

# The HR Offshoring – a Factor in the Formation of the World Labor Market

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**Summary:** The subject of offshore outsourcing in the Human Resources (HR) management is examined more often in the context of foreign direct investments (FDI). In recent years the share of these investments grew rapidly. The companies, which outsource their activities in our country, take into consideration the high qualification of Bulgarian specialists, the language knowledge, which they possess and the low level of salaries. In the present article the main conceptions of the practice called offshoring, the problems in the HR management, especially for Bulgarian organizations, are made clear. Presented are the results from the examination of the world labor market and the influence that offshoring has on it. The aim is to add to this study Bulgaria's participation in the development of this market in connection with the practice "offshoring". The advantages and disadvantages from the application of the offshoring in our country are indicated, as well as its influence on our national economy, through the increase of FDI.

**Key words:** offshoring, offshore outsourcing, HR management, world labor market, foreign direct investments (FDI).

**JEL:** O15.

## The Practice Offshoring

Nowadays the concept of offshoring/out-sourcing is discussed actively in business environments and the global market. Often these words are used as terms, which describe many different forms of collaboration, not every one of which is connected with increase of values and shifting personnel. These forms of collaboration are formulated as "insourcing", "outsourcing", "offshoring", "offshore outsourcing". Many times a sign of equality is put between outsourcing and offshoring. The offshoring (offshore—from engl., foreign) means exporting a given company's business activity (production, services) outside the boundaries of a given country. This can happen by creating a branch of the company, through FDI, through an acquisition of a firm in the respective country, by creating partner relations with local firms and so on.

This practice originates in the early 80s in the field of Information Technology (IT) and gains speed in the 90s, especially in connection with the problem called "The year 2000". In recent years several spheres differentiate, for which doing offshore outsourcing services is typical:

- **Business services:** they embrace different back-office procedures, handling clients and technical support. The examples include preparation for extractions and indexing, processing data, electronic editions, telemarketing, web design and so on.

- **Professional services:** accounting, taxation, architectural and engineering services.
- **Finance services:** they cover insurances and bank services.
- **Computer services and connected with them services:** include hardware installation, developing software, data processing, database support, office equipment support.
- **Internet services:** Internet supply (telecommunication services).
- **Audio-visual and cultural services:** they embrace production of films and their distribution, cinema projections, radio and TV emission, sound-recording, sports and entertainment.
- **Educational services:** thank to new technologies, education can be “exported” in electronic format.
- **Healthcare services:** include medical, dentist, hospital, social and other services.
- **Human resources management:** recruitment and selection, pay-rolling, training and development, improvement of working conditions, HR motivation, team-building and other.

The reason, which provokes companies to use the offshoring, is the effort to remain competitive. In three years (between 1999 and 2002) the US bank industry saved 8 billion dollars through offshoring services in India. International companies in Europe save via this practice 20-40 % [10].

According to studies of the World Economic Forum for the year 2005 Bulgaria’s competitiveness takes 78th place worldwide. Ahead of us are Lithuania (43), Latvia (44) and Poland (51). According to this study Finland has the most competitive economy, followed by USA, Sweden, Denmark, Taiwan and Singapore.

In global competitiveness Bulgaria take 58th place. This index consists of three other indexes: technological index, state-institutional index and macroeconomic environment index. According the first one Bulgaria takes 61st place, according the second and the third – 62nd place. The calculation of these in-

dexes is based on statistical data and data from the study of the World economic forum [10]. According the third index, today Bulgaria takes 59th place.

Competitiveness is carried out through **labor cost reduction (LCR)**, which is proven by the data from USA and Europe. Another factor is achieving **higher quality of services and using qualified workforce** with remarkable language knowledge and computer skills. As a solution, the offshoring is made easier from the **developed infrastructure, reliable telecommunication network, economic and political stability, legal and tax system.**

**The fluctuation of personnel** also has a significant influence on the decision. In recent years, for example, the number of resigning employees in India began to rise (30 %) and got ahead of Ireland (15 %) and Holland (20-25 %), Great Britain (15 %), The Philippines (10 %) and South Africa (7 %) [7]. The higher levels of fluctuation create premises for the search of new countries, where to export production processes and service activities.

