Outsourcing in Kosovo: An analysis of Kosovo's comparative advantage and the potential for growth

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Outsourcing in Kosovo: An analysis of Kosovo’s comparative advantage and the potential for growth

An Honors Society Project

Yllza Hoti
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July, 2018
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List of Acronyms

BPO – Business Process Outsourcing
ICT – Information and Communication Technology
FDI – Foreign Direct Investment
MTI – Ministry of Trade and Industry
KIESA – Kosovo Investment and Enterprise Support Agency
STIKK – Shoqata e Teknologjisë së Infomacionit dhe të Komunikimit të Kosovës
SWOT – Strength, Weaknesses, Opportunities, and Threats
UNCTAD – United Nations Conference on Trade and Development
GDP – Gross Domestic Product
IPP – Investment Priorities Plan
PEZA – Philippine Economic Zone Authority
IBPAP – IT and Business Process Association of the Philippines
BPM – Business Process Management
CEO – Chief Executive Officer
COO – Chief Operating Officer
SEO – Search Engine Optimization
AI – Artificial Intelligence
VR – Virtual Reality
DACH – Deutschland, Austria & Switzerland
ITO – Information Technology Outsourcing
Abstract

The main focus of this research project is to explore the implications of outsourcing on the service provider countries, specifically for the case of Kosovo. With the emergence of globalization, international markets are more interconnected than ever. Technology has facilitated businesses with different ways of reducing costs, one of them being outsourcing part of their business processes internationally, also known as offshore outsourcing. While the impact of such strategies on the client countries is controversial, there is almost universal agreement that the impact on provider countries, especially when they are developing countries, is positive. Being a developing country, Kosovo can also benefit from improving its services trade balance, and one way to achieve that is by the expansion and development of its outsourcing sector. Using both primary and secondary data research, this study analyzes Kosovo’s outsourcing sector, the potential for development, and the main challenges faced by startup businesses in this sector. Since there is limited existing data (both qualitative and quantitative) regarding Kosovo’s potential as an outsourcing destination, this study can contribute in filling in some of the gaps. Based on first-hand information from representatives of existing outsourcing companies in Kosovo, as well as examples from literature on other countries, a list of recommendations for the Kosovar government and other stakeholders is provided.
**Statement of the Problem**

As competitiveness rises in the private sector, more and more companies are trying to find ways through which they can lower their costs while still maximizing their profits. With the development of technology and the possibility of instant communication between people located in two different ends of the world, globalization’s effects have become more prominent than ever. In the pursuit of remaining competitive in the market and maximizing profits, many companies in developed countries have turned to outsourcing as a business alternative. This method refers to “the purchasing of goods and services, more often the latter, necessary for the running of an organization from outside that organization rather than relying on one's staff to provide them” (Goode). While there are many reasons why companies choose outsourcing as part of their business strategy, the two main drivers seem to be cost reduction and the enabling of core business functions (“Deloitte’s 2016 Global Outsourcing Survey” 5). As a developing country with a strategic location and the youngest population in Europe, Kosovo has also experienced an increase in the number of foreign companies seeking to outsource some of their services. While a comprehensive list of such companies functioning in Kosovo is unavailable, a short scan of the job publications in many online job advertising websites is rather sufficient to understand that companies serving as service providers of outsourceable services are constantly seeking for employees from Kosovo’s labor market. This study analyzes the potential for the growth of the outsourcing sector of Kosovo, seeks to identify its comparative advantage within the Balkans region, and explores the main challenges faced by Kosovar companies in this industry.
Introduction
Outsourcing, more precisely the tradability of services, has existed long before the idea of globalization became introduced (Schiavone, par. 1). However, the interest in this concept sparked largely during 2004, when references to it in major newspapers increased from less than 300 per year in 2002 and 2003, to over 1000 references (Gregory Mankiw and Swagel 1029). For developed countries such as the US, where many businesses turned to outsourcing, this issue seemed concerning since it was “stealing” jobs from its own citizens.

