trying to increase the quality of life. This is a springboard to becoming leaders of the future. We want to follow the example of Leipzig in Germany," outlines Mariusz Sagan, head of strategy and Investor Relations Department at the City of Lublin.

Mr Goś also says that Lublin boasts a long tradition in the automotive and machinery sectors going back to the 1920-1930s.

"The tradition of the Lorry Production Plant, and later the Daewoo Motor Poland Factory is now being continued by numerous small and medium companies using the resources and long-term experience of Lublin industry. There are a number of sub-suppliers creating components for vehicles produced on the assembly lines of large automotive producers as well as R&D centres specialising in the design of innovative technological solutions for the needs of particular clients," Mr Goś tells *Emerging Europe*.

Lubelskie has clearly developed from its humble beginnings as an agricultural region. However, while IT and service providers are leading the way at present, both new and established companies working in agriculture are moving with the times, adopting agritech and biotech so as to build on their established sector know-how and provide a sustainable future for their companies.

Lublin-based Nexbio treats plants and crops the same way a doctor would treat a patient. It creates tailor-made solutions to combating diseases that would otherwise destroy crops, and in turn increases product yield while reducing costs.

"We provide solutions for agritech, we use molecular tests to create tailor-made chemicals to treat crops. Our aim is to create a third tier between mass production and organic farming, and grow the biotech sector in agriculture whilst abiding by the strict regulations provided by the EU," says Nexbio's managing director, Marcin Stachyra.

"Of the leading 300 farms in Poland, some of the top 10 are located in the Lubelskie region. Agritech and biotech are growing rapidly. They are the way forward," he adds.

GDYNIA: COMBINING QUALITY OF LIFE WITH BUSINESS POTENTIAL

WORDS FRÉDÉRIC SCHNEIDER

Nine out of ten inhabitants of the city of Gdynia are happy with their lives, according to the latest Social Diagnosis, which measures the objective and subjective quality of life in Poland.

What makes the city the best place to live in the country? Is it the size of the city? Gdynia has a population of about 250,000 and is the 17th largest city in Poland, which means one can reach the office within a quarter of an hour. Perhaps it is the fact that Gdynia is less than 100 years old? In 1926, and eight years after Poland regained independence, the authorities decided to build a large harbour in the only location in the country with access to the sea. Back then, Gdańsk, which comprises the Tricity agglomeration, together with Sopot and Gdynia, was known as the Free City of Danzig.

Young and vibrant

"Gdynia owes its existence and dynamic development to its strategic location on the map of Poland and Europe, but nature definitely helps us," says Marcin Chmielecki, head of the Investor Support Division at Gdynia City Hall. "We have plenty of forests and also the highest number of sunny days in Poland with a seaside resort climate. The cultural offerings in the city are very rich. The Open'er Festival, the Volvo Gdynia Sailing Days, the Polish Film Festival, and the European Youth Basketball League, Ironman 70.3 are just a few annual events that take place in Gdynia," he adds.

Andrzej Boczek, CEO of AB Inwestor, a residential and office developer, sees the city administration's role in creating the high quality of life. Gdynia is an extraordinary city that was created out of a dream — about the sea; about free access to the world and about prosperity. The city is new and we all are migrants. We are like Americans: entrepreneurial and courageous. We don't complain. The civil servants here are romantic and pragmatic as well as passionate about what they do," he tells *Emerging Europe*.

"This city has this *something*, I would say, a breath of freshness and it is not only about fresh air or the breeze; there is this fantastic energy that is empowering," says Adam Pstrągowski, the founder and CEO at S&A, who set up his amber jewellery business 25 years ago as a 19-year-old and who is now a leading amber producer, based in Gdynia.

"Our relationship with local authorities is closer here than in Wrocław, where we have another smaller centre. We work together with the local job centre on various recruitment programmes," confirms Dariusz Bazeli, CEO at Geoban Poland, a part of Santander Group, which opened a shared services centre in Gdynia in 2008.

Katarzyna Gruszecka-Spychała, Deputy Mayor of Gdynia (courtesy of the City of Gdynia)

"We have a brand new strategy made up of four priorities: the quality of life, home, work and leisure," says Katarzyna Gruszecka-Spychała, the deputy mayor of Gdynia. "One of the goals is to establish a Sea City district — an area of 20 hectares of an investment area, located at the waterfront, and right next to the city. This is something unique in Europe. In a decade, it will be a very vibrant district with astonishing buildings, and will enable people to reach leisure spaces and the beach within five minutes. We also aim to make Gdynia a smart city. It doesn't necessarily mean that we need to use very modern technologies. We just want our city to be even more user friendly," she adds.

In May, 2017, Gdynia received the ISO 37120 certificate — Sustainable development of communities — indicators for city services and quality of life — as the first city in Poland.

"In today's world improving the standards of life quality is essential. As a city, we have global aspirations, which means that we want to relate ourselves to the best locations. The ISO 37120 certificate is a tool which allows us collect data and confront them with the findings from London, Amsterdam, Barcelona, Los Angeles and Dubai, in an objective and systematic manner," says Wojciech Szczurek, Mayor of Gdynia.

All of that makes people want to live in the city. "There are even people who were living in Gdańsk or other larger cities in Poland but who decided to move to Gdynia, myself included," says Magdalena Celmer, regional manager of Randstad, who stresses Gdynia's quality of life aspect often, when recruiting for job positions in the city. Agata Witczak, director at Thomson Reuters, says her company does the same. They also attract talent by advertising their office as being just three minutes away from a fast intercity train that links the Tricity (SKM) and ten minutes away from the seaside.

Challenges equal opportunities

AB Inwestor's Mr Boczek concedes that Gdynia still has to catch up with Gdańsk, Poland's sixth largest city. "This, however, has its advantages. For example, since the construction boom started later in Gdynia, the city has much more modern office space. Investors also need the latest telecommunication technologies solutions and high standards. Gdynia can guarantee that," he adds.

According to Jones Land Lasalle (JLL), the total leasable office space amounted to 636,700 sqm at the end of March 2017 and is expected to increase by additional 103,800 sqm by the end of 2017.

'At the moment, the total office space is almost 650,000 m2, which is the fourth largest in Poland, but when it comes to offices, you have to consider the three cities as a whole," says Marcin Faleńczyk, Regional Head at JLL. If they want to invest in the Tricity and you see an office in Gdynia, then take it; it doesn't have to be in Gdańsk. To construct an office building is a risk in some cities such as Słupsk or Bydgoszcz because developers don't know if any company will be interested in it. In Gdynia, the situation is different," he adds.

Deputy Mayor Gruszecka-Spychała, explains that being so close to Gdańsk is generally an advantage as an investment in the neighbouring city can also create jobs in Gdynia. "The agglomeration is now actually composed of seven cities, so the dynamic is even greater than before, and we have some extra arguments on our side. In Gdynia, we have all the advantages of living in a big city, which what 70 per cent of the population wants. But Gdynia is compact, while Gdańsk is not," claims the deputy mayor.

Currently, there are nearly 1,000 companies with foreign capital in the city, which makes Gdynia the leader amongst Polish cities with a population between 100,000 and 300,000. Bielsko-Biała, which ranks second, has almost 550 such firms.

Reuters set up in Gdańsk, in 2005, after acquiring EcoWin and a year later expanded to Gdynia, where it runs a financial and risk business centre and now employs some 1,400 people.

It was followed by Sony Pictures, in 2010, which established a financial-accounting centre in Gdynia. Both companies originally wanted to set up in Gdańsk but the lack of office space there encouraged them to move to its sister city, and they are satisfied with this choice. They prove Gdynia is a good location for shared services centres (SSC) and business process outsourcing (BPO).

Business services on the up

"We are witnessing some interesting developments in the Polish outsourcing market, not only with a number of very well established cities being universally recognised, now, as mature BPO delivery destinations, but also an increasing number of 'Tier 2' cities with a population of less than half a million vying for the spotlight. Gdynia is one of them, boasting the largest Science and Technology Park in Poland, a waterfront that is ripe for development and most importantly, a municipality that is actively listening to both citizens and investors alike, about what they want or need in order for the region to thrive," Kerry Hallard, president of the Global Sourcing Association (GSA), tells *Emerging Europe*.

"The Tricity is one of the four top locations for BPO and SSC, if you take into account the total headcount and projects carried out. It is seeing impressive development and I think that the industry will continue to grow at a rate of 15 per cent per annum. The Tricity isn't just the location for accounting centres anymore. We can also speak about multi-function centres including HR, procurement, master data, and IT services," explains Randstad's Ms Celmer.

"ICT also is a fast developing sector. In Gdynia, it mainly operates in the Pomeranian Science and Technology Park, where the Ivona software speech synthesiser, which has been recognised as the best in the world, was created" boasts city hall's Mr Chmielecki.

The tourism sector is also booming with several hotels being developed here recently, for example a Courtyard Marriott. Major carriers, such as KLM, Lufthansa, Finnair, SAS, Lot and Polish Airlines as well as low-cost carriers, offer regular connections, from Lech Wałęsa International Airport, with 15 countries in Western Europe, Scandinavia, Ukraine and Israel.

"The number of visitors is going up. Poles prefer to go to the Polish seaside rather than to Tunisia or Egypt, because of the instability there, or to France, because of the recent terrorist attacks. At the same time, we also see many Scandinavian and German visitors," says JLL's.

Deputy Mayor Gruszecka-Spychała sees the biggest potential in the maritime industry. "It's not certain that BPO and SSC will still be potential sectors in ten or twenty years. Gdynia's history has always been linked to the maritime industry. We have efficiently performing shipyards and they might be the future of our city," she explains.

Access to talent

Local talent is also the future of Gdynia, which is why the City Hall has invested in education, for example, by adding an extra maths class above the national curriculum in primary schools. The Maritime Academy of Gdynia is the city's largest alma mater with over 5,500 students, but there are other private universities, including a film school, and faculties located in the city, for example, of Gdańsk University. In the Tricity, there are 20 higher education institutions with some 30,000 graduates every year.