**Telecommunication infrastructure and the access to it** also has a significant influence on the attraction of all kinds of services in the field of IT. The telecommunications have to be not only reliable and stable, but competitive as well.

**The time zone** of the country, where the activity will be exported, is also sometimes an important factor. For some kinds of services, especially for these, which have a fixed working time, it is desirable to be localized in the same time zone as the company’s customers. In other cases the situation is just the opposite – there are advantages if the service is in exactly the opposite time zone and is offered 24 hours a day.

**Cultural resemblance** must also be considered as a factor for the offshore outsourcing of activities and business processes, especially for the call cent-

ers. Some call centers in India, for example, teach their staff the pronunciation, the interests and traditions of the clients in the United States.

Before starting the so called “offshoring”, the companies examine different factors (see table 1).

In the beginning of the rash development of the offshoring, India became the main destination.

The reason for this was the fact, that Indians speak well English and their universities train good specialist. Another reason was the concentration of a large number of qualified employees on one place.

General Electric exported several partitions (research centers) to Bangalore, India. In the technological center work around 2,5 thousand researchers and

Table 1. Factors with influence on the attractiveness of offshoring destinations.

Factor(importance)	Indicators
General expenses – 40 %	
Expenses for salaries	Average salary in the country Average salary for operators in call centers, IT programmers, operations managers and other
Expenses for infrastructure	Electrical and telecommunication system Distance to important centers/clients
Regulation and tax expenses	Relative tax load, corruption and changes in the foreign exchange course
Qualified workforce – 30 %	
Gained experience and knowledge of business processes	Size of the IT market and business processes Quality of the IT Quality of the management and the IT training
Presence of workforce	Total number of workforce Number of qualified workforce
Education and language knowledge	Results from standardized educational and language tests
Fluctuation	Relative growth of business processes and levels of unemployment
Business environment – 30 %	
Economic and political environment	Assessments from investors and analyzers of the political and economic environment. Trust index (Kearney study) Burocracy Government support
Infrastructure of the country	Assessment of the infrastructure’s quality ( telecommunication, IT services)
Cultural similarity (adjust-ability)	Results from the Globalization index (Kearney study)
Protection of the intellectual property	Assessments from investors about the level of intellectual property protection Level of pirate software

Source: A.T. Kearney, 2005

engineers, including some American programmers with special qualification, but most of the staff is recruited from India. Such centers are exported in Europe as well. This is an example of GE's pocket outsourcing in its offshore version [9]. All employees in these centers are actual GE employees.

In Europe the pioneers of offshoring were Ireland and the Scandinavian countries. In recent years China took the leadership. There is movement in Europe as well – many countries take part in the attraction of foreign investments. The forecasts are that China will take the place of India in sense of investments and creation offshore establishments.

Outside the mentioned factors for an offshore destination choice, companies take into consideration the calculated offshore/outsourcing index in the World Economic Forum report. The aim of the calculated present (2005) and future index is examining the risk and the expenses in leading destinations. The used information is gathered through studies and interviews with economic experts and experts in the field of offshoring/outsourcing. The first index reflects the competitive environment, connected with doing this type of activities in the top 20 countries. (On the list are: India – 1st place; China – 2nd place; Costa Rica – 3rd place; Czech Republic – 4th place; Hungary – 5th place; Canada, Latvia and Russia – 6th place; Chile – 9th place; Romania – 10th place; Ireland and Singapore – 11th place; and... South Africa – 20th place). The second index (till 2015) estimates in a long period the competitiveness of the 30 most attractive offshore destinations.

**The World Outsourcing index** assesses every one of the top 20 countries, by determining its place on the list with 3 main factors: expenses; risk and market opportunities rating. The biggest share goes to the factor risk (54 %).

