OFFSHORING AND OUTSOURCING IN VISEGRAD COUNTRIES. ADVANTAGES AND DISADVANTAGES

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Abstract
Outsourcing and offshoring are getting more and more popular in the "new EU" coun-tries. They constitute very attractive venues for more developed EU countries to outsource or offshore their business activities. Authors of the article have investigated the advantages and disadvantages of locating outsourcing activities in each of the Visegrad (V4) countries.
The authors have studied macroeconomic factors based on the reports of international organizations. They helped to resolve the following research problems: what are the key barriers for investors who intended to outsource or offshore in V4 countries, what factors inflict those problems, do Visegrad countries have similar problems and finally, which country ac-cording to the collated data and analysis creates best conditions to outsource or offshore busi-ness.
The main objective of this paper is to identify advantages and disadvantages of investments in V4 countries and to update information about investment conditions of those economies.

Keywords: outsourcing, offshoring, Visegrad countries.

1. Introduction

Because of growing costs of maintaining a business, more and more companies look for cost reduction methods. If there is no possibility to ensure this in a home country, a company looks for new markets and opportunities.
In the case of large companies outsourcing is becoming a common practice. Many of the new global investments are located in post-communist countries like Poland, Czech Republic, Slovak Republic or Hungary — countries that constitute the

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Visegrad Union (V4). The main objective of this paper is to present the conditions for the investors in the context of outsourcing or offshoring provided by post-communist countries and to identify positive and negative aspects of investing in each of the analysed countries. The research methods used in the article are: study of the literature concerning outsourcing and offshoring and selected economic data analysis with the reference to V4 countries.

2. Literature review

There are many literature sources describing offshoring and outsourcing in the case of foreign direct investments. The concepts of offshoring and outsourcing are closely related and usually difficult to distinguish.

In the opinion of the authors of the paper, the best definition of these concepts was proposed by D. Chadee and R. Raman. According to these authors, offshoring — also referred to as international sourcing — means the provision of services from another country through either internal or external suppliers. Outsourcing is focused on the services provision in the home country. If provided by foreign organizations, it is called international outsourcing. (Chadee, Raman, 2009, p. 1).

Figure1. Outsourcing and offshoring: illustrative concepts

Offshoring and outsourcing have become typical solutions for mature economies, as they reduce costs in the short run (Maskell, 2007, p. 239–247). On the other hand, offshoring and outsourcing are applied to gain some added value which cannot be obtained in the home country cheaply or at all (Mukherjee, 2013, p. 378).

Offshoring and outsourcing are also becoming more and more popular because of the reduction of travel costs, knowledge transferring, implementation of new communication technologies etc. (Grossman, 2006), (Grudowski, Muchlado, 2014). In the globalized economy, any information can be sent immediately, so in comparison to other European countries, the Visegrad group is able to create equal conditions in terms of service accessibility.

According to literature, the main determinants in choosing country to offshore or outsource a process are: costs, availability and quality of labour force, infrastructure and technology, geographical aspects, culture, geopolitical risks, property rights security (Gartner, Inc., p. 2–3), size of market and goods market efficiency (World Economic Forum, 2013, p. 22–23).

On the basis of these factors, authors present the characteristics of V4 countries to help potential investors in choosing the best country to invest.

3. Methods and results

The literature study enabled the authors to select key factors for making offshoring and outsourcing decisions in Visegrad countries.

Bearing in mind that those countries do not differ significantly as regards the above mentioned factors, the authors are going to focus on the key factors which made them different. The analysis is based on five groups of factors:

1) macro-economic environment;
2) cost factors;
3) infrastructure;
4) rankings analysis;
5) analysis of recent government decisions influencing foreign investors.

The data and information for those analyses were collected from common and trusted sources like World Bank database, OECD and statistical departments of particular countries.

The authors used in the analyses — not without purpose — more factors showing the trend or percentage change than numbers. This step was taken because of the differences in the scale of economies in analyzed countries, so that the country data can be properly compared.

4. Selected results of V4 countries analysis

4.1. Macro-economic research results

The first step made in this paper is the analysis of macro-economic factors. To start with, the authors will analyze the GDP growth to see what development trends are present in the Visegrad countries. Next, the authors will analyze the GDP per capita data in order to assess the wealth of citizens of V4 countries. In order to check how strongly are the foreign investors interested in outsourcing and offshoring to post-communist countries, an analysis of Foreign Direct Investment will be made.

