Credibility Through Branding in Global Outsourcing –
The Experience of Romania

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CREDIBILITY THROUGH BRANDING IN GLOBAL OUTSOURCING

1. Outsourcing Services, a New Approach and the Growing Importance in International Trade

Outsourcing is nothing more than an externalization of production activities. What we are now describing through outsourcing is, perhaps, a new revolution in national and international trade frequently called “tradability revolution”, which means making trade with more and more specialized and customized activities or services, which, only 20 years ago, were considered non-tradable. All in all, human productive activities are at the same time easier to split up and easier to trade. Two major processes at the global level contributed to this development:

- Growing cross-nations mobility of factors due to liberalization and globalization;
- New IT&C technologies.

Under the impact of new IT&C technologies, externalization boomed in a few decades, comprising former non-tradable services and newly fast emerging ones ready for externalization, especially those centred on information and communication. One may notice main characteristics of this new evolution as being:

- Productive activities are, in an unprecedented manner, split or fragmented into smaller components than can be located elsewhere to benefit from factors conditions (availability, price, quality).
- These activities are transportable, due to new technologies.
- Former internal, non-tradable type of activities became tradable services, increasing in an exponential manner the trade in services.

Evidence shows that companies worldwide are massively externalizing activities as tradable services and that this boom takes the following forms:

- Company level externalization through delocalization and split of core competencies, where production is kept inside the company but transferred to local or foreign created branch due to better factor endowment at lesser costs. This may be either locally or in other countries.
- Outside company externalization where the company outsource activities and services to another company either at home or abroad.

In one form or another, inside the company or the group of companies, or outside them, to a third party, one may differentiate between in-house externalization, where the value is retained or captured inside the company, and the offshore outsourcing, when the services are produced abroad. The following scheme is relevant:

<table>
<thead>
<tr>
<th>In-house split of competencies and externalization. In the country, to a branch of the company.</th>
<th>Outside company externalization where the company outsource activities and services to another company at home (inside the country outsourcing)</th>
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<tbody>
<tr>
<td>In-house split of competencies and externalization outside the country, to a branch of the company.</td>
<td>Outside company externalization where the company outsource activities and services to another company abroad (off-shore outsourcing)</td>
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2. **Strategic Vocation of IT&C Outsourcing at National Level**

Having in view the world outsourcing shift, IT&C sector is of strategic importance to the national economy due to its multiple capacities, which give to the sector a special strategic vocation:

- Offshore exporter of its own products and services in the new world outsource market, which is only at its incipient, infant stage.
- Outsource provider at national level of vital IT&C products and services to other sectors and strategic export sectors, capturing value inside the country.
- Overall and essential catalyser of e-commerce and e-business as basic condition for future national competitiveness and crucial enhancer of efficiency in the generic, multi-sector value chain.

The most important contributor to the Romanian IT&C and services industry growth is undoubtedly outsourcing. Having in view that offshore outsourcing has gathered tremendous pace in recent years, with political pressure and controversy doing little to deter top-line growth figures, - which are well above the IT services segment at large, Romania prioritizes strategically for new international trade in IT&C enabled services and outsourcing.

Observers and experts expect offshoring of services to speed up in the near future. Only offshore outsourcing of business processes is expected to grow from 1,3 billion in 2002 to 24 billion in 2007, raising the international share of the market from 1% to 14%. Competitive pressure on companies (not only TNC but also small companies) is likely to spur further offshoring as managers are force to improve competitiveness.

The global shift in IT&C enabled services, the offshore spreading across industries and countries offers potential developmental benefits for Romania. The benefits of offshore outsourcing for companies are well documented – lower costs, higher quality etc – but its importance for sustainable development in less developed countries is also essential. Offshore outsourcing attracts employment and income creating work. Outsourcing has and will continue to help Romanians to build new skills and to stop the brain drain. It is a driver towards excellence and a provider of know-how.

3. **Credibility through Branding in Offshore Outsourcing or other IT&C Externalization Options**

Cost reduction was primarily first driver of offshore outsourcing but, besides allowing a company to reduce cost, there was a growing interest in improving quality. In its struggle to outsource abroad to a third party, the company may enter into a dilemma. Is offshoring really improving the quality of its product or services and is it worthwhile to risk relinquishing control of key business functions to a third party?

Therefore, credibility of the service provider is crucial and the strategy maker at the national level has to promote, in order to stimulate off-shoring, other "location" determinants like:

- Availability and high degree of combination of different professional skills (technical, IT, foreign languages);
- Degree of concentration in clusters of export service providers and their proximity and quality of interaction with universities;
- Quality of education and training services in universities;
- Quality of telecommunication infrastructure and of related legislation;
- Cultural affinities and social capital;
- Adherence of off-shore companies to sector-specific recognized standards beyond ISO (CMM);
- Program of branding the sector outside, in the world outsource market.