**Expenses:** few companies would offer the practice of offshoring, if she doesn't decrease their incomes. In the list of these incomes are these for

the salaries and the compensations, for constructing of infrastructure, for tax and this part is 30 % of the global index of offshoring and outsourcing.

**Risk:** every country has its own strong and weak sides, risks and benefits. The risk rating has a share of 54 % from the whole index.

**Market opportunities index:** it represents 16 % from the global offshoring/outsourcing index. It is determined through an expert assessment for every country, its global competitiveness and its share on the IT market. In the report this index is used as a form of control for some misbalances or lack of correspondence.

**Future offshoring/outsourcing index** is an assessment of the expected market situation according to countries, resulting from changes in factors like: population growth, growth in GDP, HR and IT skills. In this index take part only the countries, which have an active role in the offshoring now, or will have in the future. According to this index Bulgaria is on 21st place.

In 2005 Bulgaria was included for the first time in the published **Distribution of global services index from "A.T. Kearney"** (a leading international consult company in the field of management) [10]. According to this index the countries from Eastern Europe are on high positions on the classification. In it Bulgaria is on 15th place from the 40 most attractive offshore destinations. This is explained by the following reasons:

- Geographical location of the country;
- Political stability and continuity in the country's foreign policy in the last 10 years;
- The membership in NATO and the European Union gives additional security and confidence to foreign investors.
- Low taxes – the reduction of the corporate tax to 10 %, having in mind that Bulgaria is an EU member;
- High-qualified and in the same time cheap workforce;

- Development of the telecommunication infrastructure;
  - Presence of offshoring/outsourcing projects with other companies;
  - Creating and functioning of subsidiary firms with Bulgarian partners;
  - Support and assistance from the government to offshore projects;
  - Culture, which is closer to European, which makes HR integration easier.
- Bulgaria's attractiveness as a preferable offshore destination has risen in 2006 and Bulgaria takes the respected 9th place and is the only country in Europe in the first 10 countries (table 2).
- The complications in business processes and the globalization of the world economy force companies to achieve maximum results from their activity, without increase in expenses. That is why they

Table 2. Offshore destinations index (2006).

1st place	2nd place	3rd place	4th place	5th place	6th place	7th place	8th place	9th place	10th place
India	China	Malaysia	Thailand	Brazil	Indonesia	Chile	Philippines	Bulgaria	Mexico

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Table 3. Advantages and problems in offshore projects.

Advantages of offshore projects	Problems in offshore projects' realization
1. Generating income	1. Transfer of personnel between 2 companies
2. Opening new working places	2. Recruitment and selection of good specialists are limited
3. Importing modern technologies and business practices	3. Additional training of specialists is required
4. Increase in HR qualification	4. Absence of introduced quality systems in many organizations (ISO) and security systems
5. Increase in labor productiveness	5. Absence of a promotion of this country as an offshore destination
6. Increase in the cost of labor, respectively, salaries	6. Difficulties in the integration of different cultures
7. Decrease in HR fluctuation	7. Presence of corruption
8. Foreign companies help universities with different programs, aimed at deepening of practical skills.	8. Absence of management staff for the middle management level
9. Improvement in firm's management and risk management	9. Absence of practical skills in the universities' graduates
10. Increase in the quality and price of the product/service and in customers' satisfaction	10. Inadequate management education
11. Improvement in the image of the firms	11. Absence of collaboration between education and industry for the future needs of business
12. Expansion of the market share. Opportunities for an expansion through the supplier's network	

Data from M.Harizanova

are searching for opportunities to release resources through offshoring and concentration on the company's main activity. The advantages and disadvantages of this practice are shown in table 3.

## 2. Offshoring and HR management

Often, the company – client signs a contract with the service supplier, pay for the final product, without taking an interest in the working conditions and the personnel. Bad conditions and absence of a motive for higher results reflect on the quality of the product/service in comparison with the competition. In this case *HR management* is absent, but it isn't present in the contract as well.