Figure 1: India’s Share in World Trade in Percent

For developing countries such as India, on the other hand, this presented an opportunity for employment and economic growth. From 1995 to 2008, India has seen a steady increase of 2.1% (see figure 1) in its share of world trade in services (Pazhayathodi 13).

Such increases in the export of services (mainly those of telecommunication and IT) have not only helped India create a net surplus in service exports but has also attracted FDI inflows in this sector (Pazhayathodi 13). Furthermore, the development of this industry in India provided numerous jobs for women. Despite their narrower educational background, women with good English skills were able to get stable administrative jobs which were paid much better than the same jobs in local companies (Roberts, par. 8).

An overview of the impact of outsourcing in countries such as India is important for two reasons: first, India remains the top outsourcing destination in the world and it is considered to be a success story; and two, despite differences between nations, this success story shows that outsourcing is in fact a viable method through which a developing country, such as Kosovo, can improve its economic situation and reduce unemployment. According to a World Bank report on the development of the outsourcing services industry in the Pacific Island Countries, some of the
key competitive advantages of these countries in global outsourcing are their young, qualified, and English speaking population; minimum wages “comparable to the international norm for basic outsourcing tasks”; and the “availability of basic Internet infrastructure that is improving in terms of speed, quality, and cost owing to new and ongoing connectivity initiatives” (Beschorner 4). While a similar SWOT analysis has not been conducted for Kosovo, several reports and analyses of the country demographics show that Kosovo too fulfills the criteria of these competitive advantages, starting with its youth (15 to 24 year olds) which makes up 17.22% of the total population (“The World Factbook: KOSOVO”). This project’s main goal is to create an in-depth analysis of Kosovo’s potential and its comparative advantage in the outsourcing industry, which can then be used as an evaluation of the impact and economic benefits if this sector were to be developed in a larger scale in the future.

**Literature Review**

**An Overview of Outsourcing**

As we have already established above, outsourcing is not new or something that appeared with the emergence of globalization. Being considered as the simple task of having another party carry out part of your business process as a firm, there are no clearly set boundaries between outsourcing, subcontracting, or even simply purchasing (Allender, par. 1). What makes outsourcing different, however, is the fact that this notion implies that the ownership of that process is being transferred to a specific provider (par. 1). In other words, the partnership created during outsourcing is between two separate legal entities where one side constitutes of the business process ‘client’ and the other constitutes of the business process ‘provider’. However, the literature provides more than one definition of outsourcing, making the subject very broad and inclusive of just about any good or service that a firm procures from external parties (Gilley and Rasheed). Despite this broad definition, however, outsourcing is considered by Gilley and Rasheed as a strategic decision which can either arise as a result of substituting an existing internal production/operation, known as “substitution-based outsourcing”, or by outsourcing a new production/operation which has not been completed in-house before, known as “abstention-
based outsourcing”. While the former does coincide with the generally accepted definition of outsourcing – practically substituting a part of your productions/operations with an external provider – the latter does not seem to suggest much of a difference between outsourcing and plain procurement. To make this distinction, Gilley and Rasheed continue to narrow down the definition by adding that what makes the distinction between “abstention-based outsourcing” and plain procurement is whether the firm is capable of producing that good or performing that service in-house: it is only considered outsourcing if the firm is in fact capable of offering that good/service, but for one reason or another chooses to outsource it to an external provider.

Having narrowed down the definition of outsourcing, it is also important to consider it in the light of globalization and the advantages or disadvantages of cross-country outsourcing, also known as offshore outsourcing. While sometimes the terms outsourcing and offshoring are used interchangeably, they do in fact refer to different concepts. While outsourcing, as explained above, refers to the transfer of a part of the production/operations to an external provider (whether that is a domestic or international provider), offshoring refers to a part of the production/operations being located in a different country, whether the foreign provider is an affiliate of the client company or a third party (“Information Economy Report” 73). The distinction between offshoring and outsourcing is summarized in Figure 2.

