

## VI. МОЛОДІ НАУКОВЦІ

<http://doi.org/10.17721/1728-2721.2022.83.6>  
UDC 911.3

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### REGIONAL OUTSOURCING PARTICULARITIES

*In view of the current trends occurring in the world after the COVID-19 pandemic is over, we can see that the market of manufacturing outsourcing and outsourcing of services continues to focus on reducing the cost and efficiency of the manufacturing and communication process by transferring activities to the closest regions. These trends are particularly relevant for the regions of the Middle and Eastern America and the Caribbean, as well as for Europe. An important factor in the geographical expansion of outsourcing processes is the simplified system of legal and visa issues. In the Asia region can observe the forces that direct companies to the processes of standardization and concentration of production, in order to satisfy their own needs and in connection with the growth of the middle class in the Asia-Pacific region, as well as its buying power. Described current trends in the sectoral structure and factors that influence outsourcing activities. The tendencies that have become the driving forces in different processes of outsourcing development and identified the factors that have influenced the attractiveness of each country in its region have been studied. Attention is paid to the current strategies of outsourcing and localization. Graphically presented the structure of outsourcing manufacturing and outsourcing services. Were distinguished industries and sub-industries in the outsourcing manufacturing, which are divided into outsourcing зв'язки blanks and functions for ensuring the production of products. Also shown schematically the structure of outsourcing services and its division into the outsourcing of information technology and business processes, as well as the processes of the back and front plan, and the rest, specific knowledge and information. The article uses the data of consulting and auditing agencies of the Great Four, from where the statistical data were taken to write the article. Outsourcing activities are reviewed according to their type. The greatest attention in the article is given to the study of nearshoring and the reasons that influenced it. Presented the leading countries in global outsourcing by industries, the leading countries in nearshoring and the main areas of business process outsourcing. We have learned how the COVID-19 pandemic crisis affected outsourcing activities and the consequences for the countries that remained after it, as well as how outsourcing companies were able to fulfill their tasks, what was set by the contractors and the place of Ukraine during the crisis and the current situation that affects the economic and political state of the country.*

**Keywords:** *IT outsourcing, onshoring, offshoring, offshoreing, nearshoring, global outsourcing, nearshore.*

**Problem Statement.** Global development trends and differences in overcoming the COVID-19 pandemic lead to differentiation of outsourcing activities. Regional characteristics of outsourcing are changing at a rapid pace. It is also relevant that responding to the COVID-19 challenges, the Ukrainian IT business has almost completely switched to a remote form of work. As a consequence: the current state of military status does not significantly affect the IT sphere, because the cooperation channels are already fine-tuned, and the qualified personnel already have proven models and algorithms to perform work on time, of high quality and according to foreign customers' requirements, which allowed Ukraine to gain unprecedented momentum in the IT outsourcing sphere for the first quarter of 2022.

**Literature review.** Outsourcing phenomenon and their regional characteristics have been studied in one way or another by domestic and foreign researchers. Mohamed Tafti from New York Hofstra University argues that one of the reasons that European IT companies prefer outsourcing in Eastern Europe is precisely the proximity factor (2007) (*Mohammed, Tafti, 2007*). A comprehensive study by Fernando S. Meirelles on the use of IT in Brazilian companies shows that 84% of companies in the country, including small companies, have outsourced technical support and maintenance services. Outsourcing in Brazil already represents more than one third of the IT market (2022) (*Pesquisa Anual do FGVcia: Uso da TI nas Empresas, 2022*). Deloitte identifies the most popular countries in terms of global outsourcing development and shows nearshoring destinations by world region (2019) (*Global Shared Services and Outsourcing Survey 2021, 2021*). The authors of the Doing Business report consider the business environment and simplified system of solving legal issues to be an important factor of outsourcing geography. According to the report, no Latin American country is in the top 50 countries with simplified business