While executing the contracts, sometimes the employees of the company-client and those of the supplier work in mixed teams (co-sourcing). In those teams it is impossible to set equal or at least similar payment, compensation and bonus conditions. There is a difference between the company-client and the supplier's employees. This provokes *de-motivation and lack of satisfaction with the results of their work's assessment*. There is always a similar situation either for the company, or the supplier, or for the organization-executor.

From a manager's point of view, *the responsibility principle* in the execution of contracts is violated, because the responsibility is delegated to different groups and departments in both companies. In this case the delegation does not reflect on the results and on the HR management.

During the determination of the clauses of a contract, sometimes, a lack of *synchronization and clear definition of the manager's functions, rights and obligations* is present. Employees yet again face difficulties in their work. They receive different orders from the managers of both companies, the situation gets worse, which leads to conflicts.

Very important for the offshoring and the exportation of activities abroad is the *efficient communication*. Many conversations, messages on the fax or the Internet, are exchanged to solve different problems or gaps in the execution of the tasks. The expenses for communication in the offshoring are around 90 %, which increases the size of the whole expenses. Often a large amount of working time is lost, due to specification and problem solving, *and the communication is made more complicated and slow because of long telephone calls, for example*.

Problems in HR management are present also when the human resources don't possess the appropriate language knowledge. If the working language is not English or is fixed to English, but the supplier uses Italian, French or German, the situation can deteriorate. In this practice *language barriers* are often a problem in achieving results as expected from the firm-client. Sometimes additional language training is a must, which creates more expenses.

There is a number of *technical problems*, connected with the projects, especially in the case, when insignificant elements of the offshore projects are realized in the process of activity exportation. Nevertheless, they are technically connected with the whole project and demand additional information, resources and experience, in a short time. That is when breaches in security are possible, the communication between departments and employees is made difficult and the productivity and the quality of sub-projects lower (especially in the presence of a third offshore company). The results of these situations force companies to turn to the corporate version of the offshoring (pocket offshoring).

In the debate about the usage of the offshoring, several studies were made, showing, that in the field of IT disappointment from the practice predominates. The studies, made in 1998, connected with the reasons for choosing to go off-shore

(as a form of a strategic method in organizations) confirm the avoidance of this practice. The data from the study is shown in table 4 [7].

New data in the article "Could the end be nigh for outsourcing?" (Computing, 2005, 10 Nov.) reports, that "... almost 3/4 from the IT-directors confirm, that they have no plans of transmitting offshoring/outsourcing IT-functions in the next 2 years". And the shifting from external "doing" to internal, which is being carried out, is already a trend. These and other results are analyzed in the report "Outsourced software development productivity" from the business school J. Molson (in the University of Concordia, Montreal, 2004.). In the report the following is indicated [8]:

- There are no reasons to expect shortening in expenses because of higher specialization and presumable higher productiveness from the firm's employees...
- If the supplier of services connected with ..., has access to the same resources and has the same expenses, like the client, then the insourcing would be preferable.
- Available data indicates only the general dependence and doesn't reflect either higher or lower productiveness in the elaborating of software with specific reasons.
- There is, undoubtedly, a connection between productivity and the experience, gained in the organization-client, that is why it can be trans-

mitted to offshoring/outsourcing developments in fields, where a lack of experience is present, and independent activities can be carried out, where experience is present.

- It is practically impossible to receive more rich in content information about the reasons for a higher productivity level of the software in companies, which outsource their activity.

## 2.1 Advantages of the offshore outsourcing

As we already mentioned, the main advantages from the offshoring for the companies are the economic benefits and exactly they determine the scale of this practice's development. The growth of companies, which export activities in the developing markets, is bigger in comparison with the already developed markets. This growth is many times presented in a two-figure number, according to IBM Bulgaria's representatives, which will invest in the future years more than 1 600 000 000 \$ in developing markets. The forecasts connected with offshoring allow us to stress on some specific results for the companies-clients.