Thomson Reuters' Ms Witczak explains that without the universities' support, a large-scale recruitment wouldn't be possible. "All initiatives that help to increase or develop technical and engineering skills are welcome. We see that the extra maths class has already resulted in a higher number of applicants looking at technical and engineering courses at universities. We run a competition, together with the Apps for Good Foundation, with the aim of arousing children's interest in app creation and technology," she says.

"Gdynia has low unemployment; only four per cent. In Poland, it reaches 8, 3 per cent and across the Pomerania region — 7, 3 per cent," says Gdynia's Mr Chmielecki. Does this mean that it is difficult to find new workers?

"We cannot generalise. It is more difficult, for example, to find IT specialists. But the demographic trends allow us to be optimistic. Also, we are surrounded by Kashubia, where families often as many as seven children. Most of them will come to work in the Tricity," adds Deputy Mayor Gruszecka-Spychała.

Randstad's Ms Celmer shares the deputy mayor's opinion. "Some companies hire 50 people per month without any difficulties, but when looking for specialised skillsets, there can be some challenges," explains Randstad's Magdalena Celmer. "I would emphasise the high demand for German language skills as well as data management or analytics expertise, to mention SQL or VBA. she adds.

Getting more talent from abroad is also an alternative. Today, Thomson Reuters employs around 200 foreigners from 40 different countries. "They are mainly from Europe: Ukraine, Spain, Italy, Portugal, Russia and Turkey. Some of them don't stay very long but even if they decide to go back to their countries after a short time they spread the message among their friends and it has a domino effect," says Thomson Reuter's Ms Witczak.

"That is seen in the Tricity's population which grew by 1,500, in 2016, compared to the previous year. The quality of life definitely plays a major role in that," concludes Wiktor Doktór, President of the Pro Progressio Foundation.

POZNAŃ: TRANSLATING ENTREPRENEURSHIP INTO UNDERSTANDING BUSINESS SERVICES

WORDS FRÉDÉRIC SCHNEIDER

For Poznań, Poland's fifth largest city, 2016 was a fantastic year. Not only were 1,700 new firms set up, taking advantage of the city's convenient location between Warsaw and Berlin, but also Poznań attracted more tourists — the number of overnight stays skyrocketed by 18 per cent. In addition, the manufacturing and retail sector grow by nine and thirteen per cent respectively, labour productivity increased by six per cent and unemployment didn't even reach two per cent — the lowest in Poland.

"The low regional unemployment rate reflects the demand for educated students from the city's world class academic institutions. It's also a vibrant and expanding hub of economic activity, supporting a wide range of industries. In fact, Poznań acts as an ecosystem of high quality professional services, generating a dynamic business environment," Kerry Hallard, President of the Global Sourcing Association (GSA) tells *Emerging Europe*.

"This is one of the best places to do business in Poland, because it's right in the middle between Western Europe and the centre of Poland," says Bartłomiej Buszczak, CEO of BCC.

A window to the world

Location was also the main reason why Volkswagen chose Poznań over Warsaw in 1993. "Volkswagen Poland exports a large proportion of its cars to Germany and the capital of Greater Poland is very well connected with this country, both by highway and railway," says former Volkswagen brand director for Poland, Wojciech Tomaszkiewicz.

"We have flights to Ukraine and Israel. We are in discussion to open connections with Amsterdam and we are considering creating new ones with Zurich and Vienna for business purposes," says Jacek Jaśkowiak, Mayor of Poznań.

Jacek Jaśkowiak, Mayor of Poznań (courtesy of the City Hall)

Radek Mierzejewski, director of DFDS Poland, which established a shared services centre (SSC) in Poznań and now employs 200 people there, says that flight connections with Denmark also played a crucial role in their choice of the location.

The city's Mayor understands that Poznań didn't develop as quickly, back in the 1990s, as the most dynamic cities across the country.

"However, the capital of Greater Poland is re-engaging with its traditions now. Its inhabitants have always had an entrepreneurial spirit. The city has been home to international trade fairs for almost 100 years. Even during the communist era, it was a sort of window to the Western world," notes Marcin Przyłębski, Head of the Investor Relations Department at the City of Poznań.

Even though most international corporations have decided to establish their headquarters in Poland's capital city, some companies, such as the French supermarket chain Intermarché and the British pharmaceutical company GlaxoSmithKline (GSK) have chosen Poznań. Amazon also established a large distribution centre in the suburbs of the city, in 2014, but Volkswagen is still probably the biggest investor in the local economy.

"Among other things, we produce engines for cars in Poznań and around as well as the Caddy, Transporter and Crafter models," says Volkswagen's Mr Tomaszkiewicz.

"There are also Modertrans and Solaris, producing modern trams and buses in Poznań County," says

Mayor Jaśkowiak, emphasising the significance of the automotive sector: this is right next door to another industry that is growing fast: IT and business services, which have both human resources and infrastructure in place.

The IT hub

Beyond.pl is a good example here. “It is the only one in the country to be certified with the highest level of data centre certification standards — Rated 4 accredited by the American National Standards Institute. This provides our customers the guarantee of working without any possible failure. Our data centre suits the needs of very sensitive sectors such as insurance and banking. It has a capacity of 50,000 servers, one being enough to store the whole library of the Congress,” says Michał Grzybkowski, CEO of Beyond.pl.

Mayor Jaśkowiak says that Poznań is prepared to provide IT services to the biggest corporations. “Right now, there are 13,000 people working in the modern services sector but we expect an increase by 5,000 within two years. If a client needs very high skills in this branch, he will find it in Poznań,” concludes the Mayor. It is not a coincidence that the online selling platforms Allegro (which prevented eBay from becoming a major player in Poland) and OLX were established in this city.

BCC is another example of a company demonstrating the tremendous capacity of the capital of Greater Poland in the IT area.

Poznań’s Old Town

“We provide services related to SAP systems. We implement enterprise resource planning (ERP) solutions for a variety of international clients,” says BCC’s Mr Buszczak.

The enterprise also develops software based on Java and .net tools. While it began its activity 20 years ago, it now employs 350 people and has carried out 1000 projects for national and foreign customers.

Poznań is also the place where GSK has its IT centre. “It delivers global services to all GSK employees and the fact is that there are more and more projects that are being directed from this city. We had to expand the number of employees from 26 in 2005 to 650 today,” explains Sebastian Drzewiecki, the head of the Business Services Centre.

When it comes to DFDS’ shared services centre (SSC) in Poznań, “it started with transactional duties such as accounts payable and accounts receivable, but it now provides more complex services. We are looking to become a centre of excellence,” says its head Radek Mierzejewski.

A great pool of talents

Such centres of excellence wouldn’t be possible without a labour force. That is why Mirantis, one of the five largest cloud computing employers worldwide, has an R&D centre in the city.

Beyond’s Mr Grzybkowski stresses that programmers from Poznań very often place in the top five, in international competitions such as Google’s Code Jams. Mr Tomaszkiewicz adds that the people of Poznań are committed, solid, punctual and engaged.

The City of Poznań’s Mr Przyłębski claims that those high skills result from the fact that Poznań is an academic city. Not only does it have 32,000 graduates but its universities are also very highly ranked. “Universities work with a growing number of companies. It’s proof that they are open to the needs of business circles, especially in the SSC/BPO sector,” he adds.

“That cooperation takes multiple forms in the shape of several institutions, but the main one is the ‘Partner Club’. It was established in 2003. We organise job fairs during which students can take traineeships. Some courses at our university are delivered by businessmen. We also instituted what we call “open lectures,” says Professor Maciej Żukowski, Rector of the Poznań University of Economics and Business (UEP).

Corporations acknowledge that some effort has been made but improvement is still needed. “Academies need a better understanding of what our industry requires: language knowledge, technical skills and a client service approach,” says DFDS’ Mr Mierzejewski.

Rector Żukowski also understands there is a great deal of competition for employees in the city. At the same time, companies are still able to find employees, as BCC’s Mr Buszczak says “In my company, many people from smaller towns come to Poznań to study and they very often stay there after graduation,”

What is more promising, the decline in the number of inhabitants, observed in the last years, has almost ceased in Poznań.

Also, more and more foreigners are deciding to work in the city. Mr Buszczak speaks of Ukrainians employed in his company, Mayor Jaśkowiak adds Spanish and Portuguese people, and GSK’s Mr Drzewiecki has workers from France and even Brazil and Mexico.

“I can make a comparison with the Warsaw labour market because one of my other companies has a branch in the Polish capital. It is extremely difficult to find skilled people there, at competitive prices, and their competences are lower in my view,” argues Beyond’s Mr Grzybkowski.

Modern Poznań
Changing challenges into benefits

The inhabitants of Poznań are satisfied with the quality of life that the city offers, emphasising the easy access from residential areas and offices. At the same time, it is big enough to offer a rich range of cultural activities, nice restaurants and landmarks.

As far as office buildings are concerned, the city is very well prepared and new developments are popping up around the city centre where there is still a lot of room.

“The business services’ sector is an important driver for modern office building developments in this city”. We have just completed a building which is 24,000 square metres large and we are now preparing a development project of about 100,000 square metres,” Łukasz Kaleciński, Regional Director at Skanska tells *Emerging Europe*.

“Poznań can leverage the success they already have, but there has to be a concerted effort; not just at the local level but also at the national government level. There needs to be a much greater appreciation for what the new industries do and what it means for a city such as Poznań, where we are situated,” highlights DFDS’ Mr Mierzejewski, emphasising the growth the city has achieved.

Where is Poznań aiming now? Mayor Jaśkowiak predicts a bright future for the capital of Greater Poland.

“We want Poznań to be like Solaris. This company made the bold choice to go to electric buses, ten years back, while competitors such as Mercedes were investing in diesel. The result is that Solaris now has a 14 per cent share in the German market. We also had a challenge to face a few years ago because we were lagging behind, as we were not part of the first wave of BPO investments. Because it is only now that corporations are moving to us, we are investing in new architecture and we offer sophisticated buildings with the highest possible standards. We are like Copenhagen and Eindhoven, transforming our former liabilities into assets,” concedes the Mayor.

