

IMPROVING OUTSOURCING PROCESS IN MANUFACTURING INDUSTRY OF ATU GAGAUZIA

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Abstract: *The Gagauzian Enterprises (ATO Gagauzia, Republic of Moldova) in the period of development of ITC-technologies converge to the fact that human resource management will be more effective if it will deal with outsourcing experts and specialists of the company. The wide range of created opportunities for the development of manufacturing industry in the ATU Gagauzia (Republic of Moldova) this publication considers. An analysis of the production and economic performance of the manufacturing industry, in connection with the problems of regional authority's regulation of the manufacturing market. The characteristic of production and technical potential of the manufacturing industry in the country and its use is given. Much attention is paid to creation conditions of investments in the fixed capital of the industry and the development of methods of regional authorities of the regulation of investment activities. The publication covers the foundations of the formation and management of the regional human resources. The central objective of this publication author are the analyses and presenting the basis of the stimulation of manufacturing industry development and the attraction of investments to the region, realizing that only by developing the economy through domestic and foreign investments can create the good conditions for increasing the paces of production, improving the quality of products, expanding the boundaries of product sales. The Gagauzian entrepreneurs pays constant attention to the activities of businesses in the autonomy and builds a constructive dialogue to identify the solutions of any issues by initiating and adopting regulations to encourage entrepreneurial activity and investment in the region. The building blocks for such an enabling policy are the openness of the region to domestic and foreign investors, improving the business and investment climate, and the creation of preferential conditions for attracting investments to the main sectors of the region (including manufactory industry)*

Key words: Manufacturing industry, Free economic zones, ATU Gagauzia, Human Capital, ITC-technologies, ITC-outsourcing, Human Capital, Investor

JEL classification: L11, L53

UDC: 338.45.027(478-29)

Introduction

The term outsourcing appeared in the everyday life of Western companies in the 80s last century, since then its popularity has been growing steadily. According to Gartner Group, the turnover in the outsourcing market is growing annually by 16.5%. Fortune magazine claims that at least 90% of modern enterprises use outsourcing to implement at least one business process. Outsourcing appeared in our country a little later and developed much more slowly due to a number of reasons, which we will talk about a little later, allows not only simplify the process of the company (numbers of which is more than 6500 on the territory 1834 square kilometers), but also improve the efficiency of the organization. Therefore, outsourcing can be represented as a component of an effective management. In turn, considering the using of outsourcing in the conditions of the discovering / developing of the new customers marketing, the cross-border integration of the Republic of Moldova can get the opportunity of rapid economic development in today's competition. The chapter explores such direction of activity as the ITC-outsourcing in terms of evaluating its impact on the performance of economic development.

Most studies and examples of the developing new markets into practice are focused on using the ITC technologies. With all these difficulties, can simplify the use and further development of the new consumers markets, using outsourcing. This firstly, cost effective, and secondly avoids the additional risks associated with the integration. Thus, the use of outsourcing in the development of new markets gives us advantages such as adaptability to changing market conditions, the element of effective management and maximum flexibility in the implementation of the task. The importance of the ITC- outsourcing in the activities of enterprises in socio-economic development of Moldova, their underutilized potential, an unfavorable business climate and the need for a substantial improvement in

the policy effective development of new consumers markets has determined the relevance of the author's research topic

Background

Gagauzia's current manufacturing industry builds on its strong industrial past. The Manufacturing industry of ATU Gagauzia is vibrant and growing, and consists of labor intensive enterprises. They are active in producing apparel, leather goods, furniture, construction materials, equipment and spare parts for agricultural machinery, cosmetics, pharmaceutical products, and refined petroleum. Moreover, several industrial skills are well-preserved

A total of 150 enterprises (*out of which 40 large ones*) represent the current industrial base of Gagauzia. In 2017, the industrial production registered a growth of 23.3% compared to 2016, amounting to 1 587,4 million MDL. The share of the manufacturing sector of ATU Gagauzia accounts for 3% out of its total economy and employs about 6000 people

Why business process outsourcing to manufacturing industry ATU Gagauzia? First of all its depend of the «Human Capital»:

- Gagauzia is an autonomous region of the Republic of Moldova. The region is home to 162,000 inhabitants. The municipality of Comrat with a population of 26,200 inhabitants is the administrative center of autonomy;
- More than 80 percent of the total population speaks the Gagauz language, which is closely connected with the Turkic language family. This allows the Gagauz people to understand and speak Turkish and Azerbaijani. Russian and Romanian languages are the second most common languages in Gagauzia. English is widely spoken and understood among young people;
- Labor resources - the able-bodied population is 104.8 thousand people, which make up 64.8% of the total population;
- Annually, about 750 students graduate from Comrat State University, two colleges and 3 vocational schools

The second factor, which show the background of business outsourcing of ATU Gagauzia is its «Location» items:

- Distance from mun. Comrat to the capital of the Republic of Moldova, Chisinau, is 100 km;
- Direct flights to Chisinau from Vienna, Munich, Frankfurt, Rome, Milan, Paris, London, Istanbul, Moscow, etc .;
- Time compatibility with all European countries and most CIS countries. Central European time + 1 hour;
- Citizens of the USA, EU, Turkey and the CIS can travel to the Republic of Moldova without visas

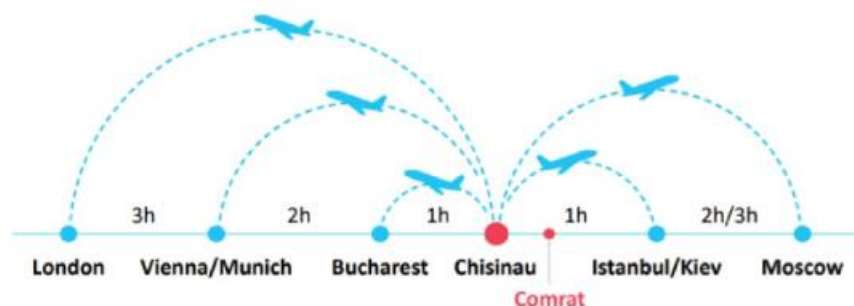


Figure 1. Destinations and time to reach destinations from the Republic of Moldova by air travel
Source: Compiled by the author according to the data provided by the Informational National Bureau of Statistics of the Republic of Moldova

The third argument confirming the necessary of implementing business outsourcing in the ATU Gagauzia is the «Cost efficient destination»:

- Low operational costs; office rental prices; utilities;
- Lowest labor costs in Europe;
- Low taxation - income tax from individuals and legal entities, payments to the social insurance fund;
- Corporate income tax is only 12%, while benefits for the IT sector provide an opportunity for exemption from most social taxes if the gross income of an IT specialist is above \$ 680;
- One of the best wired internet connections in the world, and also one of the cheapest

Another important, fourth, factor determining the willingness and need to implement outsourcing is «Certainty for investors»:

- Stable and predictable economic situation in the region;
- Openness and flexibility of regional authorities in regard to the stimulation of investment activity;
- Support provided to investors by the leadership of Gagauzia;
- Openness and flexibility of regional authorities regarding incentive measures investment activity
- Well-developed infrastructure of modern means of communication

The fifth factor, which very clear the background which helps to implement the business outsourcing of ATU Gagauzia is it «Incentives for investors in Gagauzia»:

- The provision of in-kind grants - the transfer of land, buildings, structures, machinery and equipment ;
- Tax incentives - reimbursement of income tax on entrepreneurial activity for each calendar year for a period of up to 5 years;
- Investment subsidies - reimbursement of up to 30% (not more than 5 million lei) of actual costs for construction and installation works, purchase of equipment without VAT;
- Reimbursement of up to 50% of the costs of retraining personnel for the manufacturing industry;
- Single (unified)window - allows the investor to draw up the necessary documents and obtain permits faster than on time

The research methodology

The materials used in this chapter are the normative acts of the European Union and Republic of Moldova, textbooks, monographs and other publications specific to the theme, national and international conference materials that helped the author to understand and explain the statement, aspects and problems of development, identify the priorities of the strengthening of the ITC-outsourcing in the activities of enterprises, in socio-economic development of Moldova. The quantitative analysis is performed on selected data and processed by the author based on Eurostat, the statistical yearbooks and other publications of the National Bureau of Statistics of Moldova, databases of ATU Gagauzia (ATU-Autonomy Territorial Unit) and other official communications of the institutions. The empirical study, analysis of the links provided the meanings and explanations pertinent to the phenomena and processes occurring in the national market ITC- outsourcing