1. This practice achieves good results for small firms. They have a market share and feel a strong need for human resources, in order to cope with the challenges of the market and the high technologies.
2. Sharing new experience with the employees in companies-clients. Professionals from the service suppliers, who execute the projects, after

Table 4. Reasons to choose the offshoring

Beneficial effect	Expected effect (%)	Received effect (%)
Shortening of expenses	70	52
Improvement of service	56	41
Access to scarce skills	55	42
Concentration of the main activity	41	32
Better management and control	34	23

Data from McKinsey Global Institute, 2005

their finish, leave know-how in the client. In this way, this good practice is available for the client and its employees.

3. Introduction of other cultures, personal enrichment and acquaintance with different ways of work and life. The encounter with other cultures and ways of life leads to higher motivation and ambition for achieving higher results. This results in noble competition. Every employee discovers possibilities for career development.

The offshoring is used in regions with high unemployment and relatively low level of salaries.

But it can lead to opening of new work places, decrease in unemployment and recovery of the region's economy.

Consequently, the offshoring can be analyzed in its 2 sides – as a difficult process with an unknown end, and as an useful and beneficial activity. Very important for this practice are the project management and the HR management, together with clear and digit delegation of rights and obligations, honest relation between partners and employees, preliminary information and adequate behaviour of the offshore project executors. In order to achieve a good and sustainable development, a given company needs a strategic offshoring/outsourcing version, aiming at establishing a long-term lead ahead of competition, through higher quality and innovations.

### 3. Influence of the offshoring on the world labor market development

The construction of the world labor market in a long-term period has a strong influence on the activities of the companies and at the same time on the national labor markets. There is a lack of information about the distinctive regularities of this market's development. This makes the process of decision making about offshoring in one or another destination more complicated.

A popular study of the influence of offshoring on the formation of the world labor market is made by McKinsey Global Institute (MGI). The methods of the study embrace 28 countries with low labor expenses, where you can find approximately 33 mln. young professionals – engineers, finance analysts, accountants, researchers (university graduates, with less than 7 years of experience). These countries are China, India, Malaysia, Mexico, The Philippines, South Africa, Argentina, Thailand, Brazil, Venezuela, Chile, Colombia, Vietnam, Czech Republic, Hungary, Poland, Russia, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Romania, Slovakia, Slovenia, Turkey and Ukraine. In the countries with high labor expenses (USA, Great Britain, Germany, Japan, Australia, Canada, Ireland, South Korea) the number of young graduating specialists is 15 mln, the USA alone – 7.7 mln. This shows that the work force potential, which can be used for offshoring, exceeds twice the potential of the developed countries. The study, however, proves that only a part of these specialists can work successfully in foreign companies. The stress of the study is aimed at the work force in the following 8 branches: finance services, health services, insurances, IT-services, developing standard program insurance, pharmaceuticals, automobile services and retail sales. In the developed countries these fields have a share of 23 % from the working places, agriculture not included [7]. The aim is to explore the tendencies up till 2008 and to assess the dynamics in demand and supply of offshore labor for professions, fields and on a global scale. Another defined aim is to determine the influence of these factors on the level of employment and the size of salaries in the next years [7].

*Bulgaria, as already mentioned, is included in the survey as a country with low salary expenses. It is determined in the first group according the methods. Despite the insufficient information in our country about the offshoring of foreign companies, which realize this practice, we will try to clarify some of the described problems, connected with offshoring in Bulgaria.*



By analyzing offshore services in the field of labor in the mentioned countries, several conclusions are made:

### 1. Inquiries of foreign specialists

For the developing world labor market to function effectively, the distribution of HR, from the participants in it point of view must be rational. The efficiency of this market and the balance between supply and demand depend on the particular effort of the companies and the countries.

In the study a forecast is made, that the market, which forms because of the offshoring, will not be large and will not have an influence on the development of employment and salaries in the developed countries. These countries, by exporting their activities abroad, will aid the rise in salary levels in certain economy branches, without reaching the levels in developed countries. This practice will not solve the problems of balanced supply and demand of specialists. Some branches of the economy will developed instead of other.