TALENT TOPS LITHUANIA'S IMPRESSIVE LIST OF ASSETS

WORDS ANDREW WROBEL

When UK-based financial markets consultancy Catalyst Development were choosing a location for their first nearshore consulting hub earlier this year, they looked at Belfast, Limerick, Dublin, Galway, Tallinn, Warsaw, and Wrocław.

Sean Coote, managing consultant at Catalyst Development spent three months in Lithuania, which ended up being the company's pick, looking at talent accessibility, infrastructure, office space, IT development, meeting with financial tax and legal firms.

Talent is key

"Based on that analysis Vilnius ticked all the boxes in relation to our requirements. We had to make sure we had a pool of talent that was experienced in transformation programmes, had banking knowledge and a good level of English. I very quickly interviewed about 20 people and from those we had no problem shortlisting about 15 of them. This is a very high success rate," he tells *Emerging Europe*.

Dub Landgrebe is vice president and worldwide client care at Bazaarvoice, as well as managing director at Bazaarvoice Lithuania. The US-headquartered global business runs the ratings and reviews functionality for 5,700 brand and retail sites – and therefore serves up more page views per day than almost any other service provider after Google and Facebook.

"We ultimately selected Vilnius because of the high-calibre talent availability. The impressive work ethic, the drive for professional development and the ease of communication between Lithuania and Bazaarvoice US played a large part in the decision," he adds.

In the initial four to six months, Bazaarvoice plans on hiring 70-80 employees. Going forward, the new office is to house a Global Client Services Centre, providing technical support services to a client base of global retailers and brands. It will also manage half of the company's new client implementations. The company is also testing out a model allowing key finance and HR teams with global responsibility to be co-located in its Vilnius service centre.

When Barclays opened its centre in 2009, they projected a team of 170. Now, with 1,150 employees, Barclays Group Operations Centre, which is one of the four largest in the country's global business services sector (GBS) — offers a diverse range of services worldwide, from developing IT systems and infrastructure, to managing IT projects, ensuring security for Barclays' banking systems, solving IT incidents, and developing new mobile apps and other business functions. Barclays' examples, as well as other brands such as Nasdaq, Western Union, Danske Bank, WIX, Uber, SEB, Swedbank and Telia, prove the growth of the entire GBS sector in the country.

Highly-specialised sector

"The industry grew by 17 per cent in 2017 alone. It currently consists of 70 different multifunctional centres and approximately 15,500 field experts. We are really proud that the sector is very diverse both in terms of companies and the workforce itself. For example, 54 per cent of all specialists in the GBS industry are women. But what is more important, more than a third of all general managers in the industry are women," says Laisvis Makulis, head of the business services team at Invest Lithuania.

There is a clear a shift to high-end operations and robotics. More than two-thirds of the centres embrace digital transformation and are engaged with robotic process automation (RPA) activities, while almost 50 per cent develop their RPA solutions in-house. The industry is so focused on robotics, that 2.3 per cent of the total GBS workforce consists of robots. Not only robotics, but also advanced finance, consulting, analytics, IT, big data, and cybersecurity operations are carried out," he adds.

Lithuania's business service sector is centred around the Vilnius-Kaunas hub. Located just one hour's drive apart the two cities have a combined population of 1.4 million and a pool of over 100,000 students. According to the Organisation for Economic Co-operation and Development (OECD), Lithuania is ranked first in Europe and fourth globally for the number of people with tertiary education. The country's 35 universities and colleges have strong positions in both science, technology, engineering and mathematics (STEM) and the humanities. The Lithuanian business services sector remains highly multilingual with 43 per cent of all centres using five or more foreign languages. But for a country with a population the size of Toronto in Canada (2.8 million), is access to talent sustainable long term?

"I have been wondering about the sustainability of talent in Lithuania for the last five years and within that time more and more companies came in and everybody who did so is happy with the talent pool," Elias van Herwaarden, EMEA service leader, Global Location Strategies at Deloitte, tells *Emerging Europe*.

"The talent pool is very good in capability and very good in price-performance ratio but size is limited," admits Tom Bangemann, senior VP, Business Transformation at the Hackett Group. "More challenging are the sought-after capabilities that are in limited supply — relative to demand — for example tech knowledge, analytics, people and management skills," he says.

67 per cent of the GBS centres are actively engaged with academia – in terms of providing scholarship and internship opportunities, thesis topics or even temporary job placements in Lithuania or the company's HQ locations. The industry is also employing an increasing number of Lithuanian repatriates — now 10 per cent of the workforce — and international talents currently accounting for four per cent of the workforce," says Invest Lithuania's Mr Makulis.

What's on the horizon

Catalyst Development's Mr Coote confirms the interest in repatriation. "About 20 per cent of the team is Lithuanian returning from other countries," he says.

According to the Lithuanian Department of Statistics, between January and August, almost 28,800 Lithuanians left the country. At the same time, almost 26,800 individuals came to live in Lithuania, of whom two-thirds were returning Lithuanian citizens.

Repatriates account for 10 per cent of those employed in GBS in Lithuania, while four per cent of employees are foreign nationals. For example, Danske Bank currently employs over 200 Lithuanian repatriates, and it seems interest in returning to Lithuania is definitely on the up.

At the same time, salaries in the sector are growing at a slower rate than the average wages in Lithuania. In 2017, salaries at GBS centres grew slightly more than six per cent, and it is estimated that this year salaries will grow 7.5 per cent for IT specialists and 5.3 per cent for other staff.

"If the country can reverse the demographics, encourage even more nationals to return plus keep a slower pace of increase in salaries, they are bound to attract even more investment from the Nordics, US and UK markets, all of which are heavy investors currently," says Tom Quigley, CEO of the London-based Emerging Europe Alliance for Business Services, Innovation and Technology.

Size will matter

Catalyst Development's Mr Coote believes that scalability will not be an issue for his organisation.

"If I had a project where I needed to mobilise 10, 20 or even 30 people, I am confident that I would be able to do that very quickly within probably less than two months, whereas in the UK or Ireland that turnaround would be at least three months and it would probably be quite expensive using local agencies. And the overall cost is about two-thirds less," he says.

Anurag Srivastava, vice president at Everest Group says that Lithuania is not a location where you would set up a 2,000-5,000 employee centre to support contact centre or IT-Infrastructure or transactional business process work.

"It is rather a location where you'd support more specialised profile – e.g, a centre of excellence (CoE) on robotic process automation (RPA) or digital technology, or if you wanted niche skills on the banking side or complex applications development work; this may mean that the scale you support is smaller, even around 500 or 700 employees. The market has the capacity to absorb more growth and we believe that as much as it now supports the Nordic market, we see room for expansion for a wider European market," he adds.

"The country did prove the naysayers wrong, as we already have four centres that crossed the 1000 FTEs threshold — Western Union, Danske Bank, SEB, Barclays — and there are several more nearing that same threshold," Mr Makulis says.

"Very large new centres with over 1,000 full-time employees (FTEs) could produce a shortage, especially if growing fast. I foresee the next 20 centres being OK without having too many limitations in setting up, after that the general ratio of centre FTEs/population or FTEs/ available labour pool will become more difficult," the Hackett Group's Mr Bangemann says.

For him the key solutions are making relevant skills available in larger demand and bringing more talent from outside Lithuania. Invest Lithuania's Mr Makulis believes that the Lithuanian hub still has plenty of room to grow, compared to places like Prague, Wroclaw and Krakow.

"In Vilnius, the saturation rate (23.0 people employed in GBS centres per 1,000 residents) is still more than three times lower than in Krakow (73.2), a city of a similar size, so there is plenty of room to grow. Kaunas is even less saturated, with only 7.8 people working in GBS centres per 1,000 residents," Laisvis Makulis claims.

"In order to ensure a healthy demand-supply relationship in the industry,

KAUNAS: TICKING ALL THE BOXES

WORDS SHAKHIL SHAH

With a rich history, and its first references in written sources dating back to 1361, the Lithuanian city of Kaunas has seen a lot. Believed to be the centre of Lithuania's economic, academic and cultural life, it is no surprise that the city has gained international recognition in recent years as a business process outsourcing destination of choice. Located only 100 kilometres from the country's capital Vilnius and just over 200 kilometres away from the port city of Klaipeda, Kaunas could be the perfect destination for a variety of businesses.

While infrastructure in Lithuania is developing quickly, perhaps the primary reason the vast majority of investors in Kaunas have chosen the city is its abundance of talent. According many investors, there is an increasing number of Lithuanians returning from abroad to work in the country, and many Lithuanians leaving Vilnius are returning to Kaunas to re-establish their roots.

"Access to local talent and excellent infrastructure were the key reasons for choosing Kaunas over other European cities," says Ilona Antonovičiūtė, head of NKT's shared service centre in Kaunas. NKT is a global front-line supplier to the energy sector who develop, manufacture and market high quality cables, accessories and solutions for electrical infrastructure. "We looked at other locations where our factories are already operating, for example in Poland and the Czech Republic. However, these markets are already saturated to a certain extent with service centres, unemployment is low and competition for the right people is high. Kaunas has great potential for attracting more investors because of a pool of young professionals keen on working in international companies and an expanding infrastructure."

"Over 50 per cent of the population speak three languages, and being a small country with no natural resources we must focus on being able to conquer new markets and create value outside of our home market. Language capabilities are also present due to our history, everyone older than 35 speaks fluent Russian and most people under 35 speak English, especially those with higher education," adds Vytenis Šidlauskas, partner at Alliance for Recruitment (AFR), the largest recruitment company in the Baltics focusing on IT, shared services and manufacturing.

He also points out that 56 per cent of the population in Lithuania have a university degree. "We are ranked first in the EU," Mr Šidlauskas says with pride.

According to Mr Šidlauskas, both local authorities and universities are welcoming new investments and providing them with the attention that they can no longer receive in bigger cities in emerging Europe:

"That obviously helps to increase confidence from international companies that maybe heard of Kaunas for the first time just a few weeks ago. We expect Kaunas to receive much more focus from site selection consultants, advisors and global companies themselves looking to tap the talent pool of a city that has not already been spoilt by the attention of hundreds of international employers," explains Mr Šidlauskas.