**Figure 2: Outsourcing and Offshoring**

<table>
<thead>
<tr>
<th>Location</th>
<th>Internalized production</th>
<th>Externalized production (outsourcing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>Production kept in-house at home</td>
<td>Production outsourced to third party service provider at home</td>
</tr>
<tr>
<td>Foreign (offshoring)</td>
<td>Production by own foreign affiliate “captive offshoring”</td>
<td>Offshore outsourcing to third party provider abroad</td>
</tr>
</tbody>
</table>

Source: UNCTAD, 2009

The focus of this research is particularly on offshore outsourcing, namely the outsourcing of services from abroad to third party providers in Kosovo. In other words, from the perspective of Kosovo, the study will focus on Kosovo’s export of services. To further define offshore outsourcing, it is important to consider the activities commonly affected by it. As summarized in
the Information Economy Report of UNCTAD, these activities can range from those requiring relatively low levels of qualifications to those requiring high levels of qualification (“Information Economy Report” 74). The table below shows how these activities are typically categorized.

Figure 3: Categories of Offshore Outsourcing Activities

<table>
<thead>
<tr>
<th>Service category</th>
<th>Examples of service activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT services</td>
<td>Programming, systems integration, application testing, IT infrastructure management and maintenance, IT consulting, software development and implementation services, data processing and database services, IT support services, data warehousing, and content management and development</td>
</tr>
<tr>
<td>ICT-enabled services</td>
<td>Call centres and customer contact centres (inbound and outbound)</td>
</tr>
<tr>
<td>Front office services</td>
<td>Data entry, human resources, payroll, finance and accounting, procurement, transcription</td>
</tr>
<tr>
<td>Back office services</td>
<td>Financial analysis, data mining, engineering, research and development, insurance claims processing, architectural design, remote education and publishing, medical diagnostics, journalism</td>
</tr>
<tr>
<td>KPO</td>
<td></td>
</tr>
</tbody>
</table>

Source: UNCTAD, 2009

Globalization and Outsourcing

While outsourcing as a concept is older than globalization, outsourcing to international markets is definitely something which became more prominent as a result of globalization. Globalization is defined as a process in which markets, firms, and production are integrated in a global scale (Brawley). As such, globalization has enabled businesses to transfer the burden of certain business processes to providers outside their country’s borders. Offshore outsourcing is driven by two main factors: cost reduction and quality improvement (Gupta, par. 5). Despite the additional cost of occasional travel arrangements and international communication, cost savings can range between 50-75% (par. 5). While this is generally accepted to be beneficial for the less developed countries providing the outsourced service, outsourcing jobs to foreign economies is often seen as being antinationalist as it reduces employment opportunities for workers in the ‘client’ country. However, according to publications of Global Insight, due to a more efficient economy resulting from lower business costs, offshore outsourcing has in fact increased the number of jobs available for US citizens (Miller). According to Agrawal and Farrell, the negative effects of offshoring in the US economy are highly overstated; about 70% of jobs in the US are service industries which cannot be moved abroad, therefore are in no threat from offshore outsourcing (par. 5). Additionally, due to the continuous creation of new jobs in the private
sector, a laid-off worker is able to find a new job within 6 months, not to mention that job losses caused by structural changes in the economy are significantly higher than those caused by offshoring (pars. 6 and 7). Despite that, evidence on the effects of offshore outsourcing on a country is mixed; this suggests that it is rather difficult to empirically verify whether the benefits outweigh the costs for the client countries, in the aggregate.