According to a Pierre Audoin Consultants estimate, Romania’s software and services market is a small one, lagging behind Poland by 4 years, Hungary by 6 and the Czech Republic’s by 8 years.
The „junior” status of the domestic market does not favorize specializing on certain niches; one of the few sub-sectors where software development is stimulated is in accounting and financial management. Or in the best case ERP (and more recently CRM, however, both are extremely mature in the EU and US, and so, export potential is extremely limited on these applications).

Outsourcing (whether offshore or near-shore) counts for around 95% of Romanian software and services exports. This leaves only 5% in actual Romanian product licenses exported - obviously a huge difference. Judging by this ratio, the question arises: what is Romania’s brand as an “IT country.

Romania has to differentiate itself strategically. The advantages of geographic positioning, language skills, similar culture to the “western civilization”, well trained professionals and an ever-increasing innovation base are the building blocks for becoming a high added value outsourcing destination. We certainly have the skills required and many companies are striving to improve and certify these skills. What we need to figure out in the coming years is how to include more of the software production value chain in the processes we outsource.

Romania can however be a great target for IT-enabled services as well as BPO, especially due to the advantages listed above (according to the Association of Professional Translators in Eastern Europe, Romania takes the 1st place in foreign language abilities).

4. Achievements in Romania 2001-2005

Early achievements and results
Romania started to increase its credibility through brand-building on new IT&C tradable services in 2001, when public sector and IT&C business community became more aware the importance of credibility among outsource clients. In 2002 a coalition of 4 big business associations (ARIES, ANIC, ATIC and ANISP) was created (Coalition Tech 21, comprising also public sector key players) with two main objectives:

- Inside advocacy for promoting the interest of the fast growing business community in the field;
- Branding the sector abroad.

On May 20, 2002, branding initiative was launched and made possible:

- The creation of a secretariat of the committee that coincides with the secretariat of the “TECH 21 Coalition” and includes industry associations and the public sector; defining an agenda of activities and periodical meetings;
- Organizing branding workshops and debates for a better awareness of the importance of such activity, including with USAID/CIPE support;
- Debated lead to the idea that branding means differentiation by quality and observance of quality criteria.

In the absence of brand building based on quality criteria, common vision and strategy the TECH 21 Coalition and the public sector promoted the sector through logo and image campaigns and promotional arsenal.

- Harbour of the Black Sea Region;
- “Romanian Tiger”
- “.RO”
- IT Avenue
- National system for export promotion financed from the budget concentrated on IT&C;  
- Support for getting quality certification (co-financing from the budget ISO, product certification or trade mark registration) Result: companies started to certify;
• 3 - 4 participations per year, with national pavilion, co-financed from the budget to international specialized fairs and exhibition;
• Special attention to registered export brands in promotion activities Result: companies started to register abroad;
• Awareness campaigns, information and consultancy, about quality systems and branding; importance of registration of brands before exporting;
• Special attention to sector branding and composite brands;
• The need for branding, both for individual firms and collectively, is increasingly obvious for Romanian firms;
• Energies are being coagulated at firm and association levels in favor of branding;
• Industry strategies are designed in which branding solutions are sought;
• The public sector supports such initiatives and stimulates them, and there are public-private partnerships;
• Foreign assistance programs accelerate the domestic effort.

But still opportunities underused and risks appear

• The risk that the branding is not place on the secure ground of good management and quality standards which makes finally the brands credible;
• High quality selection criteria for the collective branding are not accepted by firms inside industry associations and the process is stalled;
• Associations are powerless to impose selection criteria focused on quality or certify competence;
• Many manufacturers seek risky “shortcuts” that generate disputes: they register marks in order to profit from the notoriety of a name, without concern for quality and representative ness or intellectual property rights;
• Few Romanian firms register on foreign markets despite branding campaigns;
• Highly performing companies fear to associated their brand with the brand of the country, claiming about poor or negative country of origin effect (vicious circle of branding)

Lessons learnt

• The building of a brands cannot be effective without accepting international quality standards;
• Sector branding without an development quality strategy for the sector + vision, futile effort;
• Industry associations should be more active;
• The important role of the partnership under all its aspects (public-private or private-private);
• The building of composite brands provides incentive for building an own mark at firm level, in an industry;
• The concern for own brands based on quality will also stimulate the concern for common brands and for branding Romania (virtuous circle of branding);
• Reputation should be based on individual quality trade marks in an industry + a system of selection of the quality frontrunner firms, based on quality standards;
• It is not enough to have an industry strategy and selection criteria, one must know how to “sell the industry or a region” = sector or territorial marketing