Some professions are suitable for distanced work – engineers, financiers, accountants (respectively 52 and 31 %), others are less suitable (having in mind specialists with a general profile and service personnel: 9 and 3 %). But the specialists with general profile and service personnel are necessary in all economy branches and for them more than 26mln. workplaces can be opened. This is recognized as an absolute record [7].

According to McKinsey's assessment, the mentioned 8 economy branches export workplaces to countries with low salary levels (around 565 thousand for service personnel and for 2008 the number will rise to 1,2 mln). The exploitation of these results about the world economy shows, that the quantity of offshore workplaces will rise to 1,5mln in 2003, to 4,1 mln in 2008, which is 1 % from the joint quantity of service personnel in the developed countries [8].

*According the data from the Bulgarian investments agency (BIA) the number of opened workplaces in Bulgaria from the 13 biggest investors (American Standard, EPIQ, Cosmo Bulgaria Mobile – Globul, Festo Unilever Bulgaria, SAP, call centers), for the period of 2004 is around 20 000 [1]. The number represents 5 % from the occupied people and there is a growth tendency for the next years, according the prognosis for 2008. But the growth won't have a substantial influence on problems like employment and unemployment. If we examine the number of employees in the field of IT, we will notice that it represents only 7 % from the occupied people in Bulgaria.*

*The increase in salary levels in companies, that choose go offshore in Bulgaria, is a fact. It is 3 to 5 times higher in comparison with Bulgarian organizations [1]. According to G. Sharkov, this is a temporary occurrence, because we can't compete with the human resources, which come from Vietnam and China. A disadvantage of big investors is, that the financial benefit is the most important factor and no one is interested in the social effect in the offshore destination [1].*

### 2. Suggestions of specialists in countries with low labor expenses

*The companies decide how many workplaces to export abroad. The factors, which they take into consideration, are: the size of the business, the specificity of the organizational structure and the attitude of managers toward the offshoring. The main motive for organizations to use foreign workforce is the need for reduction in expenses. For the different economy branches this need is not the same. In certain companies the transfer of workforce abroad is financially unjustified, due to small scale. Other managers reach the conclusion, that functions, which can theoretically be exported, should better remain in the company, because of the complexity of inner*

*processes. Often the managers of organizations prefer the offshoring of HR, in order to relieve themselves from the management and control of subdivisions, which can be exported. In our country both types of offshoring is common.*

In the developing countries, the number of university graduates, who are able to work in international organizations, is small. In the inquiry took part 83 HR managers from international companies, working in 28 countries with low salary levels. According them, only 13 % from the university graduates are suitable to work in their companies. They point out different reasons that led them to this conclusion: insufficient language skills, insufficient practical skills (the education puts a stress on the theoretical skills), difficulties in the integration to the corporate culture of international companies, lack of communication skills and team-work ability, remoteness from home and other. In Poland and Hungary, for example, in international companies can work 50 % from the engineers and in India and China – only 10 and 25 % (7). A serious problem for candidates in Brazil and China is the lack of knowledge of English. In India the quality of education in universities must improve significantly.

All of these factors restrict the actual selection of specialists in offshore destinations. That is why from 33mln potential young specialists in the explored countries with low salary levels only around 3,9mln (12 %) are suitable to work in international companies and correspond to the selection criteria.

The perspectives, however, are in favor of the developing countries, because the number of university graduates rises with 5.5 % annually, compared with 1 % for the developed countries. The number of suitable specialists in the countries is not proportional to their population. In China, for example, the population is 16 times bigger than in the Philippines, but the amount of young engineers, who know English,

is 3 times bigger. Another example in favor of the discussed fact is that Poland has as many engineers in international companies as Russia. These examples show that many countries can occupy their own places in the developing world market, besides China and India.