**Implications for Developing Countries**

Most of the existing literature on offshore outsourcing focuses on the ‘client’ countries, or the firms receiving the outsourced product/operation. As discussed briefly above, while it is accepted that outsourcing a part of operations to another country is beneficial to the individual firm, there are different opinions on whether such practice is beneficial to the country as a whole. However, looking at the situation from the ‘provider’ countries – especially when they are developing countries – the impact of outsourcing is difficult to be thought out as anything but positive. Characterized by low levels of GDP, high unemployment, and dependence on imports, less developed economies can benefit greatly from the willingness of a foreign firm to outsource part of its operations abroad. Due to improvements in education, developing countries tend to have high numbers of recently graduated individuals who are willing to work at quite low wages (as a result of the high unemployment); as such, these countries have an interest in attracting foreign investment in this field (Beerepoot and Keijser, par. 5). In order to attract foreign investment in the outsourcing sector, however, developing countries need to provide the right environment by taking steps such as improving the telecommunication infrastructure or providing tax incentives – some countries have even taken initiatives of creating “ICT councils” which attempt to create favorable conditions to attract investment in the sector (par. 6). In addition to being considered as a driver of economic growth, outsourcing also contributes to an increase in the economic diversification of a country, since it incentivizes a move from primary material extraction to a “knowledge-based economy” (Beerepoot and Keijser, par. 7). In other words, the development of an outsourcing sector in developing countries helps economies reach the desirable characteristic of diversification while at the same time providing more incentives for the development of the human capital. For example, due to the lack of skilled labor force in comparison to its competitors, Egypt’s Ministry of Communications and Information Technology developed
specific trainings to prepare new graduates to enter the Business Process Outsourcing (BPO) sector (Goswami et al. 7). Known as “EduEgypt”, this program also trains undergraduate students in improving their soft skills and language abilities to better prepare them for both local and international markets, in an attempt to reduce the gap between the new graduates’ competences and the employers’ expectations (225). While such government initiatives paired with tax incentives do contribute in making a country an attractive outsourcing destination, the private sector’s actions are just as important. One of the main factors attributed to the Philippines’ success in expanding their outsourcing industry is the proactivity of their private sector, with the IT and Business Process Association of the Philippines (IBPAP) leading the marketing campaign of branding the country as an attractive outsourcing destination (Goswami et al. 144).

To summarize, the expansion of the outsourcing sector in a developing country is expected to reduce unemployment, increase the incomes of highly educated people, develop the overall human capital via government programs or firm trainings, and potentially create a spillover effect in the domestic market as a result of the expertise gained though such trainings and work experience.

The Case of Philippines
It is common to see India as a success story in the outsourcing literature, having been considered a leader in the sector for many years in a row now. However, another up-and-coming destination for outsourcing is the Philippines, with its capital city being ranked as the second most attractive outsourcing destination in the world for 2016 (“Tholons 2016 Top 100 Outsourcing Destinations” 2). Philippines is a developing country characterized with a young and educated population, who are well spoken in English, and have affinity with the US both in terms of culture, and educational systems in fields such as law and accounting (Goswami et al. 139). Knowing Kosovo’s young and educated workforce is perceived to be its biggest advantage, it seems suitable to analyze the Philippines as model for the development of the outsourcing sector. While every country has different socio-political and economic situations, exploring the various causal mechanisms of Philippines’ development in the outsourcing sector can serve as a rough guide to what steps Kosovo can take to brand itself as an attractive outsourcing destination.
The Role of the Government

One of the factors which contributed to the success of the outsourcing sector in the Philippines is the government’s support. To encourage foreign investment, the government provides fiscal incentives such as income tax holidays for up to 8 years and tax deductions of 50% of wages for workers, as part of their Investment Priorities Plan (IPP) (Goswami et al. 131). Such incentives are also available for non-IPP activities of domestic firms which export at least 50% of their services (131). This means that practically all outsourcing providers are part of such government support programs, which would incentivize a shift towards this sector both through the existing businesses and through newly created ones. Additionally, firms that are registered with PEZA (Philippine Economic Zone Authority) enjoy additional benefits “such as a 5 percent gross income tax rate; exemption from all local government imposts, fees, licenses, or taxes; and exemption from expanded withholding tax—but PEZA firms are required to export at least 70 percent of their output” (Goswami et al. 131).