"One of the main reasons for choosing Kaunas over other locations was the talent pool that Kaunas can provide. Around 1,000 IT students graduate from Kaunas University of Technology (KUT) every year with their high-level knowledge in technology and with perfect skills in English. We hire young people, graduates or even students and additionally training them to work in our company," explains Jonas Lukosius, country manager Lithuania from TransUnion Information Group an American consumer credit reporting agency with offices globally.

It is not all about tapping the existing talent pool: companies are giving back to their communities.

As Mr Lukosius explains; "we work closely with KUT to fine tune their education programmes. Our presence

in Kaunas helps the city and region to be more focused in the market we are operating in."

Talent is not limited to Lithuanians either, as Lina Žalpytė, head of AFR's Kaunas office, explains:

"The number of foreigners has been growing, predominantly from Europe. We have also noticed a very positive trend of re-emigration. Lithuanian specialists or students, who went to study or gain experience abroad, are now coming back to Lithuania to continue their professional career here, as international companies and job opportunities are now present in their home country or cities."

The close working relationship between the national and local investment promotion agencies is further strengthening investor confidence in the country.

"Prior to becoming mayor, I built my private business in Kaunas. Due to my efforts it grew into a multinational corporation with over 8,000 employees. This experience has given me the best insight as to what is needed for a new business investor. Every member of the team working in the municipality of Kaunas already knows this. We are flexible, fast, open-minded and ready to help at any time. We all are well aware that a successful business creates the greatest added value for any city and its people. Overall, this perception is strongly reflected in our daily work," Visvaldas Matijošaitis, mayor of Kaunas, tells *Emerging Europe*.

"Invest Lithuania and Kaunas IN are working hand-in-hand towards the common goal of not only bringing new investments into Lithuania but also maintaining this competitive environment and working towards the ease of doing business here," explains Ms Antonovičiūtė.

As a result of the new investment, the real estate market in Kaunas has expanded.

"For a long time, Kaunas had an issue with lack of commercial real estate. Now this issue has been resolved as new business centres have started operating over the last few years. We were very lucky from the beginning by being able to set up our office in one of the most beautiful places in Kaunas, the Zalgirio arena," explains Jonas Lukosius, country manager Lithuania at the TransUnion Information Group, an American consumer credit reporting agency with offices globally.

"The availability of office space in Vilnius is around three per cent compared to approximately 10 per cent in Kaunas. In addition, if you compare the average monthly rent of prime office space, in Vilnius it's about 14 to 17 euros per square meter versus 12 to 14 euros per square meter in Kaunas," adds Jurgita Šilaikytė, head of brokerage at NewSec, a real estate management company covering the Nordics and Baltics.

Whilst Kaunas has a long history, it is also known as a student town, with seven universities and over 35,000 students, and the mix of old traditions and culture with a young and modern vibe make the city an ideal place for new ventures.

"Kaunas is becoming more international; however, it still keeps its own style and face, it is no surprise why UNESCO has listed it as a City of Design. What's special about Kaunas is that it is a student town with its charm, there are places to go out in the Old Town, lots of interesting events (including sports, Kaunas Hansa days, KaunasJazz music festival, Pažaislis classical music festival and other music festivals) while at the same time it offers quality living conditions for families – including schools (even for English speakers) – and Kaunas will be the European Capital of Culture in 2022," explains Ms Žalpytė.

"Lithuania is continuing the positive trend of attracting more investments because companies like the Lithuanian business mindset, communication style and excellent infrastructure. I see that Kaunas is quickly growing and catching up to Vilnius. There's a lot of potential here. There's enough room for everyone, as industry is diversifying by attracting more companies from new industries and new functions," concludes Ms Antonovičiūtė.

NIX SOLUTIONS: COLLABORATIVE PARTNERSHIPS ARE THE FUTURE

WORDS CRAIG TURP

Vladimir Kuzmenko, business development director at NIX Solutions, speaks to Craig Turp about collaborative sourcing and the future of IT outsourcing.

Successful outsourcing deals tend to be characterised by a change in the nature of the relationship between the buyer and the vendor towards true partnerships, rather than transactional relationships. Such a partnership means both parties are incentivised by the same outcomes and aligned to the buyer's objectives. What's your take on that?

What has made NIX successful for over two decades is that we are always forward-looking when we deliver services and products. While we endeavour to make the project at hand highly successful, our strategy — and, you might say, our company credo — has always been to form solid, long-term partnerships that clients can depend on for years.

I believe that the term partnership can be and often is understood differently by buyers and vendors. Do you think the term outsourcing will be replaced with collaborative partnering?

It's likely that some part of outsourcing will convert to collaborative partnering. I say "some part" because it means a lot more than the kind of quick money and "we've done what you asked for" transaction. Long-term collaborative growth means shared goals and shared risks. Not all companies are willing or equipped to do that.

What is lacking then?

Collaborative partnering requires vendor management maturity, and readiness to invest now in building long-term relations. Not all vendors are ready to go this way.

For example, some of them, known as 'body-shops', operate in a fast turnover model, hiring engineers for exact projects and firing them when the project finishes. Such vendors will not invest the full team effort for weeks and months to earn initial trust and gain knowledge. And they won't send the team onsite at their own expense. As such they're not prepared to work in a true partnership model.

One day the market will just kick them out, but with current demand I don't think this will happen anytime soon.

The sector is growing and evolving really fast. If we look at the UK alone, in 2017, 73 per cent of the UK outsourcing industry was comprised of information technology outsourcing (ITO) contracts. UK businesses spent 3.8 billion GBP, more than twice as much as in 2016, on ITO. Is there time for relationship building?

For sure. ITO is aimed at developing and/or supporting a software product or service. If the product/service is successful, its development and support is ongoing. There are several moving parts in this market: competition is strong, users and clients are constantly demanding new features and more user-friendly interfaces, technologies are rapidly evolving, and regulations are getting stricter (for example, GDPR forces companies to add specific features and scenarios to their software). Having a true partner who will help you with ITO is a good idea and finding the right one requires some relationship-building effort.

We have said that the sector is developing fast. How can a vendor be up-to-date with all the changes and developments: automation, AI, IoT as well as legal requirements, such as GDPR?

The short answer is to learn, learn, learn and then, learn again. There are numerous ways to do it.

Build a robust R&D department. Do R&D not only in tech, but also in business and legal domains. Attend important conferences and events. Exchange information even with competitors. Share knowledge within the company. Experiment with your own products in the latest tech and business domains. Work with startups, particularly in a risk-sharing model. And always be eager for more!

What are the biggest challenges that a vendor has to struggle with when providing services to clients?

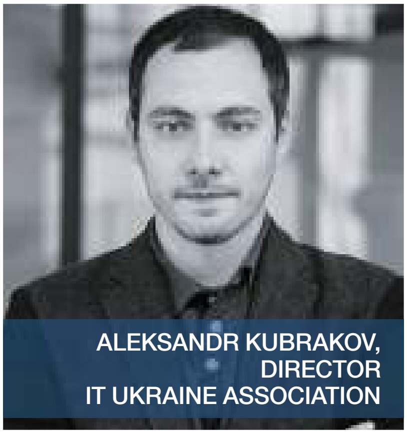
The biggest challenge, especially with a new client, is getting a true understanding of their business need and finding the best solution for it. It takes a lot of expertise to translate the client requirements into a feasible development plan that your software developers can work from. This must be done way before the project starts, specifically during the discovery phase, which includes a pilot and proof-of-concept tasks.

Otherwise, the true understanding will come after two-three months after the project is done when a lot of time, money and resources has already been wasted.

Vladimir Kuzmenko, business development director at NIX Solutions

THE SELF-MADE INDUSTRY

WORDS ALEKSANDR KUBRAKOV



ALEKSANDR KUBRAKOV,
DIRECTOR
IT UKRAINE ASSOCIATION

Did you know that the IT industry in Ukraine has more than 60 years of history? Yes, being the R&D centre of the region, Ukraine created the first-ever computer in continental Europe, the world's first encyclopedia and the first ever concept of an e-government system. Developing without any governmental support or special benefits, the modern IT industry is one of the most dynamic and perspective economic branches of the country.

In 2017 total export revenue of the sector totalled 3.6 billion US dollars, average year to year growth is 20 per cent, and today the branch holds third place according to export volumes among other Ukrainian industries. According to the forecasts of top managers of leading companies operating in Ukraine, and research conducted by PwC, by 2020 the Ukrainian industry of information technologies will double its revenues.

Another factor – the impact of the industry on economic development of the country. Today, services in the field of information technologies bring in 3.4 per cent of Ukrainian GDP.

Powered by talents

Talents and knowledge are the key resource of the modern world. And the Ukrainian IT industry is not an exception. Decades of math and scientific school development formed a great basis for the emergence of brilliant tech talents.

According to research conducted by the IT Ukraine Association, there are more than 120,000 software development specialists in the country – this number does not include other employees, occupied in the branch (technical support, marketing and sales, management etc.). Every year more than 16,000 students with a technical specialisation graduate from Ukrainian universities – almost 10 per cent of total graduates, one of the highest rates in the region.

A European mindset, the skills and talents of developers are one of our competitive gains on the global market. According to research conducted by the Association, 64 per cent of Ukrainian engineers have a higher technical education diploma, 74 per cent have additional professional certificates, and about 50 per cent speak upper intermediate level English.