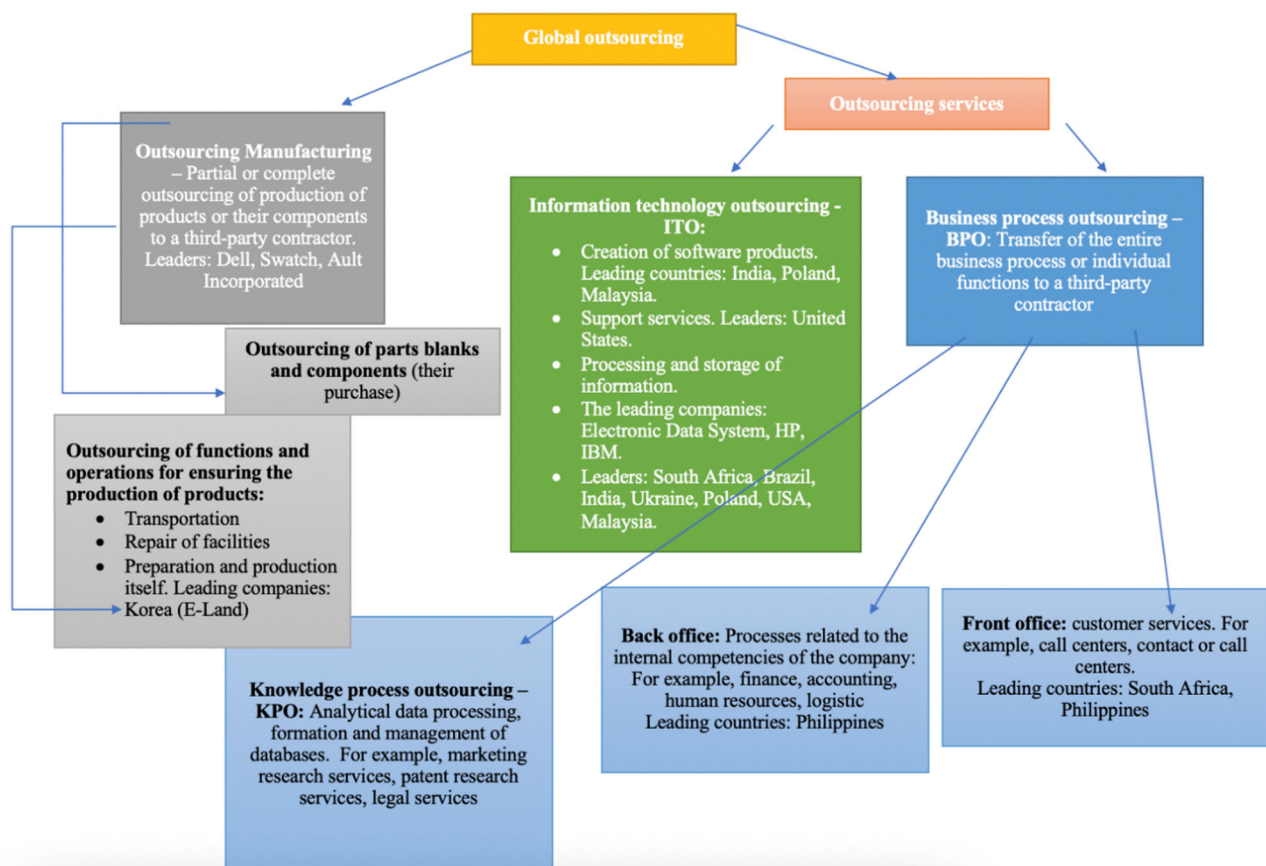
environment, meanwhile Ukraine ranks 64th (2020) (*World Bank. 2020. Doing Business 2020, 2020*).

**The purpose of the study** is to identify the features of the sectoral structure and factors of outsourcing development in the countries and regions of the world, affecting this position of states and regions. It is particularly relevant to note the role and place of Ukraine in this process.

**Methodological issues.** The methodological basis of the work is the works of foreign scientists in the field of socio-economic geography and economics, scientific periodicals, Internet resources, statistical data of consulting and auditing agencies of the Big Four, which reflect the current state and statistical data on outsourcing. The author used the method of analysis and synthesis in the process of research of outsourcing process trends in the world. Socio-geographical methodological arsenal was applied to determine the role of outsourcing in the changes of global economy and international division of labor (IDL). The graphical method was used in order to reflect the results of the study as clearly as possible.