The Role of the Private Sector

In addition to the government programs and tax incentives, an active private sector is also a crucial factor for the success of a country’s outsourcing sector development. While the main players of the outsourcing industry in the Philippines had a strategic plan to guide the process, the existence of a specific organization to promote and guide the development of this sector has also been very helpful (Goswami et al. 144). The IT and Business Process Association of the Philippines (IBPAP) is an organization which assists investors in starting operations in the Philippines, as well as working to ensure the growth of the sector through different initiatives (IBPAP.org). Some of IBPAP’s key contributions for this sector can be seen in Figure 4.

An especially noteworthy achievement is the inclusion of BPO in the Investment Priorities Plan program of the government, which offers benefits and tax incentives for such firms, as explained above. Another important initiative of IBPAP is the development of blueprints known as “roadmaps” which focus on specific goals and actions to be taken to obtain success in this sector (Goswami et al. 144). As can be seen in Figure 4, the first blueprint – “Roadmap 2010” – was launched in 2007. Upon its completion, “Roadmap 2016” was launched and most recently IBPAP launched “Roadmap 2022”. Upon the launch of the most recent roadmap, IBPAP
Executive Committee Chairman Benedict Hernandez claimed that their ambition “is to create another one million higher value direct jobs in IT-BPM over the next six years. There’s also an additional three to four indirect jobs created per direct job in our industry, according to research. So in total, we are looking at four to five million new jobs in the country” (“IT-BPM to create 1M more jobs by 2022”). Such promising figures show that the impact of the outsourcing sector can be quite significant in the improvement of the economic situation of a country.

**Outsourcing in the Balkans**
Kosovo has a very strategic geographical location as an outsourcing destination, especially if we consider potential clients being Central European countries such as Germany or Switzerland. However, while this is a positive factor, it is definitely not sufficient in making Kosovo an attractive outsourcing destination. To understand how Kosovo can better differentiate itself from neighboring countries in terms of comparative advantages for the outsourcing sector, it is important to explore some of its main competitors. Several Eastern European countries have already established their position in the map of attractive outsourcing destinations, such as Poland (Kraków ranked 9th, Warsaw ranked 25th), Czech Republic (Prague ranked 14th, Brno ranked 31st), Hungary (Budapest ranked 24th) etc., as seen in the 2016 rankings (“Tholons 2016

Source: IBPAP.org

**Figure 4 IBPAP Timeline**

![IBPAP Timeline](image-url)
Top 100 Outsourcing Destinations”). Knowing this, it does not seem suitable to compare Kosovo to these countries as they have a far more developed outsourcing sector – it seems more appropriate to use other Balkan countries as a benchmark. The Balkan countries which made it to the Tholons’ top 100 outsourcing destinations rankings are Romania, Bulgaria, Slovenia, and Serbia (in that order). As the highest ranked Balkan country in this list, I will use Romania as an example.

Although literature on the specific case of Romania as an outsourcing destination is quite limited, the existing literature provides relevant information regarding Romania’s main competitive advantages in this sector. According to an analysis of Romania’s competitive advantage on the global outsourcing market, what makes the country an attractive outsourcing destination is the high number of qualified specialists (from more than 100 universities within the country) who also possess good language skills, low labor costs, the business culture being similar to that of Western Europe and America, and tax incentives (Boşcor et al. 153). Tax incentives include IT specialists being exempted from the salary tax; tax exemption for land/buildings within industrial parks; and tax exemption for dividends which are used to create new jobs (153). Some of the disadvantages of Romania in this industry are the fact that it does not have any sustainable partnerships between academic entities and the software industry, there is no branding of Romania’s outsourcing potential for international markets, and there are no particular mechanisms which encourage investment in this sector (Burciu and Mihai 111).

**Outsourcing in Kosovo**

The literature on the outsourcing sector of Kosovo is very limited. One of the most notable organizations working towards the promotion of the service export sector of Kosovo, particularly in the IT field, is STIKK – The Kosovo ICT Association. One of the publications of this organization particularly addresses the ICT services export potential of Kosovo. According to this report, the sub-sectors of ICT industry of Kosovo which have the potential for export opportunities are:

- Software development / programming / coding;
- Engineering services / network and system operations/management;
- Business Process Outsourcing (BPO);
-Mobile applications development;
-Graphics / Post production enhancement (Media);
-Telemarketing and Support Centres (Call Centres)” (Shaipi and Xërxa 5).