5. Constraints and Strategic Action in Brand Building - As Seen by the Strategy-Maker Working Group in Coalition Tech 21

The main constraints recognized by the sector in Romania as impeding its overall competitiveness are:

• Inadequate IT education curricula
• Lack of partnerships between the software industry and the academic environment
• Few Legal / fiscal incentives – there are still not enough to enable explosive development of the industry (see the Indian, Chinese, Irish success stories)
• Foreign companies/partners lack a centralized information portal towards the Romanian IT industry
• Internet and telecom infrastructure underdeveloped and expensive
• Business development services do not respond to company needs – a more focused approach is necessary to identify specific critical needs and necessary to identify specific critical needs and find solutions
• Foreign companies/partners lack a centralized information portal towards the Romanian IT industry
• No relevant market studies identifying niche markets – EU and worldwide
• Faulty external representation system. Commercial bureaus are not staffed with marketing professionals to promote Romanian IT.
• No unitary Fund managed in a public-private partnership in coordination with the Ministry of Commerce and the Chamber of Commerce
• Low transparency regarding business opportunities, access to funding, public projects, etc
• No consolidated international marketing strategy
• No Romanian IT Brand
• There is a strong need to promote associations and improve their representation
• No mechanisms to encourage FDI, no mechanisms to encourage Romanian investments in other countries (capital export)
• We lack a professional on-going training program to develop IT company management skills

Better export strategy and marketing offshore outsourcing

• Better marketing of the aggregate industry offer;
• How? From SWOT analysis to … what target groups think (how we thing the other are thinking about us);
• With what? Promotional arsenal, image products, marks, convincing messages;
• By whom? Choice of multipliers.
• Industry or regional marketing is done by association of producers.
• Associations must produce concrete legislative change proposals, a consistent strategy and institutional building for branding after harmonizing their own internal interests first;
• Industry association and firms must inform members and give them incentive to achieve and certify accepted international quality standards for their relevant industries, a key prerequisite for any sustainable branding development.

The strategic vision of the sector is to increase its capacity to meet world outsourcing options of the international clients, and specialize in export of more value added solutions, moving gradually from low value outsourcing to high value IT&C products and services and to enhance it capacity to offer local products and services enabling exporters in the other sectors to increase their competitiveness. In order to make this vision real the sector should strategically focus on human skills able to shift the competence from low-skilled services (data entry, call centres) with low spill over effect to medium skill services (processing operation or back office services, billing, accounting) or, even to high skill ones (R&D for different sectors, industrial or technology system design, sector specific testing services, software development, end-to-end IT solutions etc.). Since medium and high skills involves and stimulates economic concentrations, clusters and institutional interaction, main objectives of the sector in the period 2005-2009 are:

• Extend into new service lines;
• Tap new and under penetrated customer segments;
• Move up to the value chain from maintaining and implementing outside orders to implementing and designing creative solutions, customer tailored and from piece parts to full projects.
In order to get to these goals, the sector is targeting for the next 4 years:

- Improving the rate of IT penetration in the Romanian economy and society;
- Active promotion of off-shore outsourcing opportunities and offer since the crux of a global sourcing strategy of the companies is the awareness of global and regional sourcing options and actively making sourcing decisions about all business functions, rather than using local and/or internal resources as a default position. It is essential therefore that global outsource market be aware of the Romanian export offer.
- Foster IT industry innovation initiatives and R&D capabilities
- Internal process improvement efforts, to boost competitiveness (adopting ISO, CMMI, TQM and other internationally recognized standards)
- Developing IT company managerial skills in order to improve international credibility and competitiveness
- Improve financing and investment in IT services companies;
- Develop international marketing capabilities; make better use of existing resources;
- Develop survey capabilities within Romanian IT companies and associations in order to prepare them for international market; market intelligence building for the Romanian IT industry.
- Encourage Romanian IT investments in other countries;
- Cohesion at association level, in order to improve representation of the sector and to build powerful BSO-s
- Bridge the gap between the IT sector and the academic environment.
- Monitoring and helping the process of harmonization of the national legislation in the field of competition in the markets for electronic communications services
- Improvement of the competitiveness of the Romanian manufacturing enterprises (telecom. equipments);
- Development of a foresight service (in communications);
- Improved support for University curricula in the ICT field (including entrepreneurial skills);
- Development of R&D capabilities regarding the content for the 3rd generation of Mobile Telephony (including a Technological Park)
- Create linkages and structural dialogue with other sector business communities (textile, furniture, rural tourism, automotive etc) in order to offer vertical industry applications and make the other sectors aware about sourcing IT enabled activities, which can contribute to the increased efficiency of other product value-chains.