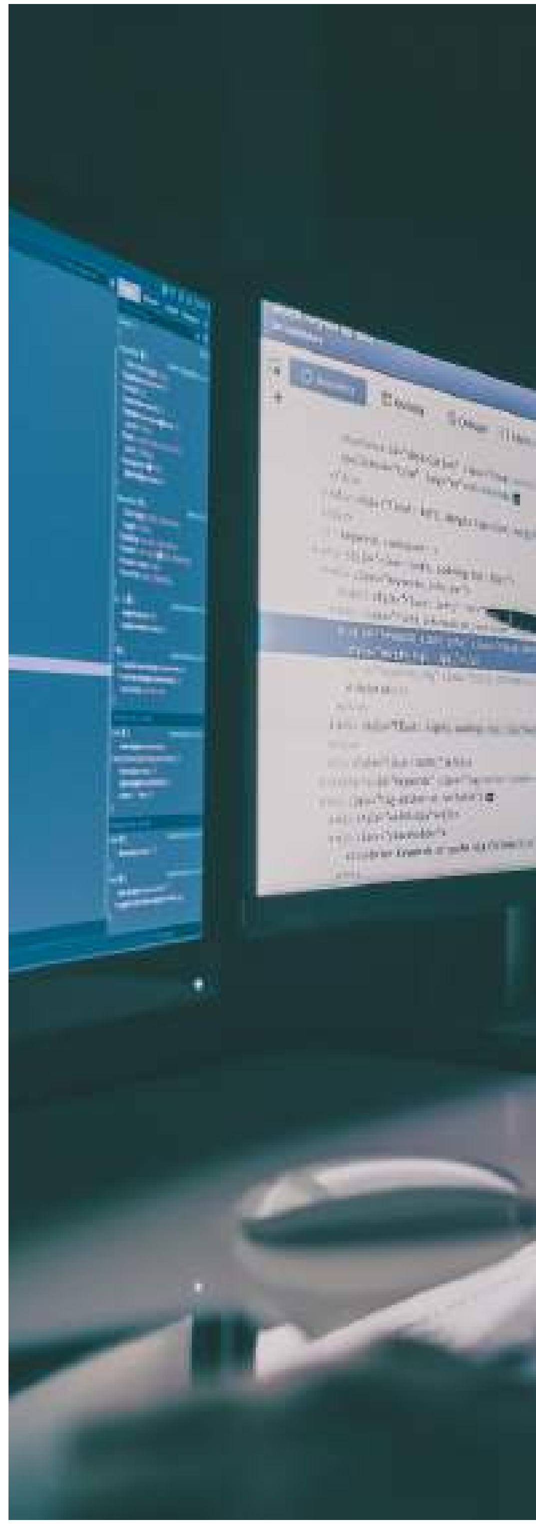
Major market players expect that the number of technical specialists in Ukraine will grow, along with industry revenues – by 2020 we expect about 200,000 developers working for Ukrainian companies. At this moment we have all the necessary preconditions for such growth.

Shaping the country's image

Another positive moment, caused by the rapidly developing industry, is transformation of Ukraine's image in the international arena. Every year dozens of Ukrainian companies prove their expertise and maturity in prestigious international ratings and lists: IAOP's Global Outsourcing 100, the Global Souring Association's Awards, Inc. 5000 Europe – you can find Ukrainian service IT-companies in almost all leading international industrial rankings.

Vibrant ecosystem

A well-developed IT-ecosystem is one the key factors for the development of science and innovation in Ukraine. Today there are 1000+ IT-companies, 18 IT-clusters, emerging even in small towns, industry associations, corporate



accelerators for tech startups support, two innovation parks, based on best European experience – Unit.City in Kyiv and IT District in Lviv, and grass-rooting expert community.

Such networks ensure that people stay in touch with their industry peers and form joint strategies for the further development of the sector on different levels.

To do list

Market players are today combining forces for further development of the IT industry in Ukraine. Despite the favourable climate, there are three key spheres to be improved or updated.

As I mentioned above, the IT industry in Ukraine was completely invisible for the government for decades, and there were no special policies or benefits for the sector. However, now we see interest and positive intentions from officials, which is why it's quite important for the industry to build a clear and transparent dialog to channel governmental efforts in a way that is favourable for further development of information technologies and tech business in Ukraine.

Education is the other point of interest for the IT business in Ukraine. Ukrainian companies proactively cooperate with universities and schools, providing significant financial and expert support and integrating to education processes. During the last few years numerous educational programmes in the most promising spheres have been launched in Ukrainian universities – Data Science, Artificial Intelligence, IoT, Information Security and others.

And the third thing in the industry's to do list is active joint international promotion – despite awards and high positions in professional ratings, recognition among famous multinational clients, we still feel that there is a lack of awareness about Ukrainian IT.

We're still at the beginning of the road, there are a lot of challenges to overcome. But we see only growth and prosperity ahead and we are ready to work hard to achieve the goals we have set.

OUTSOURCING IN BELARUS

WORDS PETER RYAN

In the domain of service delivery, the world is clearly becoming flatter than ever before. With more countries, states and cities clamouring for the opportunity to export IT work or business processes, the need to differentiate in a crowded market has never been so important. And it is in this regard that Belarus is making a name for itself, in truly a unique technological manner. Over the past few years, the desire on the part of outsourcing stakeholders in this eastern European enclave has led to some very successful efforts that have attracted the eyes of clients in western Europe and beyond. What will be the challenge for the IT industry in Belarus in the coming months and years will be to avoid being bogged down in geopolitical machinations, which will only distract from that country's solid offshore value proposition.

What is obvious to any commercial visitor to Belarus is that it is a location in which outsourcing stakeholders have their collective finger on the pulse of technology and, more importantly, how technology interfaces with business to drive solid commercial outcomes. The fact that Belarus has developed an ecosystem of outward-looking researchers, programmers and business-people who are blazing a trail beyond domestic borders is an achievement in itself. A visit to the Minsk incubation lab, a short drive from the airport and city centre provides a glimpse of this enthusiasm for technology, whether it may be blockchain development, ergonomic office equipment or new mapping tools. Heavily populated by millennials, this lab testament to the enthusiasm that so many young Belarusians have for finding solutions to today's technology challenges faced by organisations of different sizes.

And this outward-looking approach is bearing fruit. With Belarus firms competing actively as far away as South Africa for contracts in sectors that include transport, banking, telco and retail, this country is leaving an indelible mark on global IT.

But Belarus cannot afford to be complacent from an IT services perspective. In fact, while the world may be more intrigued than ever with its value proposition, Belarusian stakeholders need to be wary of potential headwinds that it is likely to face when prospecting for business.

The political environment in Belarus cannot be overlooked as a point of contention that many foreign investors may not be able to get around. Notwithstanding its growing IT services space, the impression that many have of the country's openness to democratic opposition and freedom of speech may be too much for prospective buyers. With all the current uncertainty of Russia and its place on the geopolitical spectrum, Belarus' alignment with its eastern neighbour, as opposed to those to the west will do no favours for prospective clients in major European, North American and APAC demand markets. But, for the country's IT services sector, there are options to mitigate these concerns.

For one, the government appears open to IT development, and this must be cultivated by outsourcing players in the form of new investment incentives for both domestic and foreign players. They have already had some success in this regard, and by moving these efforts forward aggressively, more progress will be well-received in the west among business people. Equally, aggressive promotional campaigns in commercial centres that target the strengths of Belarus for IT development is a must. Getting right to the heartland of prospective foreign investors on their home turf will give the Belarus IT sector an offensive advantage, one that is likely to be well received. There is no time for hesitation, successes need to be built upon, and inertia will result in moving backwards. With all that it has achieved, Belarus' IT sector cannot afford to misstep at this point.

PETER RYAN,
PRINCIPAL
RYAN STRATEGIC ADVISORY

CPL: TALENT RETENTION IS KEY

WORDS CLAUDIA PATRICOLO

Simone Olivo, site director at CPL IS, part of CPL Group, speaks to Claudia Patricolo about the opportunities and challenges of running a BPO centre in Hungary.

CPL group started to operate in Hungary in 2009, but the company has an older story. How has it been so far?

Yes, CPL group was born in the 1990s and today is the biggest Irish temp agency, present in Central and Eastern Europe and Northern Africa. Only 10 years ago it started to expand its services in order to include outsourcing. Now, the company can boast clients like Facebook, Toshiba, Microsoft.

When it comes to the Hungarian subsidiary, there are two different sections: CPL recruitment and CPL integrated services. Currently, our only client is DXC Technology, on behalf of which we take care of the global service desk offering first and second level IT support for several clients active in different sectors such as finance, pharmaceuticals and much else.

Concerning our outsourcing services, we offer the typical customer service, back office, global service desk, IT support, order processing, order management and international payment reconciliation.

Let's look at Hungary more closely. What are the main advantages and disadvantages of operating in Budapest?

Well, we have 740 employees in Budapest. The biggest challenge is represented by the talent retention. We always have to make the demand suitable for the offer and not vice versa. Times to recruit someone are longer now and sometimes we are forced to look at neighbouring countries like Romania, Serbia and Ukraine, especially to those people with Hungarian citizenship. But the most difficult to find are those speaking German. We also have to remain competitive, which means offering quality services and competitive prices at the same time.

Every shared service centre is trying to elevate its services offering more complicated solutions. On the other hand, the main advantages are the labour costs and the Hungarian labour law which is very flexible, even compared to that in Poland which is our biggest competitor. Also, infrastructure is excellent and there is political stability.

Speaking of politics, do you think that a far-right ruling party could somehow discourage investments and impact the outsourcing industry?

No, I don't think so. In Hungary, you can set up a company within five days, so the market is still growing. And when labour costs are getting too high, the government reduces taxes. I also don't see Brexit as a problem for the outsourcing industry, as the British could only offer services in English. And mostly, if people would eventually come back to their own countries, the United Kingdom will lose its competitiveness. If Hungarians living now in the UK come back to Hungary it would be a great advantage for us.

An average age of 26 amongst your employees makes CPL group a millennial's nest. You men-tioned that talent retention is the biggest challenge in Hungary. How do you relate with millennials and their new needs?

60 per cent of the companies here are captive shared service centres. We are a BPO service centre so we do our best to keep people. We organise training sessions, yoga classes, soccer matches, we sponsor the city marathon. I am not afraid of startup competitiveness as they are more business oriented while we are more customer-oriented. But there are not too many big differences between millennial and older generations as others tend to think. Young people want exactly what we wanted 15 years ago.

So what are CPL's future plans?

Over the next five years, we would like to expand our portfolio. We would like to have 50 per cent of the revenues coming from different sources other than our fixed client (DXC). We would like to be more present in the market and recognised as an excellent BPO. What makes the difference between us and other companies is that we offer different things from the simple recruitment to BPO services. We have a good business card to show around.