Additionally, Shaipi and Xërxa identify the main barriers and challenges for the growth of exports in these sectors, which revolve around the lack of government tax incentives, the lack of qualified individuals to enable mass production activities, and the skills mismatch between the demand and supply sides of the labor market (6). While the latter factors are not further elaborated in detail, Shaipi and Xërxa suggest a remedy for the first factor by proposing a tax holiday for ICT exports, namely reducing the corporate and income tax from 10% to 5% (7). Such a change, according to their calculations (refer to Appendix 4), would not impact the Kosovo Government budget adversely since the willingness of firms to benefit from such incentives would lead to a decrease in tax evasion and a higher market formalization, in addition to the increased amount of taxes coming from the larger volume of exports which would be expected as a result (8).

Outsourcing is also considered as one of the industries with investment potential by the American Chamber of Commerce in Kosovo, as explained in their study on Kosovo’s investment potential. More specifically, they argue that Kosovo can be competitive in terms of outsourcing in the subsectors of IT, call centers, and shared services centers due to “the availability of skilled labor, as well as the high literacy of foreign languages” (Hapçiu and Shita 24). According to this study, the existing BPO service providers in Kosovo are success stories which show that Kosovo is a good outsourcing destination where foreign companies can lower their costs while maintaining a high quality of services (24).

**Methodology**
The aim of this project is to analyze Kosovo’s potential for growth in the outsourcing sector and its comparative advantage with regards to the region. For this purpose, a mix of secondary data and primary data collection was used.
Secondary Data Collection
While literature on the specific topic of Outsourcing in Kosovo is not available, I was able to research reports on the more general topic of service exports in Kosovo and evaluate them in the context of outsourcing. Relying on data from STIKK and KIESA (Kosovo Investment and Enterprise Support Agency), it was possible to evaluate Kosovo’s outsourcing sector by looking at more general data of the ICT industry.

The sources used for the secondary data collection include: KIESA’s “Sector Profile of ICT”, a report which explores the export of ICT services, which although published in 2014, can give an overview of this sector and its composition; the “Analytical Report on Trade in Services – ICT Sector” by Kosovo’s Ministry of Trade and Industry (MTI); and “Mapping of ICT Sector Labour Supply and Demand” by STIKK. The main limitation with using these reports as data sources is the fact that they include information on all businesses categorized as belonging to the ICT sector, regardless of whether they export any of their services or not. Nonetheless, considering that the majority of the businesses belonging to this sector offer services which can classify them as outsourcing providers, I will use these reports to analyze the outsourcing sector in Kosovo.

Considering that these reports did not include sufficient information to evaluate Kosovo’s comparative advantage in the Balkans region, as well as the main barriers faced by companies providing outsourced services, it was necessary to conduct additional primary research.

Primary Data Collection
Part 1: Semi-structured interviews
A total of eight semi-structured interviews were conducted: six interviews were conducted with representatives of Kosovar outsourcing companies, one interview was conducted with a representative of the Kosovo ICT Association, and one interview was conducted with a representative of the Entrepreneurship Center and official incubator of the University of Prishtina “Hasan Prishtina”. Considering that a published list of companies offering outsourced services is not available, the interviewees were selected based on convenience sampling: several companies were identified by scanning online job portals, researching news articles on the topic, and based on personal experience. Having identified these potential participants, I proceeded by emailing
either the company email or the individual email of the firm representative, if such information was available online. The other two organizations, STIKK and the Entrepreneurship Center and official incubator of the University of Prishtina, were identified throughout the secondary research, and it seemed appropriate to gather more information from them through primary research, hence the semi-structured interviews with representatives from each organization.