*In Bulgaria, for example, high-quality education and talented specialists are present. According to P. Kuerpick the presence of talent was decisive for SAP to aim at Bulgaria [2]. A.K. Rotsted, the Hewlett Packard chairman, emphasizes, that Sofia is turning into a symbol of software talent [2].*

*In Bulgaria 80 % from the HR have a secondary or a higher education. Particularly high is the quality of education in the exact, technical and economic subjects. There is set up structure according to professional fields and qualified lecturer's staff. Bulgaria takes third place in certified ICT specialists per capita of the population (Brainbench) [2].*

*In our country 908 thousand people at the age of 25 to 64 have completed their college or university education. Only 3.9 % from them are specialists in the field of science, mathematics and computers, which is lower than the average for Europe 10 %. One quarter of our university graduates are engineers and their share is smaller in comparison with Denmark, Holland and the Baltic republics. Half of them don't work in connection with their education and 19 % are hired as technicians. The interest of the youth toward engineering subjects decreases (Eurostat, 2005).*

*Choosing Bulgaria for an offshore destination for many companies will depend on the presence of high-quality specialists and managers, trained in Bulgaria or abroad (between 300 000 and 900 000 qualified young Bulgarians live abroad, 15 % from them have a higher education). In relation with this, foreign companies promote programs in universities, to respond to their own needs for specialists with practical skills in a given branch. For the development and preservation of Bulgar-*

*ia's HR important roles play the government, the business environment and the academic society. The importance of the centers for flexible professional development, adapted to business requirements grows. The requirements to the quality of educational programs in the universities grow, as well as the investments in education, research and development activities.*

### 3. Increase in the supply of specialists in the world labor market in the examined professional directions

As in every new developing market, the world labor market has some imperfections. The potential quantity of foreign specialists, capable of working in international companies, exceeds the demand in all of the mentioned 8 professions. In 2008 the supply of service personnel and specialists with a general profile will be bigger than the demand (98 % and 78 % respectively). The impression remains that there is an abundance of specialists. In reality, the companies, which hire foreign specialists, use the same method as their predecessors. *The concentration of organizations in one offshore destination has many advantages: rash development of the infrastructure and the communications, of business environment. In the same time it can cause imbalances in supply and demand. The result would be inflation of salaries and lack of specialists (for most of the mentioned 8 branches of our economy there is a lack of qualified personnel).*

The inflation of salaries can spread in different offshore destinations, while the search of companies remains in one country or even several cities. If international companies have invested resources in creating local subdivisions, then in situations, when the demand exceeds the supply, the increase in salaries will leave behind the increase in neighboring countries (over the standard level). In this way there will always be a difference in salary levels, between countries accepting offshoring and those that supply it.

### 4. Consequences for the organizations, which supply the service to the clients

For different companies the criteria for an offshore choice are determined by the features of the local market, the language, the forecasted volume of the offshore activity, the plans of the companies. The possibilities are: signing a contract with outer service suppliers and making own subdivisions. In this way the companies have an influence on the world labor market in terms of distribution and redistribution of HR, supply and demand of labor and decreasing tendencies of salaries growth. But the companies have to carry out thorough studies of the data for a destination choice, the selection of suitable specialists and also have to analyze the real expenses for their recruitment and salaries.

*If the company wants to find big sources of specialists and to escape from the negative results of the concentration in the most wanted offshore destinations, it must give an account of all the options, including second-level cities and the possibility for distanced work. This decision is also referable to our country – exporting activities not only in Sofia, but in other towns as well. In order to determine the volume of expenses, connected with the exportation of activities, the main criteria for a choice have to be classified in terms of importance, taking into consideration the aims and the requirements of the company. The calculation of the exact offshoring expenses is a basis for the comparison and the choice of this practice.*

*Bulgaria is a recognized country, attraction for FDI. The preservation and improvement of this position takes place in severe competition. That is why the following is necessary: improvements in administrative services and acceleration of administrative procedures, fast establishment of transport infrastructure, reforms in education and connecting it with the need of business, reforms in the court system and actual fight against criminality and corruption. With the increase in*

*investments improvements in our business culture and business environment should take place.*

#### 5. The search for an offshore destination

The analysis of the search doesn't allow us to determine the universal rating of the attractiveness of countries, in other words, to determine the favorites and the outsiders. If a country wants to attract investments through offshoring, it must orientate itself to a specific branch and a company, whose needs it can satisfy in the best way. For this, of course, the country must know its own features and understand what branches and companies would be interested.