HUNGARY: A SOUND CHOICE FOR INVESTMENT

WORDS EDIT LŐKÖS

Hungary has become one of the ten best investment destination countries in the world. Based on the 2018 Best to Invest Report published by Site Selection Global –specialised in investment themes - Hungary was ranked in two categories at a regional level. Regarding the number of investment projects, Hungary is eighth in the world rankings and was ranked first in per capita investment volume.

Its geographical location makes it ideal for investors dealing with manufacturing, services, export and import. As a central location, it is easily accessible by train, motorway and plane. The country has five international airports, six motorways and is a crossroads for four main European transport corridors.

Being a member of the European Union is an advantage for other European companies opening their subsidiaries here. Hungary offers access to 250 million people, or 50 per cent of the total European market.

Hungary has fully harmonised its legal system with the European Union, and the legal environment is investor-friendly.

Well-trained human capital is the main asset of the country. Most of the Hungarian population has a university or college degree and knowledge of foreign languages. The younger generations are technically qualified and highly skilled. The labor force is 4.4 million and the unemployment rate was 3.6 per cent in Q2 2018. However, the labour cost is increasing but it is still reasonable. The monthly minimal wage is 138,000 Hungarian forints (around 445 euros) and companies must pay a minimum of 180,500 forints (around 582 euros) for a skilled worker. The average wage is around 340,000 forints (1,100 euros).

Core industries are automotive, electronics, food and agriculture, while the country can also boast that its shared service centres are a success story.

Hungary's tax system is favourable both for companies who want to invest in the country and for individuals living here. The former progressive tax system was replaced by a flat corporate income tax rate that is currently nine per cent. Interest, dividend and royalty payments made to foreign legal entities are not subject to withholding tax. The general VAT rate is 27 per cent while there are 18 per cent, 5 per cent and 0 per cent VAT on certain goods and services in some exceptional cases. The personal income tax rate is a flat 15 per cent and the system supports individuals with tax incentives and allowances. The employee's contribution rate is 18.5 per cent and the employer's contribution rate is 21 per cent (of this the social security contribution is 19.5 per cent, vocational training contribution is 1.5 per cent). Further reductions can be expected from 2019.

One of Hungary's greatest advantages is the subsidies and incentives offered by the government. Development tax incentives may be claimed. Other types of investment – such as job creation, R&D – may be also subsidised. State aid can be either refundable or non-refundable. Hungarian funds provide regional and non-regional aid. The maximum regional aid is between 20 per cent and 50 per cent depending on which part of the country the foreign company wants to invest in.

Budapest – the capital – and Central Hungary are currently not subsidised. Based on individual Government decisions, mainly for R&D projects that last a minimum of one and maximum of three years, non-regional subsidies can be obtained. A so-called VIP training subsidy is also available for training a company's own employees if the company creates a minimum of 50 new jobs in Hungary. In order to make the investment attractive for foreign investors the government has the right to subsidise the manufacturing and shared service centre sector with VIP cash subsidies. Tender calls with variable timing, total amount of subsidy and conditions from European Union funds are also available. These tenders are focusing on small and medium-sized enterprises.

IT SECTOR OF ARMENIA

WORDS TATEVIK MKRTCHYAN

When Nitzan Yudan (Co-founder and CEO of Benivo) was asked about the strengths of Armenia, he mentioned human capital: "Armenian engineers are hardworking, talented, flexible, business orientated and committed."

According to the Innovation Efficiency Ratio index, Armenia ranks 17th out of 127 countries. .

The Information Technologies (IT) sector of Armenia is one of the country's booming export orientated industries. It seems that the sector is new in the market, but the roots of the IT sector are in Soviet times, where engineering was well developed in Armenia and a huge army of specialists were working in the technology development sector. Lately, the sector has recorded significant growth: 121 per cent export (338.6 million US dollars) and 32.6 per cent domestic market growth in 2017 compared with 2014. In 2017, the domestic market was worth 426.5 million US dollars.

The US and Canada are the main export destinations for Armenia sharing 36.4 per cent of the total in the IT sector. Europe is in second place with a 28.4 per cent share and Russia and CIS countries are the third respectively with a 15.4 per cent share.

One of the noticeable facts is that the IT sector is very diversified, with more than 15,000 professionals providing services in software development, semiconductor design, outsourcing, financial software, multimedia, web design, information systems and system integration. There are 650 enterprises in Armenian Information and Communication Technologies (ICT) sector. Companies that are specialised in customised software and outsourcing share more than 21 per cent of the market and companies that supply web design and development share around 14 per cent of the domestic market.

The significant advantage of the IT sector is the competitive workforce: the average hourly labour cost of Armenia is 10 times less compared with the average cost among the world's top 10 IT sector exporters. The point is that any investor can find here talented, well–educated and professional workers at a reasonable cost. The IT sector continues to grow due to foreign investments. In 2017, six local IT companies attracted more than 290 million US dollars in investment.

Moreover, the institutional system in the IT sector encourages innovation and the establishment of start-ups in Armenia. The well-known TUMO Centre for Creative Technologies and Armath Engineering Laboratories, as well as the Enterprise Incubator Foundation have brought their enormous input into the sector's development. Over 200 foreign companies, from the R&D, design, coding and testing sectors, operate in Armenia. This is where companies prefer to relocate their business-related functions, such as marketing and customer support. The list of international, well-known companies is too long to mention them all, but some of them are: D-link, Microsoft Innovation Center, Volo, Synopsys, Nokia and many others. Some other local companies have seen in national and international markets and PicsArt and Joomag are the brightest examples of that. The application created by PicsArt was recognised by Google Play as one of 2015's best apps, while over 500,000 leading businesses are already creating, distributing, tracking and monetising their online content from a central platform created by Joomag, streaming workflows and increasing their productivity in the process.

WORLD LEADER: BULGARIAN OUTSOURCING

WORDS SHAKHIL SHAH

Bulgaria is one of the world's leading destinations for BPO and ITO outsourcing services. Having won the Global Sourcing Association award for Offshoring Destination of the Year 2015, the country has continued to develop its outsourcing industry.

Bulgaria is one of the most progressive countries across CEE when it comes to outsourcing," says Tom Quigley, CEO of the Emerging Europe Alliance for Business Services, Innovation and Technology. "From government through to the outsourcing association, and investment promotion agency to service providers, there is clear alignment behind the capability of the country."

"Bulgaria was named as the number one outsourcing destination across Europe in 2015, and in 2016 and 2017 we retained top three placings," adds Svetoslav Ivanov, executive director of the Bulgarian Outsourcing Association (BOA).

Rapid development

The outsourcing sector in Bulgaria is developing at a rapid pace and has seen significant change and growth in recent years. During this time the country has transitioned from a location for outsourcing services – such as call centres – to offering more advanced and complex services such as BPO and ITO services. According to a report produced by the BOA, the outsourcing industry in Bulgaria is expected to generate 2.5 billion euros and account for 4.3 per cent of the country's GDP by 2020.

"The Bulgarian outsourcing sector has gone through fundamental changes over the past decade, moving from customer support services in the period 2010-2013, where the processes and technologies were relatively unified and standardised, to services with high added value," says Stefan Bumov, co-founder and COO at HeleCloud. "Driven by customer needs the outsourcing sector now provides far more complex processes including analytics, building, maintaining and securing growth of core business operations such as marketing, sales, accounting, human resources management and FinTech, amongst others."

Mr Ivanov says that in its first phase, between 2008-2015, the industry grew on average at 25 per cent year on year. Since then, growth in the industry has slowed.

"The outsourcing business in Bulgaria is entering its matured stage," he says. "While growth is still visible, it has dropped to approximately 10-15 per cent year on year. This trend is logical and understandable as a huge part of the biggest local players are already established and are now in the process of growing their local structures outside the capital Sofia across second tier cities like Plovdiv, Varna and Burgas."

Challenges

With this fast paced growth there are inevitably going to be challenges that companies looking to transfer services will face. Some of these challenges include, but are not limited to a shortage of employees, finding appropriate facilities, and increased competition in the industry.

With regards to the workforce, by 2020 it is expected that there will be 20,000 new jobs in the Bulgarian outsourcing sector. One of the biggest challenges is finding a well-educated and skilled workforce, especially given that at present the country is experiencing a shortage of graduates.

"This sector needs experts in HR management, finance and accounting, and IT specialists," says Plamen Tsekov, board member responsible for government relations at the BOA. He adds that the ability to speak two or more languages is becoming less of an advantage, and he believes that what is more important for the growth of the sector when it comes to the workforce are people with engineering and business skills.

However, all is certainly not lost. As Mr Bumov points out, BOA, the Bulgarian government and local authorities are working together to ensure stable growth as well as finding ways to develop the business environment.

"The increasing need for an educated workforce is being addressed with numerous state-supported initiatives including the launch of the national education IT Career programme, which engages business organisations and mentors from leading companies in the sector and incorporates the latest technologies, best practices and industry know-how," Mr Bumov adds. He also mentions the initiative taken by the city of Sofia in launching a new digital platform aimed at facilitating dialogue between schools, universities and business representatives. In addition, several new high schools have been opened, all of which put a particular focus on developing language, mathematical and IT skills.

Beyond Sofia

Another challenge mentioned above is finding appropriate facilities. At present approximately 80 per cent of all outsourced services are concentrated in Bulgaria's capital Sofia. This causes several issues, not only with access to the talent pool, but also finding office space.

"Currently, Sofia has over 1.66 million sq m of class A and B office space. Demand is rising and the outsourcing sector is the primary driver in this business segment," Mr Bumov adds.

Both Mr Bumov and Mr Ivanov agree that there are increased opportunities and development potential in second tier cities such as Plovdiv, Burgas, Varna and Veliko Tarnovo.

Mr Ivanov goes on to add that: "the two leading segments of the industry in Bulgaria are BPO and ITO. The back offices of global organisations, shared service centres and outsourced R&D are among the key outsourcing activities across the industry. In the past 12 months international companies including Coca-Cola, Siemens and VMware have continued to invest in Sofia and across the country."

In spite of the challenges, Mr Quigley states: "many of the service providers I have encountered have a genuine desire to partner, and approach any transaction with a long-term view – in other words you will find many of them, certainly those who are members of the BOA, vested in the relationship, keen to achieve a win-win outcome, and a flexible partner."