Seven out of the eight interviews were conducted in person, and one was conducted via an online video-call. Prior to the interview, a consent form was provided for the interviewee (see Appendix 1). Each interviewee was asked a total of 10 questions (see Appendix 2), with potential additional questions regarding clarifications or further elaboration. The interview questions were designed so that the interviewees could provide their experience with providing outsourcing services, identify the main barriers of starting such a business in Kosovo, their overall impression of the attractiveness of Kosovo as an outsourcing destination, and the government’s role in the further development of this sector.

In an attempt to have interviewees from companies with diverse backgrounds, I tried to contact companies which differed with respect to the following factors:
- the ICT service subcategory they pertain to;
- the size of the business;
- the country/countries they offer services to.

The interviewees list resulted as follows:

*Interviewee A*: Former CEO of a medium-sized enterprise in Prishtina, which is a provider of the following services for 9 clients in the United States: general administration, accounting, estimating, procurement, contracts management, and virtual design and construction.

*Interviewee B*: CEO and co-founder of a large enterprise in Prishtina, which is a provider of services to clients in Germany, Switzerland, and Austria, in the following fields: IT, back-office, call center, and finance.

*Interviewee C*: Global Project Coordinator of a small enterprise in Prishtina, which provides services to one client in the United States, in the following fields: IT, network and
telecommunication, system integration, software engineering, network security, cloud computing, BPO, and digital transformation consulting.

**Interviewee D:** CEO and co-founder of a small enterprise in Prishtina, which provides services to clients in the United States, in the following fields: software development, artificial intelligence (AI), virtual reality (VR), and health tech.

**Interviewee E:** CEO and managing partner of a small enterprise in Prishtina, which provides services to both domestic and international clients (in the US, Switzerland, Germany, UK, Scandinavian countries), in the fields of software development and mobile app engineering.

**Interviewee F:** COO and partner of a medium-sized enterprise in Prishtina, which provides services to clients in Switzerland, Germany, and Austria, in the following fields: SEO, web design, influencer marketing, and branding.

**Interviewee G:** Representative of STIKK (Kosovo ICT Association), an organization which works on the development of the ICT sector in Kosovo and strives for the promotion of service exports.

**Interviewee H:** Representative of the Entrepreneurship Center and Official Incubator of the University of Prishtina “Hasan Prishtina”, an organization which serves as a bridge between education and the labor market for young Kosovars by providing business advisory support, office space, mentorship, workshops and training, networking, and access to different resources.

**Part 2: Survey**

The second part of the primary research consists of a survey which was designed in an attempt to gather information regarding the workforce of the companies providing outsourced services. Since the questionnaires had to be distributed to employees of these companies, I requested permission from each of the first six abovementioned interviewees that I distribute these questionnaires to their employees. However, only one of the six companies was willing to have their employees complete the questionnaire. The questionnaire included 13 questions related to the demographics of the workforce, their education level, and other work-related information (refer to Appendix 3). The questionnaires were distributed by handing them out to every 2nd
employee, which resulted in a sample size of 40 people. The questionnaire was prepared both in English and Albanian, and the respondents had the chance to choose which language they wished to proceed with.

**Limitations**

The main limitation of conducting primary research on this topic was the lack of a complete list of outsourcing companies. This lack of data made it impossible to select interviewees by using random sampling, which is why the only other alternative (convenience sampling) was used. Additionally, due to the aforementioned reason paired with the unresponsiveness of some of the contacted companies, the sample size of these qualitative interviews is rather small, and cannot be considered as representative of the population. Nonetheless, the results and insight gained from the conducted interviews do have value in that they provide firsthand knowledge from some of the founders and/or leaders of some of the most well-known companies of this sector in Kosovo.

Similar to the interviews, the main limitations of using questionnaires as a method of primary research lie in that convenience sampling was used, since only one of the companies contacted agreed that I distribute the surveys to their employees. Hence, the results from the survey can serve to provide insights regarding the individuals employed in such companies and their perception of a service-exporting firm as a workplace, but cannot be generalized throughout the sector.