#### **Results.**

Outsourcing activities are widely used by many large, medium and small enterprises around the world. The specifics of the outsourcing processes use depend on the goal of the individual company, its need to concentrate on achieving its own plans and transfer the various processes to a third-party contractor. Consideration of the structure of global outsourcing (Fig. 1) defines two main directions in its development. These are production outsourcing and services outsourcing, each of which is also divided into two subspecies. Services outsourcing is divided into ITO (IT outsourcing) and BPO (business process outsourcing). BPO is divided into KPO (knowledge and processes outsourcing), back office business processes and front-office. In turn, manufacturing is divided into outsourcing of blanks and components and outsourcing of functions and operations to ensure the production of products.



**Fig. 1. Outsourcing Structure**  
(arranged by the author according to the data received from the reports of international rating agencies Deloitte, Kerney, Cushman&Wakefield from 2018–2022)

Geopolitical and geoeconomic changes of the last three decades have influenced the decomposition of actors in the global market. These are countries, each having its own regional orientation in the IDL and influencing the economic significance of the world regions. The main trends in the outsourcing services market indicate growth and increased competition, involvement of new countries and regions, and growing demand for high-tech services (Merino, 2017). The changes that are taking place in the global outsourcing market concern the advantages that each region provides for the deployment of economic activities. These changes have become a ruthless forces in the diverse processes of outsourcing development. The factors of automation of production, ICT development, mobility of manpower ensure that countries can function as remote markets that can not only sell goods and services, but also become efficient chain in reducing the cost of goods and services, be effective implementers of tasks for foreign contractors and play the role of a common market in the integration of the value chain parts located in different places.

The growth of preferences of some geographical areas also leads to changes in the countries themselves – infrastructure (roads, bridges, ports, railways) is being built for the development of outsourcing manufacturing, and for the development of outsourcing in the sphere of services the quality of communication and Internet is improved, the digitization of all aspects of life is realized, increasing the quality of life of every citizen, and legal mechanisms are being improved to be more open to the legal aspects of doing business. The Gotthard Base Tunnel (The new Gotthard Tunnel: in numbers, 2016) between Zurich and

Milan, the construction of ports in the Asia-Pacific region and the China Railway (U Kytai rozrobyl shvidkisny poyezd dlja shurokoiy koliyi, 2020), and the Panama Canal expansion are obvious examples of this, the 74 km long Hyderabad Railway in India and other examples of modern big projects that serve to increase the level of attractiveness of the country and the region as a whole.

Changes in the factors that determine the comparative advantages of the territory (country or region) and the struggle for competition in the markets require players to pursue two main strategies. The first is the outsourcing strategy, which aims to reduce the costs of the company and the business or business processes, and the second is the strategy of localization, which aims to find ways to reduce the cost of the service or product to create a value chain, which takes into account all costs associated with manufacturing, storage and transportation (or delivery) of the final product or order to the customer. These strategies are interrelated. Companies move their tasks or equipment to a neighboring or remote country, delegating them to companies or specialized agents (for example, Shared Services Centers), which provides more flexibility in resolving tasks and access to modern methods of problem solving. As a result of this geographical relocation, the final cost of the product or service decreases.

The globalization of the world economy and the development of modern information and communication technologies (ICT) lead to transformations in the scope of global outsourcing (Fig. 2). Onshore (internal) outsourcing has transformed into offshore (external) outsourcing. Geographically, the nearshore outsourcing always takes

place when the business is transferred to a neighbouring country, that is, the countries have a common geographical cordon or cordons. The COVID-19 pandemic had a

particular impact on manufacturing outsourcing, as manufacturers began to focus more on regional manufacturing or nearshore outsourcing (Hutchings, 2021).