Outsourcing is the process of transfer by a company the parts of production or business processes of another company that is an expert in this area. Currently the ITC outsourcing market characterized by the presence of a large number companies from different countries. Now has existing the highly specialized companies and contractors operating in various industries. As world experience shows, leading in the field of outsourcing countries like USA and Great Britain. However, gaining more and more turnovers and Europe, and Asia, and other countries of the world. Outsourcing allows to simplify not only the process of the company but also increase organization effectiveness. Consequently, outsourcing can be thought of as a component of effective company management

Business Process Outsourcing (BPO) in Republic of Moldova is developing fast due to its multilingual population and excellent internet and telecommunication infrastructure. The large international companies present in Moldova have developed contact centers for the Moldovan and foreign markets. The number of companies that have opened specifically to serve foreign markets is constantly growing. The main areas of BPO are call centers and contact centers, payroll processing, accounting, business intelligence, data entry and IT services. Most companies started their activities in Chisinau, the capital of the country, but they are interested in activities in other regions of the Republic of Moldova where there are universities. Mun.Comrat is one of the five largest settlements in Moldova, which are provided with labor resources with higher education. The investors are able to service your customers from ATU Gagauzia in EU, Turkey and CIS markets with inherent cost advantages and in various languages. The Republic of Moldova has one of the best-wired internet connections in the world, as well as one of the cheapest in terms of price per MbitGagauzia is a place where it is possible to provide BPO services at the lowest operating costs in Europe. BPO has the potential to become the fastest growing segment in the field of information technology (IT) in Gagauzia. Due to the presence of human resources and infrastructure, BPO in Gagauzia has a high potential for growth and can become a generator of employment, especially for young people. The Gagauzia laid the foundations of IT education to support the development of BPO, as well as the development of information and communication technologies (ICT) with higher added value: software development, administration of applications and infrastructure, development of web platforms, etc.

Top reasons to invest in manufacturing industries in Gagauzia. In ATU Gagauzia there is also a big potential for the production of automotive components(wire harnesses, car covers, car seat covers)

Table 1. The factors determining the investment attractiveness of the processing industry of ATU Gagauzia (2017)

Factor	Characteristics of the factors
Labor force	Competitive labor and production costs in the region (Labor Average net wage ca. 195 EUR/month, Production cost: 0.05 EUR per minute). This creates a competitive business environment for manufacturing. Human resources are one of the most important assets of ATU Gagauzia ATU Gagauzia offers an active, skilled and multilingual workforce. Widely spoken languages: Romanian, Russian, Gagauzian, Turkish, English, Bulgarian, Ukranian
Flexibility and short delivery time	Flexible, reliable and quick delivery tailored to customer needs. Most major destinations both from the EU and CIS can be reached within 2 truck days. Orders are executed and delivered on average within 2 weeks, with no minimum order restrictions
Proximity and easy access to major markets	Gagauzia's trade is largely liberalized to both the European Union, the Commonwealth of Independent States and Turkey
Long standing experience	Industry tradition is stretching over decades, including an experienced labor force in Apparel clothes, knitwear, etc., leather processing & leather goods; wool processing (sheep); blankets and pillows manufacturing (connected to sheep)

Source: Compiled by the author according to the data provided by Economic development Department of the Executive Committee of ATU Gagauzia

The goods that can be produced competitively in the Republic of Moldova: Automotive components, Textile, Apparel, Footwear and Leather goods, Furniture

ICT sector in Republic of Moldova and development perspectives in ATU Gagauzia. The level of development of the ICT sector in Moldova has grown significantly over the past 6 years, showing rapid growth and reaching a level of 460 million euros in 2015 and with a significant contribution to the country's GDP (about 7% in 2015). During this period, exports of software products almost quadrupled. In addition, a study by International Data Corporation (IDC) (March 2015) indicates that the ICT sector is one of the most promising areas of development in the Republic

of Moldova. At the same time, Gagauzia has great potential to contribute to the development of the ICT and BPO sector in Moldova. Every year, about 25 specialists in the field of information technology and mathematics graduate from the Faculty of Economics of Comrat State University. To cover the high demand for IT professionals for fast-growing. As part of the ICT sector in Moldova, and to promote ICT investment opportunities in the region, the Gagauz authorities intend to provide an appropriate academic environment for the training of ICT specialists. By the academic year 2018-2019, the Faculty of ICT will be created at Comrat State University, where more students enrolled in working with various information systems, computer technology, computer engineering communication systems, programming, etc. will be able to enter. Along with this, favorable tariffs for utilities are offered in ATU Gagauzia (table 2):