The analysis of GDP growth trend seems to be one of the most essential factors of the current economy stability and growth rate. Apart from the cost factor of offshoring or outsourcing, it must be carefully taken into account.

As can be seen in the global gross domestic product change graph, V4 states were treated as developing countries in years of prosperity (between 2004, when they joined EU, and 2009) — their economy was rising. In 2009, when the crisis began, all economies except Poland contracted and their annual GDP growth reached negative values. Since the year when the crisis started, the economies have been developing continually but less dynamically. Poland, however, with its stable and continuous growth, constitutes an exception.

If one looks at the 2013–2014 period, it can be seen that in recent years Hungary has been regaining its GDP growth very fast after changes in government.

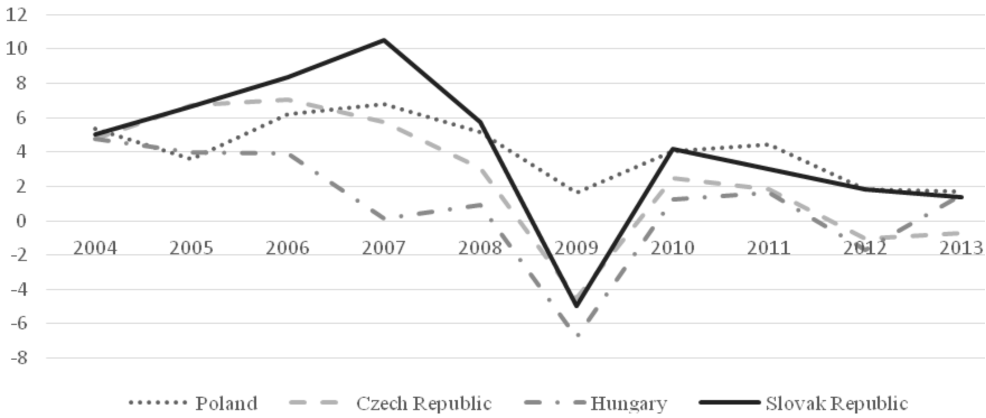

Figure 2. GDP growth (annual%)
Source: own elaboration based on (The World Bank Database).

Returning to the core subject of locating offshoring or outsourcing business, it must be said that if one looks for an economy which is stable and "crisis proof", Poland should be selected. Nevertheless, all the countries are rebuilding their GDP very fast after recent losses, so it can be said that in the long term they are a good option as destinations of business operations offshoring if the stability of a region is the preferred factor.

Table 1 shows the changes in GDP per capita in years after the V4 countries joined UE.

Table 1. GDP per capita change in %

Country/ year	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total growth
Poland	20	12	25	24	–19	9	9	–5	4	79
Czech Republic	14	14	21	24	–13	0	9	–9	6	66
Hungary	8	2	21	14	–18	1	8	–9	8	35
Slovak Republic	9	12	22	16	–11	0	11	–5	7	61

Source: adopted from (The World Bank Database).

According to the table above, all the V4 countries lost significant amounts of resources, as measured by GDP per capita. The table shows how the countries were capable to rebuild after an economic shock. Poland did it almost in one year, only to lose 9% in 2012, but the total improvement in the wealth of citizens is about 76%. Czech Republic citizens' wealth decreased by 13% in 2009 and could not be rebuild because of recent loses. However, in total the wealth of Czechs increased by 59%, which gave the country second rank after Poland.

Hungary did not increase its GDP per capita after the crisis shock as well, but since 2005 it increased the wealth of its citizens by 27%, which is the worst score among all the Visegrad countries.

The citizens of the Slovak Republic lost least wealth during the crisis shock and have been maintaining it very well in the subsequent period. Considering the small size of country, its GDP per capita increase of 54% is a great score. In the last year covered by the analysis, 2013, all countries increased their GDP per capita — Hungary was the leader here because, as mentioned before, its changes increased the GDP.

According to the data and short analysis, we can assume that all countries except Hungary increased the wealth of their citizens during the 9 years significantly but the loss of GDP in crisis times was also high.

Foreign investors should take into account that those countries have been developing very dynamically since joining UE, making their citizens richer. On the one hand, it makes them a larger market for offshore outsourcing but on the other leads to salary increase, which heightens the costs of conducting business activity.