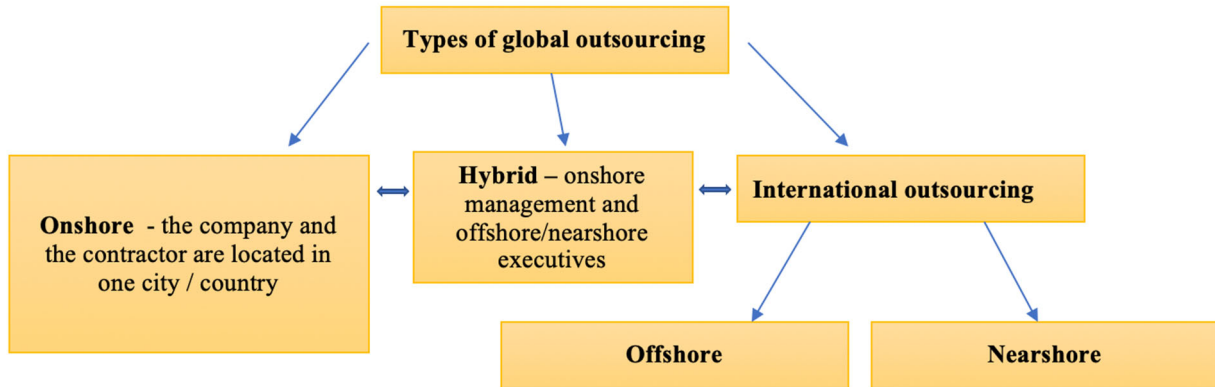


Fig. 2. Global Outsourcing Types (stacked by author)

According to Deloitte 2021 data, 65 % of the world's organizations use outsourcing model in their practice (Global Shared Services and Outsourcing Survey 2021, 2021), taking into account the so-called leading countries for

the placement of companies or their branches for providing outsourcing services. The analysis of indices and reports of international agencies allows to identify the leading countries in certain sectors of global outsourcing (Table 1):

Table 1. Leading Outsourcing Countries by Sectors (compiled by the author for Deloitte, 2021)

Sector	1 place	2 place	3 place
Consumption	India	USA	Poland
Energy, resources and industrial products	India	USA	China
Financial Services	India	USA	Poland
Medicine and Health	USA	India	Costa Rica
Telecommunications, Media and Telecommunications	India	USA	Filippini

Representing the Asia-Pacific region, India has been the top IT outsourcing destination in the world and remains the most attractive offshore destination in the world for three years now. This country placed second after the U.S. in 2015, changing places with the USA in 2019, and continues to maintain its leadership for the time being due to its advantages in price/quality/value/mindset/legislation. The next positions belong to the Philippines, which has been in the top 10 for three years now, as well as Malaysia. In Europe, Poland has also retained the leadership in outsourcing services for three years running. Now, although Portugal and Lithuania are not among the top 10 most

approached countries in 2021 by Deloitte, they attract interest as new potential areas of outsourcing and safe areas for placement of investments. Ukraine became a new member of a dozen countries in 2021. The leader in Latin America and the Caribbean region, which ranked third in the top 10 most approached is Costa Rica, while Colombia, however, lost its position and dropped out of this year's TOP-10. The fierce competition between the economies of the Mid-America region and the Caribbean basin countries for investments contributes to the modernization and diversification of the economy (Table 2):

Table 2. Leading countries in outsourcing

(based on Global Shared Services and Outsourcing Survey 2021, 2021; IT Nearshoring in Europe, 2022; IT Outsourcing to Vietnam in 2022: A Good Choice For Rapid Business Growth, 2022; World Bank. 2020. Doing Business 2020, 2020)

Near East America and the Caribbean	USA, Mexico, Costa Rica, Dominican Republic 
Latin America	Argentina, Colombia, Brazil 
APR	China, India, Philippines, Malaysia, Vietnam 
Europe	Poland, Spain, Great Britain 
Africa	Egypt, South Africa 

The manufacturing outsourcing, the U.S. manufacturers began since the 1990s to transfer their enterprises to Central America and the Caribbean, namely to Mexico, Costa Rica and the Dominican Republic. Here it was very important for the end market, the scale of production, as well as the total cost of transportation (*Production Transformation Policy Review of the Dominican Republic: Preserving Growth, Achieving Resilience*, 2020). Most transfers of production in 2013–2018, for example, to Mexico came from the United States (26 %), China (12%), and the United Kingdom (10%). The neighboring countries of Latin America are mainly engaged in manufacturing activities, which tend to be associated with labor-intensive and less scientific segments of manufacturing activity. There is fierce competition among Central American countries to attract nearshoring investments, as they rely on similar competitive advantages, including their proximity, the ability to coordinate business operations, similar time zones and low labor costs. For example, the annual cost of labor in the manufacturing industry in the Dominican Republic is 2.5 U.S. dollars, approximately twice as low as in Costa Rica or Mexico, and only 6 % higher than in the United States. The center of the closest offshoring in the region is Mexico, according to the report of the American consulting company Bain & Company (*Nearshoring, an opportunity for Mexican companies*, 2022), which states that over the past six years the country has gained competitive advantage in terms of costs compared to China, the largest production outsourcing market in the world. In addition, the consulting company Bain & Company predicts that this market can provide the Mexican industry with growth up to 8 million dollars per year.