Table 2. The utility cost in ATU Gagauzia

Internet:	Rent price per 1 Gbit of bandwidth is as low as 15 EUR/month
Water:	0.726 EUR/m ³ in Comrat 1.7 EUR/m ³ in the region
Renting office prices:	1.5 - 7.3 EUR/m ³
Sewerage:	0.586 EUR/m ³
Electricity:	0.10 EUR/kWh
Gas:	0.34 EUR/m ³

Source: Compiled by the author according to the data provided by the Informational National Bureau of Statistics of the Republic of Moldova

Today the IT field is the most developed area. High quality specialists must take into consideration all current changes on the labor market, as well as new trends, research achievements and development of technology. Usually, the labor market uses programmers or system administrators. Consequently, the personnel component of IT outsourcing is mainly determined by graduates technical specializations to the direction of the programming and network engineering, or representatives of IT companies. The most companies are located in the capital of Republic of Moldova – Kishinev. In the Republic of Moldova there are approximately 400 companies operating in the field of information technology

Qualified specialists (students) who are educated in specialties specific to this sector can work in companies and increase their productivity:

- There are four faculties with a 4-year education cycle at Comrat State University. The university prepares highly qualified specialists in the field of economics, law and agriculture. During the 2016-2017 academic year, 384 graduates graduated from Comrat State University;
- The Department of Foreign Languages offers the study of Gagauz, Romanian, English, German and Greek;
- 2 colleges: Comrat College and Agricultural Technical College in the village Svetlii; 179 in starters in 2017. Specialties: agronomy, accounting, transport, agricultural mechanization, marketing, agricultural technology;
- 3 vocational schools (Comrat, Chadyr-Lunga, Vulcanesti); 142 graduates in 2017: Specialties: seamstress, carpenter, mechanic, electrician, plasterer, builder;
- The vocational training center, with branches in 7 localities where students undergo training in specialties: woodcarving, mechanics, seamstress, accounting, cosmetology, etc.; 190 graduates in 2017.

The Russian is the language of instruction in all educational institutions of Gagauzia, although Gagauz and Romanian are taught as compulsory languages. English and German are taught as foreign languages.

Communication infrastructure in the ATU Gagauzia: is maintained at a high level and has impeccable coverage, both wired and wireless communications. Fixed-line communication is available in all locations, however less, the number of mobile subscribers is growing very fast relative to landline. In the ATU Gagauzia there is a high level of development of Telecommunications. There are 3 leading telecommunication companies offering their customers 3G / 4G communication services. In

the table 3 is presented the key facts, which confirmed the high level of development the telecommunication area in ATU Gagauzia:

Table 3. The key facts of the development telecommunications in ATU Gagauzia

Key fact	Data
The penetration rate of a fixed line internet connection has reached	47.65 % in the ATU Gagauzia (in the Republic of Moldova – 45%)
International companies, like Orange and Teliasonera, are present in the local telecoms market	for around 20 years
Created conditions for lowest fixed broadband costs	5th in the world
Number of users of 4G	the 4G services in 2015 in Moldova has grown 4 times compared to 2014
4G territory coverage in Moldova have grown	2.5 times reaching 84 %
Number of users of internet services in Moldova both fixed lines and mobile	has reached 2 million 294 thousand
Mobile internet in Moldova has reached the penetration	rate of 49.4 %

The fixed telephony market is dominated by Moldtelecom – a joint-stock company with the state being the unique stockholder. The company provides fixed telephony and internet services of national coverage. The mobile communications market in Moldova, as well as in Gagauzia, is served by two international groups: Orange (French) and Teliasonera, Moldcell (Swedish). Moldtelecom is also present in the mobile market with its subsidiary UNITE. With a total of 4,460,000 subscribers and 82.1% of active users in Moldova, mobile telephony in 2017 reached a density of 103%.

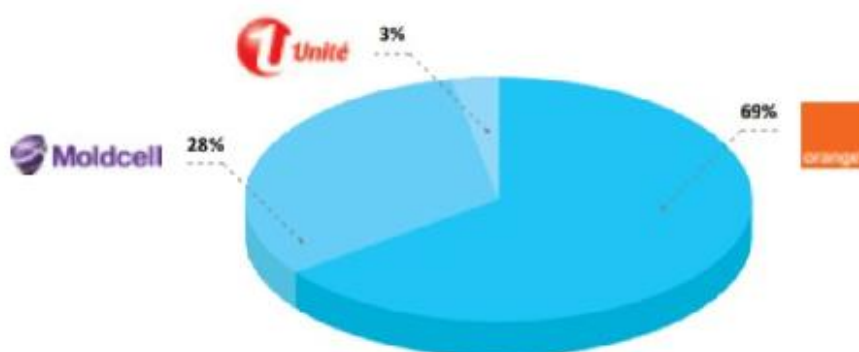


Figure 2. The structure of the mobile market in ATU Gagauzia

Source: Compiled by the author according to the data provided by the Informational statistical bulletin «The socio-economic situation of the Republic of Moldova in 2018, the National Bureau of Statistics of the Republic of Moldova» (2018)