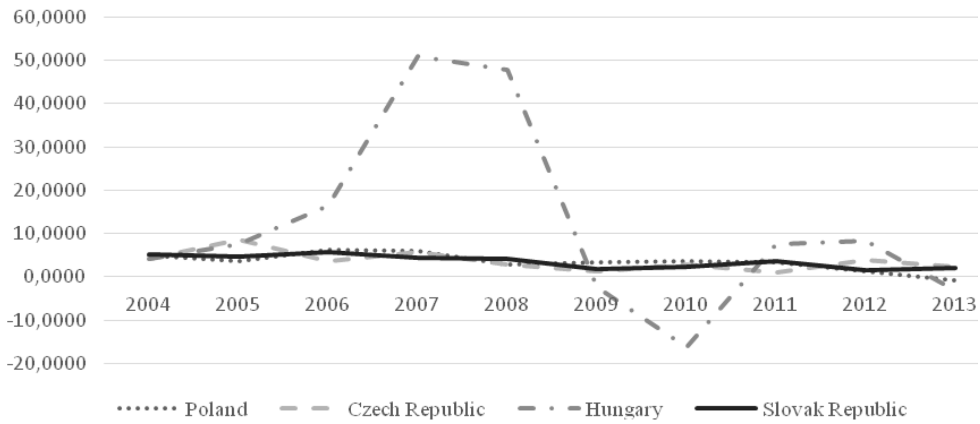

Figure 3. Foregin direct investment inflows (% of GDP)
Source: own elaboration based on (Organisation for Economic Co-operation and Development).

If one intends to locate capital in one of the V4 countries, it is important to look how other investors have behaved in recent years. The FDI net inflow reflects the capacity to hold and attract foreign investors.

If one looks for popularity of a region among foreign investors, it can be seen that among the Visegrad countries, in years before the crisis Hungary was chosen most often. Before the crisis almost all the V4 countries obtained about 4 to 8% of their GDP from FDI, which makes them very attractive for investors. After the crisis all the analyzed countries except Poland lost the foreign investors' interest till 2009. However, after 2009 the foreign investors returned to the Visegrad countries once again – especially to Hungary, which in 2012 noted FDI inflows in the amount of 12% of their GDP, which signifies a great effort.

From among the analyzed countries, only Poland after years of stability in the context of FDI inflows falling in other Visegrad countries is having less FDI investment right now.

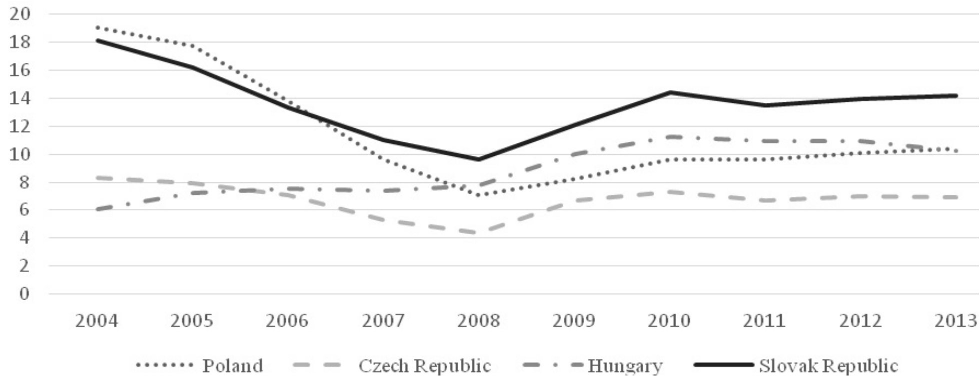

Figure 4. Unemployment in %
Source: own elaboration based on (The World Bank Database).

As can see seen, the unemployment rate in all Visegrad countries besides Hungary was decreasing after joining the EU. In 2008, the trend changed and the unemployment rate rose to reach the current stable level in all V4 countries. The unemployment in Czech Republic is much lower than in other Visegrad countries. A stable level of 7% means that the labour market is dominated by workers, which means it could be hard to find specialized employees for offshore business there.

Poland and Hungary are keeping their unemployment rate on a stable level of about 10% — it means that there are workers on the market and the situation is stable. Investors should have no problem with workforce in these countries.