Today there are five international trends in business process outsourcing (BPO). It is important that the southernmost country in Africa takes the third place among the top three. The Philippines and India are in first and second place respectively, fourth place goes to Costa Rica, fifth to Malaysia and sixth to Poland. RSA has an extensive network of contact centers involving 270,000 people in six big cities. UK (61 %), USA and Canada (18 %), Australia (11 %), New Zealand and Ireland are the key markets for current offshore business for BPO and KPO providers. This geographical structure is not surprising, since we are talking about only two hours of time difference in winter and one hour in summer between the time with the UK and the countries of continental Europe. The East African players in the BPO and KPO markets provide superior service because of their strengths in five key areas: skills, infrastructure, risk level, business environment, and size of the industry. The international clientele also benefits from the advantages of being fluent in English, the similarity of cultures and the similarity of time zones. The size of the BPO sector is estimated at \$1.4 billion in 2019 and is expected to grow by 2027 by 13.2 % (*South Africa Business Process Outsourcing Market Size, Share & Trends Analysis Report By Service (Customer Services, Finance & Accounting), By End-use (BFSI, IT & Telecommunications), And Segment Forecasts, 2020–2027*).

In North Africa and the Middle East, Egypt is one of the areas of offshore programming that is growing rapidly in the region. It is the information technology outsourcing (ITO) and business process outsourcing (BPO) sector that forms the basis of Egypt's ICT exports, which in 2017 was close to 3.1 billion euros, in 2020 will be close to 4.5 billion euros and is expected to grow even more in the current year. The development of telecommunications networks, a skilled workforce and the government's efforts to transform digitally are the main reasons that make Egypt a promising

destination for ITO and BPO services (*Egipto se posiciona como proveedor de servicios tecnológicos*, 2020).

Western Europe remains one of the most dynamic areas for software development due to the constant growth and development of the IT sector and the high level of implementation of digital technologies. Western European countries such as Germany, Great Britain, France and Italy, as well as the Scandinavian countries of Denmark, Sweden, Finland and Norway, where the standard of living is much higher, actively use outsourcing. Enterprises that have decided to move to the periphery can save up to 40% per year on employees, working with companies from Western Europe (*IT Nearshoring in Europe*, 2022).

Countries such as Ukraine, Poland, Romania and the Czech Republic have already identified IT as the main sector of their growth and technological progress. The IT services market is estimated to grow by 15–20 % each year. According to the data provided by the IT Association Ukraine, the country earned \$2 billion in revenues in this sector in January-March 2022, which is a record amount considering the military and economic situation. In comparison with 2021, the income in the first 3 months was nearly USD 1.4 billion (*IT Ukraine Association*, 2022).

The Baltic countries are considered to be one of the most economically stable regions in Europe. The high level of implementation of digital solutions and effective legislation ensuring data security are factors in the development of outsourcing here, while the launch of electronic programs, ease of doing business, cyber security and low level of corruption contribute to the development of IT industry in the region.

Speaking of the Southeast Asia, the accelerated economic growth of the region's countries creates all the conditions for the further development of all areas of global outsourcing. The analysis of consulting and auditing agencies of the Big Four states the leadership of Philippines and Malaysia in outsourcing services. However, the Philippines, due to its large English-speaking population, is more focused on customer service tasks. The region's leaders are also joined by Vietnam, a country with a large youth population, a refined educational system in the last decade, and a stable business environment. The cost of software development in the United States is 90 % lower than in the USA, 50 % lower than in China and 30 % lower than in India (*IT Outsourcing to Vietnam in 2022: A Good Choice For Rapid Business Growth*, 2022). Taking into account the predicted growth of the Southeast Asia region during the next decade, the production of technological products in the region will grow. The region's manufacturing outsourcing is focused on the production of components and parts, and will grow in such markets as Vietnam, Indonesia, Malaysia, Philippines and India. China remains a world factory, but the country is experiencing an increase in the middle class. The growth of the middle class has been increasing at a revolving pace of 3 % to 50 % in 18 years since 2000 and is stimulating domestic consumption, so China is increasingly focused on satisfying its own needs. This trend will increase in all the countries of the region, because the middle class will account for 35 % of global consumption by 2030 (*Jaklič*, 2021).