Why Bulgaria?

There are many reasons for choosing Bulgaria as an outsourcing destination, which include geographical location, developed infrastructure, real estate equipped to accommodate industry needs, an educated work force, taxation, well developed second tier cities and cost savings. However, from the various interviews and conversations that have taken place, it is clear that Bulgaria has maintained its high ranking in Europe with regards to outsourcing also because of the alignment between the government, associations and businesses.

According to Mr Quigley, "one of the advantages is the aforementioned vertical alignment of communication and effort from the top down. What's more, the country is also investing more in future skills within its education programmes, ensuring ongoing access to a steady supply of IT resources. Finally, there is clear evidence that the favourable taxation treatment is luring many Bulgarians back to their homeland, bringing a variety of key skills and competencies back to the country."

Mr Quigley's advice to companies or investors looking to outsource their services to Bulgaria is that they should "engage directly with BOA. Not only are they incredibly knowledgeable about the skills sets that are prominent in the various cities, but they are genuinely passionate about providing you with the facts and not the hyperbole around outsourcing in the country."

"Please visit us face to face, meet the business, meet the people" Mr Ivanov concludes.

A REGIONAL PLATFORM DRIVEN BY EXPERTISE, BUSINESS, AND NETWORKING

In the fast-changing technology and information-driven world, access to and sharing of knowledge, expertise, capacities, and skills towards the opening of new markets via a shared platform of like-minded individuals is a precondition for job creation, raising competitiveness and inclusive growth.

In 2015, the Balkan and Black Sea region's leading clusters and associations decided to expand the what was previously known as the SEE ICT Network, a small regional network of Western Balkan, and establish a joint Network, the BBS ICT Cluster Network. Since then, the BBS ICT Network has grown institutionally and in size, and has become attractive to the Baltic region. As such, it has transformed into the 3B (Balkan, Black Sea, and Baltic)
ICT Cluster Network. 3B ICT is shaped as a meta-cluster with 16-member organisations from nine countries, as well as 10 associated partners from another four countries, and it brings together 1,117-member companies with a total of 44,965 employees, with over 90 academic institutions/ research organizations.

The network is committed to improving the business environment, SME growth through innovation, with a strong focus on cross-sectorial cooperation and internationalisation. It aims at changing the perception of the regions by promoting them as vibrant digital and innovation hubs within Europe, by becoming a recognised credible partner for ICT Outsourcing (near-sourcing for Europe). Its market represents a young and emerging sector with active, innovative behaviour; excellent command of foreign languages; adaptive capacity to the new global ICT industry demands; competitive labour price; high level of specialisation in quality processes and product standards; near-sourcing for Europe – geographical, cultural and physical proximity.

IT companies in the 3B region have grown exponentially, many of which have reached levels of maturity and being approached by bigger international players for joint ventures, partnership, and acquisitions.

Good cooperation, information exchange, mutual trust and commitment among network members enables the development of innovative ideas and joint projects. The network has implemented European funded programmes via H2020, COSME, Danube Region Project Fund, and numerous Cross-border programmes. Currently, the network is managing the Green ICT development (GIVE) Project, with the general objective to build a strategic cluster partnership in the field of smart green technologies of the three vital industries - automotive, renewable energy and ICT.

Since its creation, the network has benefitted from the support of international organisations such as GIZ and especially USAID REG, with the latter supplying instrumental support since its establishment. 3B ICT has organised several events, such as B2B meetings, training sessions, conferences, and trade missions for its members as well as for a wider audience. The network focuses mostly on the synergy it brings to SMEs, the drivers of growth, to increase their competitiveness and assist them in their international outreach. At the same time, the network recognises the power of building alliances with respectable international organisations. As a result, it became a member of the European Digital SME Alliance that represents more than 20,000 ICT companies and a member of the Emerging Europe Alliance.

The network is recognized by the European Commission, DG Growth, as an important and reliable partner in the region, contributing to the smart and inclusive growth of the economies for a better and stronger Europe, supporting digital transformation using cross-cluster, cross-industry, and cross-regional collaboration. The recent endorsement of the Western Balkan Strategy on behalf of the European Commission opens an opportunity for the network to play an important role in the implementation of the activities related to the identified six flagships, in particular, the Digital Agenda, preparation and deployment of smart specialization strategies and others.

Since its foundation, every member of the network has learned that its commitment, openness, dedication, and support is crucial for success. Members of the network are open to share knowledge and expertise, to learn from each other, build further capacities and skills and provide support. This modern and effective network culture is constantly increasing the attention and the interest of new members to join the network.

As a result, if your cluster/ association is committed to innovation and growth, to new business opportunities for its members, and finds the 3B ICT Cluster Network as the right fit, 3B ICT Cluster Network is keen to talk to you.

ICT GROWTH CONTINUES TO BOOST THE BOSNIAN ECONOMY

WORDS JERRY CAMERON

The ICT sector, with over 420 firms, has been one of the fastest developing sectors in Bosnia and Herzegovina (BiH) over the last few years. According to the Foreign Investment Promotion Agency (FIPA), its share of the country's GDP amounts to 80 million euros. In 2016, the number of IT people employed by ICT companies increased by 97 per cent compared to 2010, and net profits of ICT firms have doubled.

"There are a number of factors that have enabled the ICT sector to grow over the last few years," Sean Alimajstorovic, director at Digitalini Group, tells *Emerging Europe*. "The first one being digital technology itself both in terms of infrastructure improvements and its new applications. The other factor which has heavily influenced that growth is the expertise of teams on the ground as well as costs that associated with setting up, running and maintaining operations. A number of companies are running continuous professional development programmes as well as academies, and that in itself has helped shape the sector's growth," he adds.

During an investment seminar organised in London in November, some of its participants brought up some of the challenges of doing business in Bosnia and Herzegovina, such as red tape, corruption and the country's less than positive image as an investment destination.

"I would say that this could be an obstacle in more traditional industry sectors, but I cannot see it being an issue in terms of ICT. A lot of the work packages are usually delivered by small to medium sized teams and again with application of technology and virtual team set-ups you can pretty much avoid any obstacle in your path," says Mr Alimajstorovic.

FIPA is counting on investment in other sectors too: manufacturing, energy, wood processing, tourism, to name a few. Once an investor visits to Bosnia and Hercegovina they are more inclined to do business there.

"And 70 per cent of our existing investors have reinvested in the country, which shows their satisfaction," Gordan Milinić, FIPA's director assured potential investors.

The EU accepted Bosnia and Herzegovina's membership application in September 2016. The reform agenda implemented by the Council of Ministers and the governments of the Federation of Bosnia and Herzegovina and Republic Srpska is closely aligned with the EU's new approach to economic governance in the Western Balkans and the Economic Reform Programme.

"We are trying to improve the environment for new investors, as we really need them," says BiH's Ambassador to London Branko T. Nesković and adds that the country hopes to become an EU member state in 2022-2023.

Rudi Kesic, the director and owner of Advantage Business Group believes that the investment potential in Bosnia and Herzegovina is immense, but structural economic reforms are needed to unlock it.

"If the government manages to achieve this, Bosnia can become the economic tiger of South Eastern Europe," he told *Emerging Europe*. "One of the current issues is a complex legal and regulatory framework, as the country is divided into two governmental entities, which don't really work together. There's also a lack of transparency in business procedures, especially in calls for public tenders, which are not always transparent and some suggest a high level of corruption, involving the judicial structure and local government agencies."

"One of the main issues is the fact that state institutions are still plagued with corruption, mentality, religion and other complex social properties of the nation, but I believe that the introduction of good laws and their persistent and effective enforcement will result in considerable improvement," he continues.

Mr Kesic believes that the way forward is an injection of fresh blood, including bringing back young people who received their education abroad. "People who have lived in tolerant societies such as the UK and developed their capacities, young people hungry for success, who are ready to share their knowledge and make personal sacrifices for their country," he says.

According to BiH's central bank, the total FDI stock between 1994 and 2016 amounted to 6.6 billion euros, with Austria, Croatia and Serbia being the three largest investors, bringing in half of the capital, manufacturing, banking and telecommunications accounting for over 60 per cent. In the World Bank's Doing Business Index 2018, BiH ranked 86th, down from 81st in 2017.

ICT IN KOSOVO: GREAT POTENTIAL, OBSTACLES REMAIN

WORDS CLAUDIA PATRICOLO

Despite the majority of households in Kosovo having access to the internet both via fixed and mobile broadband connections, 38.7 per cent of the country's population still has no access to any type of electronic computer device.

According to an Information and Communication Technology Survey published by the Kosovo Agency of Statistics (KAS), the country's ICT sector is growing fast, having been one of the priorities of the government for the last five years. Still, some challenges remain.

"ICT's main potential in Kosovo is the use of the internet for web and other services for private purposes, for some governmental activities and public services (mostly for receiving information from websites or internet applications), for e-commerce and for easier communication with family members, relatives, friends," said KAS CEO, Isa Krasniqi.

However, while e-commerce is seen as an important driver in developing the sector, it is still not all that popular among ordinary Kosovans.

"More than 54 per cent of individuals prefer to see and buy products in shops," Mr Krasniqi told *Emerging Europe*. "As well as that, 12.7 per cent do not have enough the necessary skills, and some people simply do not have a credit card in order to buy online."

According to KAS, taking into account the structure and the competitive advantage of Kosovo's IT industry, the country has the potential to follow the example of more developed nations by using the IT industry as a catalyst for economic growth.

Promoting its national IT industry could help Kosovo further improve its international visibility and position itself as a centre of digital excellence, IT entrepreneurship and innovation, following the example of small, yet highly innovative and competitive nations such as Estonia, Lithuania or Singapore.

While there is a substantial market potential for Kosovo IT exports, both software and IT services, due to increasing demand for outsourcing, obstacles remain. Overall, there is a low level of specialisation and differentiation among IT companies in terms of technology and target industries. Furthermore, the output of the universities is insufficient in terms of quality and quantity of graduates in IT subjects, which negatively affects the overall competitiveness of the Kosovo IT industry.