The unemployment rate in Slovak Republic is on a high level of 14% and tends to grow.

As far as recent years are concerned, it can be seen that in all V4 countries the unemployment tends to rise — maybe besides Czech Republic, where it decreased slightly in the period from 2011 till the end of 2013.

On the one hand, it causes the labour market to be dominated by employers looking for workers, but on the other the question is how many workers are employed in the informal economy, very popular in Slovak Republic. In this case, the decision to make an investment due to the availability of labour can be very complicated and requires more research.

Cost factors efficiency of offshoring and outsourcing

In Table 2, the authors present the most important cost factors influencing outsourcing and offshoring decisions.

Table 2. Average salary, corruption rate and taxes

Country	Average net salary (USD)	Corruption rate (higher = better)	Taxes (% of profit)
Poland	1380	58	41.6
Czech Republic	1268	49	48.1
Hungary	1123	55	49.7
Slovak Republic	1210	46	47.2

Sources: own elaboration based on (Organisation for Economic Co-operation and Development), (Transparency International, 2012), (The World Bank Database).

The main factor influencing the decision to outsource business activities to V4 countries may be the average salary which needs to be paid to workers.

The highest salary in the selected countries reaches almost 1400 USD per month (Poland), whereas Czech and Slovak workers earn 1200 USD on average. Investors looking for the cheapest workforce should rather choose Hungary because of its low net salary.

When company is making a decision about outsourcing its activities to other countries and sell its products there, the tax rate in the new place is a very important factor.

As can be seen from the above chart, depicting the total tax rate as the percentage of commercial profits, Hungary is the most costly country — a company will leave there almost 50% of its profit. The Slovak and Czech Republics are cheaper.

The tax situation is best in Poland, where the taxes are lowest (about 42%). Unfortunately, the post-communist countries are still affected by corruption. In this case, we need to take this factor into consideration to estimate the real costs of outsourcing, too.

The above chart shows the corruption rate assessed by Transparency International in 2012. These data reflect "how clean of corruption" a country is. As can be seen, the most corrupted countries are the Slovak and Czech Republics, which score 40–50 points, reaching the medium level of corruption. Hungary and Poland are in the next interval, i.e. medium-to-low corruption. According to the research of Transparency International, Poland is the least corrupted country.

4.3. Infrastructure

A very important factor to be taken into account while considering outsourcing or offshoring business activities to other countries is their transport infrastructure. The graphs bellow show its amount and quality according to the World Economic Forum report.

The largest density and the highest of quality roads can be found in Hungary.

Table 3. Infrastructure density and quality

Country/Factor	Roads (pro 1 km sq.)	Rails (pro 1 km sq.)	Quality of roads	Quality of rails
Poland	1.30	0.06	3	2.6
Czech Republic	1.66	0.12	3.7	4.6
Hungary	2.15	0.08	4	3.6
Slovak Republic	0.90	0.07	3.6	4.3

Source: own elaboration based on (The World Bank Database), (World Economic Forum, 2013).

Here, the investor should use the road transport instead of railways, which are not of the best quality. Apart from Hungary, the Czech Republic has the largest amount of rail and road infrastructure. The density of infrastructure may not be the highest of the Visegrad countries but its quality is best here. On the other hand, the infrastructure in Poland is both less dense and of worse quality than in the two countries mentioned before. The Slovak Republic has the least dense infrastructure but it is very well maintained.

4.4. Recent structural decisions in V4 influencing conditions for FDI

According to the World Bank's *Doing business report 2013*, the V4 countries have made a very good progress in encouraging foreign investors. The authors present below the positive and negative steps that were taken in recent years according to the world databank (The World Bank Database, 2015).

A. Poland

According to the world competitiveness report (Schwab, 2015), the advances Poland has made in institutions, infrastructure and education, as well as the increased flexibility of its labour market, are steps in the right direction as far as boosting the country's competitiveness since joining the European Union is concerned. Poland builds on a fairly well educated population, well-developed financial markets and a market that is by far the largest in the all V4 countries. However, the transport infrastructure, despite notable improvements, remains weak according to European standards. Institutions and their regulations are also ineffective.

Taxes policy

By promoting projects like the e-department programme, which encourages citizens to pay taxes over the Internet without visiting tax office, Poland reduces waste of time spent by companies on fulfilling their tax duties.