**Concluding remarks.** Using outsourcing allows for the specialization of the company's production. Outsourcing is a popular approach not only for developing countries, but also for developed and postindustrial countries of the world. Outsourcing is the ability to reduce costs of the company, the release of resources for the development of other areas and access to new technologies.

The COVID-19 pandemic crisis allowed us to take a different look at the structure of outsourcing in the regions. The countries faced new challenges in fulfilling their obligations to contractors. The crisis divided the global market into two tiers: the countries that were able to cope with the new situation that emerged, and the countries that began to lose customers in the new realities of the pandemic. For Ukraine, the period of the pandemic was a test one, the time when all organizations and companies were training to work under new conditions. This had an indirect impact on the current state of our country in the IT sector, and this crisis experience really helped to achieve great profits in the IT outsourcing sector in such a difficult time.

Nearshoring, which was already increasing in volume even before the current period, became very relevant for the countries at the beginning of the crisis. Countries began to outsource their projects to countries with which they have a common border or within the region. Therefore, there is a trend towards regionalization of the production of goods and services, so that it would be much easier to control the value creation point of the product or service, unique for many external influences behind the "home" region.

The results of the study of the regional outsourcing structure and trends associated with global changes in IDL countries, serve as the basis for further study of the factor dependencies of outsourcing development. This issue is particularly relevant for Ukraine in the current conditions of political and economic crisis, where it is important not only to preserve the leading positions in the IT sector and increase the growth rate of the industry, but also to solve the problem of relocation abroad of about 30-40% of the qualified population.

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Надійшла до редколегії 15.05.22

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### РЕГІОНАЛЬНІ ОСОБЛИВОСТІ АУТСОРСИНГУ

У зв'язку із сучасними тенденціями, що відбуваються у світі після завершення пандемії COVID-19, бачимо що ринок виробничого аутсорсингу й аутсорсингу послуг продовжує фокусуватися на зниженні вартості та ефективності виробничого й комунікативного процесу шляхом переведення діяльності у найближчі регіони. Такі тенденції особливо актуальні для регіонів Північної й Південної Америки, країн Карибського басейну, а також для Європи. Важливим фактором географічного розширення аутсорсингових процесів є спрощена система вирішення юридичних і візових питань. В Азійському регіоні можемо спостерігати зусилля, які направляють компанії, щодо процесів стандартизації та концентрації виробництва, з метою задоволення власних потреб та у зв'язку зі зростанням середнього класу в АТР, а також його купівельної спроможності. Висвітлено актуальні тенденції секторальної структури та факторів, які впливають на аутсорсингову діяльність. Вивчено тенденції, які стали рушійними силами у різнобічних процесах розвитку аутсорсингу, та виділено чинники, що вплинули на привабливість кожної країни у своєму регіоні. Приділено увагу питанню актуальних стратегій із аутсорсингу та локалізації. Графічно представлено структуру виробничого аутсорсингу й аутсорсингу послуг. Було виділено галузі та підгалузі у виробничому аутсорсингу, які поділяються на аутсорсинг заготовок і функцій із забезпечення виробництва продукції. Також схематично показано структуру аутсорсингу послуг та її поділ на аутсорсинг інформаційних технологій і бізнес-процесів, що у свою чергу поділяються на процеси заднього й переднього плану, і останню, спеціфічних знань та інформації. Використано дані консалтингових та аудиторських агенцій Великої Четвірки, з яких було взято статистичні дані для написання статті. Висвітлено питання поділу аутсорсингової діяльності за видами. Найбільшу увагу приділено вивченню сусіднього офшорінгу та причин, які вплинули на це. Представлені країни-лідери у глобальному аутсорсингу за секторами, країни-лідери в сусідньому офшорінгу й основні напрями в аутсорсингу бізнес-процесів. Досліджено, як вплинула криза пандемії COVID-19 на процеси аутсорсингової діяльності та наслідки, з якими країни залишилися після неї, а також як аутсорсингові компанії змогли виконати завдання, що поставлені замовниками та місце України під час кризи й актуальний стан, що впливає на економічне й політичне становище країни.

Ключові слова: IT-аутсорсинг, оншорінг, офшорінг, сусідній офшорінг, nearshoring, глобальний аутсорсинг.