ONLY INNOVATIVE EVOLUTION WILL ACHIEVE REVOLUTIONARY GROWTH

WORDS AVTANDIL KASRADZE

AVTANDIL KASRADZE, DEPUTY CHAIRMAN GITA, GEORGIA

The government of Georgia's inclusive growth agenda foresees the need to strengthen human capital, improve private sector competitiveness and productivity through a focus on micro, small and medium enterprises (MSMEs). It also plans on increasing access to finance, supporting measures to increase firms' capacity to innovate and to export, including the upgrading of broadband internet services and strengthening the investment climate.

The government is keen to develop the capacity, services, and infrastructure for Georgia to create an innovative, knowledge-based economy, while reducing individuals' and businesses' perception on the risks associated with innovation. Georgia's Innovation and Technology Agency (GITA) is in charge of innovation policy elaboration and implementation and aims to promote entrepreneurship by improving the regulatory environment, access to finance, entrepreneurial learning, consultancy services and R&D commercialisation.

Many locals were sceptical. Many believed that Georgia – with very small economy – cannot afford to support innovation and that the government should focus on supporting traditional businesses, where the risks are much lower. Innovation is something that only developed countries should focus on. We should also take into consideration our Soviet past, where people used to work only for the government and entrepreneurship wasn't allowed. This past somehow still reflects in our society, especially amongst the older generation. Even though the young generation is free from the Soviet past, their parents are still expecting them to find jobs in government or in big corporations, and if their children are working on startups they assume that they are just playing: a startup is not a serious endeavour. Therefore, our main agenda from the beginning was to create a big innovative community, where people could work on new ideas and products.

Currently we have around 100 startups in Georgia, most of them early stage. They need an environment to grow and become successful entrepreneurs. They need success stories in Georgia to attract newcomers to the ecosystem. This will bring new people into business and we estimate that by 2020 we will have five times more startups than now, and hopefully a few of them will be well-known internationally.

To support these startups one of the pillars that is needed is access to finance. But it was clear from the beginning that the private sector was not ready to take big risks to finance these early stage startups. Within the Startup Georgia programme, GITA finances high-tech, globally scalable innovative startups and the Partnership Fund supports innovative startups for the Georgian market.

For the initial stage, the government allocated the equivalent of 3 million UK pounds with the potential to increase this to 10 million UK pounds. In total, 65 startups were financed in 2016 in both components.

GITA also partnered with experienced Silicon Valley specialists, who reviewed up to 150 applications. The 50 shortlisted candidates received one-week intensive training from Silicon Valley experts, and prepared them for a final pitching session with investors. The 20 winners were identified and received the equivalent of up to 30,000 UK pounds venture financing, with a 5 per-cent equity composition and mentorship from Silicon Valley.

This was the first chance for Georgian startups to receive major investment, and the results clearly show Georgia's potential for innovation. I remember Silicon Valley venture capitalists telling me that Georgia should be very proud: the level of its start-ups is equal to that of Silicon Valley's own early stage firms. And we can now see some results: one startup was accepted by a well-known international accelerator, Techstars, while another began sales in the US. Further startups have received additional private investment and are growing significantly.

Now is the time when the private sector should start playing a major role in the innovation ecosystem by creating private equity incubators/accelerators and establishing venture funds. We are expecting more involvement from the private sector, because their participation is an important gateway to success. With a joint effort we will revolutionise our country's economy.

EMERGING EUROPE'S IPAS NEED TO IMPROVE

WORDS CRAIG TURP & SHAKHIL SHAH

Invest Lithuania, emerging Europe's best investment promotion agency (IPA), scored just 65.55 out of a possible 100 in a major new report looking at IPA performance across the region. Invest Lithuania's winning score shows how much more work needs to be done to serve foreign investors better. Collaboration will be key.

The emerging Europe region today consists of 23 countries, including a total population of 200 million and a nominal GDP of over 2 trillion US dollars. Most of these economies offer very business friendly environments — 3/4 of them are in the top 50 of the World Bank's *Doing Business* report for 2018, and inbound foreign direct investment (FDI) amounted to almost 44 billion US dollars according to the United Nations Conference on Trade and Development: *World Investment* Report 2018.

"When emerging Europe politicians travel abroad they always have the same message: our country is open for business," said Emerging Europe's head of content strategy and publishing Andrew Wrobel, presenting the Investment Promotion Report at the inaugural edition of the Emerging Europe Awards, held during the summer at the headquarters of the European Bank for Reconstruction and Development (EBRD) in London.

"Unfortunately, our research has shown that the reality is somewhat different to the political message," said Mr Wrobel. "While we are happy to recognise the achievement of this year's highest-rated IPAs — including Invest Lithuania, which did very well at communications but worse at enquiry handling — all countries in the region need to do much more."

No response

Emerging Europe's research looked primarily at how IPAs communicate and handle enquiries. In a number of cases, contacting an IPA as a potential investor proved impossible. Under half — 48 per cent — responded to enquiries, usually offering generic information. Not one offered to set up a meeting with their UK representative.

The website is often the first aspect of an IPA that is seen, therefore it is shocking that often the website is neglected, updates are only made to downloadable content and not the site itself and quite often sector contacts are not provided. The communications component of the research was carried out in February and March 2018, where the vast majority of macroeconomic data for 2017 was available. Yet only 13 per cent of IPAs had data not older than 12 months. Only 26 per cent of them had relevant information about key sectors. Not a single agency provided such information about the labour market and available talent.

The emerging Europe region is constantly talking about talent, and how people in the region are extremely qualified to suit any job out there. Based on the findings there seems to be some disconnect between what the IPAs are promoting and whether or not they are implementing the same practices in house. The entire region boasts about the fact that the talent is linguistically adept, however only 22 per cent of the English version of IPA websites had few or no mistakes, like wise 13 per cent with regards to the newsletter and zero per cent with regards to social media.

"Talent, then talent, then talent," said Olga Grygier-Siddons, CEO of PwC CEE, during a high-level roundtable discussion which followed Mr Wrobel's presentation, featuring senior business and political leaders, heads of IPAs and diplomats. There was general agreement that more needed to be done to promote investment in emerging Europe.

"IPAs are not making public the fact that there is so much talent in our countries. We are missing a trick. Investors only know about this wealth of talent from anecdotes, from companies which have already invested in the region. Central and Eastern Europe should stick together. We have something to offer on the global stage," she added.

No suprises

"I am not surprised by the results of the investment promotion agency survey," said Gunter Verheugen, the former European Commissioner for Enlargement, who did much to ensure that ten emerging European countries became EU members.
"The survey is important because benchmarking is key to improvement. We need to make sure that we exchange information regarding best practices. Let's learn together and concentrate on such exchanges."

Another of the region's business

heavyweights, Peter Stračar, the CEO of GE Europe, believes that emerging Europe is at a crucial stage and that it needs to make sure it attracts the right kind of investors.

"We are at a crossroads," he said. "Job creation is no longer a priority. Some areas of the region have almost no unemployment. Attracting investors is now about creating value-added jobs. How do we do this?"

Mr Stračar believes that IPAs should be more prepared to look outside of their home markets.

"They need to take a look at what they can do for their target markets," he said. "They need to ask themselves: What is our value proposition? Why should firms do business in our country? They need to remember that they are competing: with China, with India, with Western Europe."

Focus on service

"Let's focus on service," said Daniel Bilak, CEO of Ukraine Invest. "We need to identify the right people to staff IPAs. Sometimes IPAs are competing with the private sector for talent. We need to get people on board who are enthusiastic about promoting investment in their countries and who are ready to do it as a labour of love."

Mr Bilak also agreed that there should be more sharing of best practice. "I would love to see what has been successful, with less focus on what has been done poorly. But overall this is the first time I've seen anything that's tried to take a general and holistic view of IPA evolution. This private sector approach is extremely important."

Encouragingly, this year's leading IPA, Invest Lithuania, has taken the findings of the IPA report and is already in the process of implementing some key changes. "We have learnt that we need to foster better cooperation between IPAs in the region," said Arturas Rtiščev, Invest Lithuania's head of business development in the UK. "Investment promotion is extremely important. IPAs are publicly funded government institutions, they have a duty to deliver on behalf of the people who fund them to do so. Constant restructuring of agencies must not be a priority. We need to focus on servicing clients instead."

Armen Avak Avakian of Business Armenia also said that his own organisation was undergoing restructuring. "These findings are useful," he said. "They offer plenty of food for thought for the development of our agency moving forward. Everything needs to be put in the cultural context."

Mr Avakian also believes that sharing experience is vital.

"It is very important," he said, "I have only been doing this for a year, so I am relatively new to the game. But I have been meeting a lot of IPAs, talking to them, and there are two things worth mentioning. Number one is that it's important to talk and share experiences because you always want to know that you are not alone. For example, the struggle between digital and analogue is the same for everyone. Every single IPA has the same problems that they deal with in different ways. The second thing is actually sharing solutions; and the services that we provided. We don't want to reinvent the wheel; if mistakes have been made, and surely, they have, we don't want to repeat them. Smart people learn from their mistakes; wise people learn from others' mistakes."

Tanya Koicheva, minister plenipotentiary economic and commercial at the Embassy of Bulgaria in London also feels that more progress could be made by combining forces.

"My experience is that if we promote Emerging Europe as a brand then we can go further. We can take the brand to Silicon Valley. We can take it global."

The Emerging Europe Alliance, which announced the appointment of its first senior executives during the Emerging Europe Awards, could be just the vehicle to achieve that.

"The CEE region brings together a rich talent pool of highly educated, multilingual resources, combined with an innovative and service orientated culture, making it an attractive BPO destination. I'm proud to be part of a group that is truly passionate about making a difference, and together we will contribute to unlocking the region's full potential," said Paula Kennedy Garcia, VP of EMEA markets at Convergys, and a member of the alliance's steering group.

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EMERGING
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The Emerging Europe Alliance for Business Services, Innovation and Technology is the fastest growing and most innovative business coalition in emerging Europe asserting itself as a hugely powerful advocate and representative voice for its members. We aim at increasing the region's international competitiveness, making it easier for the global markets to identify and recognise the strength of the region as a strategic partner, and compel its operators to conduct business with it.
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