Enforcing contracts time

While having numerous problems with waiting for the civil courts to make a decision, Poland has amended the civil procedure and sent more judges to commercial courts to accelerate it.

Resolving insolvency

Because of problems with high company bankruptcy ratio and the related issues experienced by creditors, Poland strengthened its insolvency process by updating guidelines on the informational duties and now requires more documents that are needed to be included in the bankruptcy petition. What is most important, however, is that the situation is improving because of granting the secured creditors the right to take over claims encumbered with financial pledges in case of liquidation.

B. Czech Republic

In recent years, the Czech Republic improved the efficacy of public institutions from very low initial levels. Despite this, the public trust in politicians ranked extremely low as 138th (Schwab, 2015). The budget deficit is below the 3 per cent mark, leading to a closing of the European Commission's excessive deficit procedure. According to the source, in recent years the Czech Republic has implemented improvements in health and primary education thanks to a higher primary enrolment rate, as well as to gradual improvements in the labour market. Worth mentioning is also the fact that flexibility of wage determination is perceived as more favourable, which is very important in the context of outsourcing or offshoring decision.

Registering property

In recent years, the Czech Republic improved property registering by making it easier. Now it is possible to access the commercial registry databases of the cadastral office online — this step eliminated the need of obtaining certificate from the registry before registering at the cadastre.

Paying taxes

Just as Poland, the Czech Republic introduced the similar system of paying taxes on-line. It brought the same effect of reducing time spent in tax offices.

International trade

What is important for investors, the Czech Republic has introduced a new electronic system which improved border traffic in recent years.

C. Hungary

Taxes

Hungary made a good step to encourage foreign investors by abolishing the community tax payable by the owner of a building or land parcel. The money from this tax was paid to local government. The maximum rate of the local community tax was about 80 USD per year for each building/land parcel. (Hungarian Government, 1992).

Trade

Just as Czech Republic, Hungary introduced a new electronic system which improved border traffic.

Government changes

Due to last decision of the Hungarian government, there are positive changes in the business outsourcing environment. However, the new investors must take into account that they are to a certain extent populist and can ruin the country's economy in the future (The Economist Intelligence Unit, 2014).

Starting a business

A few years ago Hungary made a decision very poor from the investor's point of view by increasing registration fees for limited companies (the form most often chosen by offshoring and outsourcing enterprises), as well as adding a new registration tax levied at the time of incorporation.

Health insurance

Hungary has recently increased health insurance contributions paid by the employer. It is another case of rising levies after increasing business registration fee and can be seen as aimed against investors.

D. Slovak Republic

Setting up a business

The Slovak Republic has introduced applications at the one-stop shop for trading licenses, income tax registration and health insurance. This step has reduced time needed to set up a new business or manage it.

Taxes

Following in the footsteps of Poland and Czech Republic, Slovak Republic has also introduced electronic ways to pay taxes, which made the activity less time consuming and much easier than before.

Enforcing contracts

The Slovak Republic has changed its civil code to make enforcing contracts easier and faster. It has adopted new procedures to limit obstructive tactics by the parties. It has also improved insolvency process, just as Poland did. The new code has redefined the roles and powers of creditors and trustees. The code is now strengthening the creditors' rights. The redefined rules for conversion of restructuring into a bankruptcy procedure are also a new development.

Employing workers procedure

The fixed-term contracts can now have longer duration. By changing the redundancy policy, this process has become less costly. In case an investment collapses, this step can slightly reduce the costs by minimalizing the risk.

5. Conclusions

As a result of the analysis, the authors gathered the disadvantages and advantages of all the analyzed states in the context of direct investment in Visegrad countries in the table below.

Table 5. Advantages and disadvantages of setting up a business in particular V4 countries

Country	Advantages of investment	Disadvantages of investment
Poland	– the largest economy and market among the Visegrad countries; – the most stable economy not only in V4 countries but also in the whole EU; – Stable unemployment rate; – the lowest corruption rate in all the Visegrad countries; – The lowest taxes in V4 countries; – good government decisions helping to manage business; – the only one having sea access — important for transport	– still one of the lowest GDPs per capita according to the EU standards; – the highest salaries in all the Visegrad countries; – the worst density and quality of roads and rails in all the V4 countries
Czech Republic	– high and fast growing GDP per capita; – stable growth of FDI inflows reflects high investor trust; – very well developed and maintained rail infrastructure; – in recent years the Czech Republic made three good improvements shown in this paper, which means that the government supports FDI; – in recent years, the Czech Republic made some improvements in salary flexibility, which makes it more attractive for local and foreign investors	– Czech economy, just as all the Visegrad economies except Poland, is very sensitive to crisis shocks; – low unemployment rate can become troublesome for investors looking for labour force; – one of the highest corruption rates in V4 countries