In 2017, the capacity of Moldova's Internet access channels increased to 350 Gbit / s. This evolution was caused by an increase in investment in the development of fiber optic and 4G networks, an increase in the number of users and the growing demand for Internet services. The market structure by connection type also proves that wired Internet services in Moldova are at a high level of development, since fiber is the most common type of connection

Table 4. FTTx (Optic fiber) Download speed

Country	Speed	Rank
Moldova	41.78 Mbps	19
Bulgaria	38.28 Mbps	25
Russia	29.88 Mbps	37
Slovakia	29.78 Mbps	38
Czech Republic	29.59 Mbps	39

Source: Ookla.com

Table 5. Largest providers of internet services in Republic of Moldova

Name of Companies	Marketshare, %
Moldtelecom	61.9
Starnet	23.1

Source: www.anrceti.md

The Fixed internet subscribers by type of access in in the Republic of Moldova is covering the most by two largest operators (figure 3):

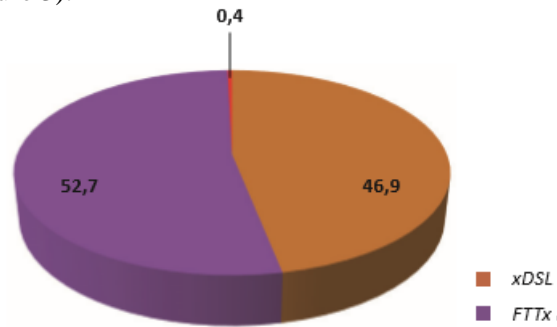


Figure 3. The Fixed internet subscribers by type of access, 2017

Source: www.anrceti.md

The dynamic structure of number of subscriber in Gagauzia 2013-2017years is progresses with steady growth dynamics (in conditions of the penetration rate in Gagauzia – 14.06%) (Figure 4):

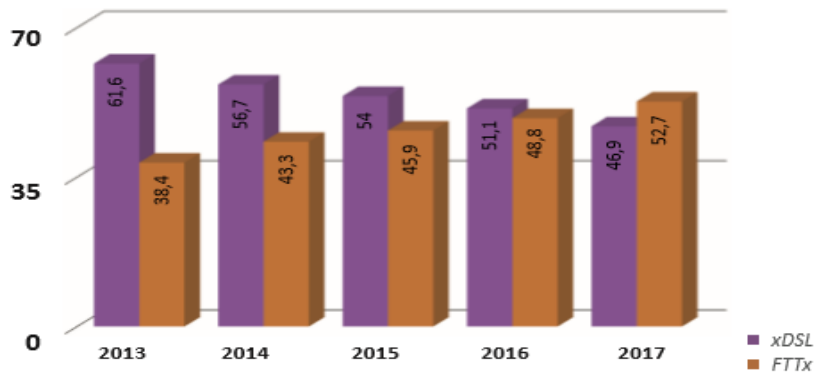


Figure 4. The dynamic structure of number of subscriber in Gagauzia 2013-2017 (in %)

Source: www.anrceti.md

In the table 6 is presented the key facts, which confirmed the high level of development the mobile internet in ATU Gagauzia:

Table 6. The key facts of the development telecommunications in ATU Gagauzia

Key fact	Data
All mobile network operators offer 3G High-Speed Downlink Packet Access (HSDPA Internet access) throughout the country including Gagauzia region	since 2008
Long-Term Evolution (LTE) standard for high-speed wireless communication for mobile phones and data terminals was launched by Orange Moldova and Moldcell	in 2012
At the moment Orange Moldova and Moldcell can be accessed	in 65 localities throughout the country at 150 MBps
The market still has a lot of room to grow	penetration level 48.5 %,
There are three main operators of mobile internet services	Orange Moldova, Moldcell and Moldtelecom