In every situation, all the countries that have been chosen for an offshore destinations, will win through the increase of their employee's qualification, not only through the increase in their number. For example: the attractiveness of job offers in many developing countries would rise, if the university graduates receive knowledge and practical skills.

*According to studies from the Bulgarian investments agency (BIA) for the period from 1998 up to 2005, in Bulgaria foreign companies invest mainly in the finance branch (19.8 %), followed by the trade branch (14,7 %) and telecommunications (14.1 %). The reforms on the labor market in Bulgaria are aimed at the increase in labor productivity, which is still far behind the levels in the EU. These reforms would have an effect on the world labor market, for which there is a lack of information and which regularities are still unknown. The lack of information makes the management of organizations difficult.*

#### 4. Foreign direct investments (FDI) in Bulgaria

Through the attraction of foreign investments in our country, Bulgaria will take part in

a new and perspective field of international business – offshore outsourcing. For know, it embraces mainly the production of software, call center services, tourism and real estates.

According to BIA data, for three years in a row (2005-2007) the stream of FDI to Bulgaria increases. In 2007 the FDI were 5.2-5.3 billion euro, which is 20 % more than 2006. For 2008 the prognosis indicates 10 % growth [6]. According to UN reports about the investments in Bulgaria, our country is on 5th place among the countries from South-eastern Europe, behind Russia, Romania, the Ukraine, Kazakhstan and on 7th place among 141 countries worldwide.

According to BIA specialists, 1/3 of our economy can be orientated toward offshoring/outsourcing to foreign companies. This means a 5 billion Euro market every year. In the developed from the consult company "Deloitte and Touche" strategy for investments marketing, the outsourcing is one of the branches with the highest potential for attracting FDI. The specialists from Deloitte add up, that our country must focus on production and services with high surplus value like mechanical engineering, software development and centers for service of clients. We should add that financial mediation, wholesale trade and retail sales also attract FDI. This is proven by Bulgaria's macroeconomic indicators.

The attraction of FDI is a result of our economy's development and the presence of profitable possibilities for investments. A factor for the economic growth aren't the money torrents, which increase our GDP through accounting, but the accumulation and formation of capital – physical, human and institutional, which determines the increase in labor productivity. "The technical renovation and the accumulation of capital in the economy are financed through [1] savings, which means that the delay in today's consumption in order to invest in profitable production and future consumption and [2] the attraction of sav-

ings from foreign economies (FDI) [3]. The following branches have a priority: machine production and electrical equipment, ICT and outsourcing.

In the following years the share of FDI will grow in correspondence with the prognosis. For our country the offshore outsourcing has some specific benefits: employment with better salaries, averting workforce emigration, introduction of new technologies and business practices, formation of possibilities for increase in HR qualification.

The offshore outsourcing is an extremely dynamic and mobile practice in international business. It is developed in a competitive environment, despite of its specific character. Its role in the development of the world labor market is significant, especially in certain regions. This practice is not only applied in Bulgaria, but our organizations export activities and processes in neighboring and distant countries (Vietnam). According to BIA, Bulgarian organizations create their own trademarks aren't simple, unknown sub-executors. In this way the FDI in the private business will contribute to the development of our national economy.

## Conclusion

The challenges in front of this specific international business practice – the offshoring, are connected with HR. The demand and supply of the right people on the right positions at a reasonable price is a factor, which determines the choice of an offshore destination. The investments from the developed countries in developing markets, despite some pessimistic conclusions, continue to rise, because of reasons, which were cleared out in this article. This movement of investments also leads to the development of the world labor market. But the tendencies in the distribution and redistribution of HR according to professions, branches and in a global scale

will be a subject of future studies. The offshoring of HR is determined as a basic factor for a new international division of labor. The FDI are a fundamental source of economic growth in Bulgaria through their influence of GDP, on the opening of new workplaces and the stimulation of the transfer of technologies, management and organizational skills and knowledge.

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