Country	Advantages of investment	Disadvantages of investment
Hungary	– in recent years, Hungary had the highest FDI growth among all the V4 countries – it means it is very attractive for foreign investors; – Hungary has stable unemployment rate of 10%; – Hungary has the lowest average salary from all V4 countries and that means the lowest labour costs for investors; – Hungarian corruption rate in comparison to other V4 countries is also low, not much higher than in Poland; – among all the V4 countries, Hungary has the best average score in the rankings presented in this paper; – Hungary has the best road infrastructure among all the V4 countries	– Hungarian economy is most sensitive to crisis shocks and slowest to rebuild; – Hungary has a very low GDP per capita ratio and its GDP growth ratio is also the lowest among all the V4 countries; – Hungary has the highest taxes among all the V4 countries; – by introducing new policies (increased health insurance contributions and registration fees), the Hungarian government made setting up and maintaining offshore and outsourcing investments more expensive
Slovak Republic	– one of the highest GDPs in V4 countries (similar to Poland); – GDP per capita belongs to highest among the analyzed V4 countries. The growth ratio after joining EU is also good and reaches 61%; – the average salary in Slovakia is one of the lowest among all the analyzed countries; – the quality of roads and rails belongs to the best among all the V4 countries	– Slovak economy is most sensitive to crisis shocks; – the Slovak Republic has a significant problem with unemployment (the largest in all the Visegrad Countries) but for foreign investors this situation may be advantageous; – the Slovak Republic has the biggest problem with corruption among all the Visegrad countries. Taking in consideration size of this country, it is an important issue; – the Slovak Republic has the smallest network of roads and railways

Source: own elaboration based on (Muchlado i Grudowski, 2014).

The authors of the recent publications were not able to decide which of the analyzed countries is the only one to choose for outsourcing or offshoring business (Muchlado, Grudowski, 2014).

Depending on the industry to be offshored, different factors may be crucial for the investor. It needs to be stressed once more that the investor should consider the key factors determining the success of their business prior to making a decision to offshore or outsource, and based on the country analysis table above should choose the country which will create the most suitable conditions for them. In this context, it must be said that all the V4 countries continue to provide quite varied conditions for direct investment.

The V4 countries also have common problems such as corruption, excessive bureaucracy or increasing unemployment. Nevertheless, taking into consideration the trends of the changes, it can be said their situation has been strongly improving after joining EU. The authors are sure, however, that all of the V4 countries are worthy localizations of investments.

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OFFSHORING I OUTSOURCING W KRAJACH GRUPY WYSZEHRADZKIEJ. WADY I ZALETY

Outsourcing i offshoring są coraz bardziej popularne w „nowych" krajach UE. Tworzą one bardzo atrakcyjne warunki dla bardziej rozwiniętych krajów Unii Europejskiej do przekazania innym organizacjom pewnych obszarów działalności gospodarczej. Autorzy artykułu zbadali wady i zalety lokalizacji działań outsourcingowych w każdym z (V4) krajów Grupy Wyszehradzkiej.

Autorzy dokonali analizy czynników makroekonomicznych opartych na raportach organizacji międzynarodowych. Pomogły one rozstrzygnąć następujące problemy badawcze: jakie są główne bariery dla inwestorów, którzy zlecają przekazanie procesów w organizacjach w krajach V4, jakie czynniki generują te problemy, czy kraje Grupy Wyszehradzkiej mają podobne problemy, i wreszcie, w jakim kraju grupy V4 według zebranych danych i analizy stworzone zostały najlepsze warunki do outsourcingu lub offshoringu.

Głównym celem niniejszego opracowania jest wskazanie zalet i wad związanych z inwestycjami w krajach V4 oraz zaktualizowanie informacji o warunkach inwestowania w tych gospodarkach.

Słowa kluczowe: outsourcing, offshoring, kraje Grupy Wyszehradzkiej.