Source: *Elaborated by the author on the basis of on the conducted research*

The Law of the Republic of Moldova N. 77 on IT parks regulates the creation and operation of information technology parks. The purpose of the law is to stimulate development of the IT industry in Moldova through the provision of benefits for companies resident in the IT park. The law entered into force on 01.01.2017. The main benefits provided to domestic and foreign investors - residents of IT parks - can be listed as follows:

- The common tax in the amount of 7 percent of the turnover, which should replace: income tax on business (PNPD); personal income tax (PNFZ); contributions to social and health insurance funds; local taxes and property taxes;
- The state control over the activities of residents of the IT park is carried out every three years (in accordance with the requirements of the law) and at the same time by all controlling bodies;
- The state provides a five-year guarantee for preferential activities established by law

The law provides for the following activities that can be performed in IT parks as part of the preferential regime:

- Software development (customer -oriented);
- Computer games editing;
- Other software products editing;
- Computer equipment management and operation;
- Data processing, web-page administration and related activities;
- Web portals activities;
- IT consulting services;
- Other IT services

It is noteworthy that the parks will be "virtual" and residents will work from their own offices located in the Republic of Moldova. IT companies will become virtual residents of IT parks after registering as residents and accepting all obligations stipulated by law. Despite the fact that sophisticated hardware is not manufactured locally, both international and local companies specialize in the maintenance and supply of hardware. Moldovan ICT companies benefit from the presence of leading companies such as HewlettPackard, Intel, Microsoft, IBM, and local registered companies such as DAAC System Integrator and MCS. The Moldavian Association of ICT Companies promotes the development of the ICT sector in the Republic of Moldova through partnerships between private companies, state institutions and international organizations in order to increase the competitiveness and development of this sector and the potential of companies, expand the market, attract investment in the country and participate in the decision-making process and regulatory processes nationally and internationally

Conclusions

Summarizing the findings of the studies conducted in the chapter, can be stated that attractive conditions for the development of ITC - outsourcing are created in the ATU Gagauzia

Advantages of outsourcing in IT technologies which can get region ATU Gagauzia is:

1. Examination: often at a foreign supplier (outsourcing company) there is a special equipment or technical experience that helps to solve the set tasks much better and faster than it would occur within the company;
2. Cost reduction: the great attractiveness of doing business through outsourcing reduces the cost of labor, work and even equipment;
3. Staff flexibility: according to James Buki, "outsourcing will allow operations that have seasonal or cyclical requirements, bring additional resources when they are you will need, and let them go when you're done" - the perfect solution to saving money on search, selection, adaptation and development of personnel;
4. Reducing IT costs through efficiency and economy of scale from the supplier services;
5. Access to world-class knowledge, experience and resources;
6. Minimization of significant capital of IT infrastructure costs;
7. Confidence in future IT costs

Although outsourcing IT functions, whether internal or offshore, seems attractive in terms of cost savings and other benefits, there are disadvantages and risks of using outsourcing. Some potential disadvantages for outsourcing are:

1. Loss of control over critical business services;
2. Lack of flexibility in the services received;
3. Damage caused by morale / culture clashes (between the service provider and the client);
4. Distraction from the need to manage the relationship with the service provider;
5. Language / cultural barriers: they can involve both employees and customers, especially when clear explanations of problems and solutions are required;
6. Different time zones: it can become an obstacle to communication and coordination with the company for hire;
7. Slower traction: language barriers combined with time differences can sometimes lead to an increase in projection / resolution time

To minimize the risk, it is necessary for the organization to recognize the cultural similarity between itself and a specialized firm. Working relationships often require trust and geographic proximity. Similarities can be found in historical context or in a common language. Outsourcing success usually occurs between organizations that operate in similar industries. Understanding technical language and organization best practices helps create a strong working relationship. Outsourcing allows management to transfer some functions of a specialized company. Their transfer allows management to focus on larger issues within the organization. As a rule, specialized company that deals with outsourcing IT-work, boasts technological capabilities that are superior to the organization. Organizations see ITC outsourcing as a cost-effective means of expanding in other countries and in new markets.

If companies are looking for short-term assistance or cheaper rates for simple tasks, outsourcing can be the right step for the company. However, one should remember about possible risks and select an outsourcing company wisely, and not just the most profitable (cheap) in economic terms, as it often turns out that the company receives results of poor quality and irrelevant appointments

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Received: 10.12.2019

Reviewed: 28.12.2019

Accepted to publishing: 30.12.2019