**Results and Analysis**

**Secondary Data Research Results**

As presented by the official website of KIESA, ICT is the number one investment opportunity considering Kosovo’s young population which is skilled and multilingual, as well as the fact that Kosovo has the highest rate of internet penetration in the region (Kiesa.rks-gov.net). According to the Sector Profile of ICT in Kosovo, there has been a trade deficit in this industry throughout the 2010-2012 period of time (Kica 24). Additionally, as seen in Figure 5, although there has
been an improvement in the overall trade balance throughout this period, it has resulted only because the imports have fallen along with exports, and not because exports have increased.

**Figure 5: Trade Balance - ICT Sector (in thousands)**

![Trade Balance Chart](source: Kosovo Customs, 2013)

According to this report, among the surveyed ICT companies, 38% of them claimed that they would export but often face many barriers (both external and internal) which make this difficult (Kica 27). Figures 6 and 7 list the most common barriers ranked from the highest intensity to the lowest, as listed by the survey respondents.

As suggested by this report, such a negative trend can be explained by several obstacles which firms in this sector are potentially facing, which include: lack of branding of the industry abroad, lack of contacts in target markets, and lack of information on the target markets (3). Simnica and Jashari suggest that other issues that pose a challenge can be “visa requirements or cultural and linguistic barriers, even export costs and experienced staff to perform that type of activity” (3). While some of these identified obstacles are rather commonly known, others have not been discussed as much and need special attention (such as language barriers and lack of qualified staff).
Figure 6: External Barriers to Export in the ICT Sector

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Intensity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political relationships with exporting country</td>
<td>55</td>
</tr>
<tr>
<td>Limited business and networking opportunities</td>
<td>53</td>
</tr>
<tr>
<td>Infrastructure with exporting and transit countries</td>
<td>53</td>
</tr>
<tr>
<td>Inefficiency of custom agents/intermediaries</td>
<td>50</td>
</tr>
<tr>
<td>Inefficiency of custom administration of exporting and transit countries</td>
<td>46</td>
</tr>
<tr>
<td>High costs of bank guarantee</td>
<td>44</td>
</tr>
<tr>
<td>Lack of loans/credit for exports</td>
<td>40</td>
</tr>
<tr>
<td>Customs execution procedures</td>
<td>37</td>
</tr>
<tr>
<td>International quality standards</td>
<td>35</td>
</tr>
<tr>
<td>Transportation costs</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: UNDP survey, 2013

Source: KIESA, 2014

Figure 7: Internal Barriers to Export in the ICT Sector

<table>
<thead>
<tr>
<th>Inability to create relationships with foreign partners and businesses</th>
<th>Intensity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ineffective management structure</td>
<td>31</td>
</tr>
<tr>
<td>Inability to market and introduce products effectively</td>
<td>31</td>
</tr>
<tr>
<td>Lack of owner's willingness to expand</td>
<td>27</td>
</tr>
<tr>
<td>Inability to execute the trainings or train employees</td>
<td>20</td>
</tr>
<tr>
<td>Inability to finish the certification process for quality standards</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: UNDP survey, 2013

Source: KIESA, 2014

Considering that this survey’s results include the export of products and services (and the scope of this project only includes outsourcable services), not all of the listed barriers apply for the
outsourcing sector, but they do provide a rough overview of some of the potential obstacles companies providing outsourced services may face.

The same decreasing trend of exports in the ICT sector has continued during the 2014-2016 timeframe. According to a report of Kosovo’s Ministry of Trade and Industry (MTI) on the trade in services for the ICT sector, while the total amount of service exports in Kosovo has increased during the 2014-2016 time period, the exports in the ICT sector have in fact decreased, as seen in Figure 8 (Simnica and Jashari 3).

**Figure 8: Export of ICT Services**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer, Information and Telecommunication Services</td>
<td>Million Euros</td>
<td>Million Euros</td>
<td>Million Euros</td>
</tr>
<tr>
<td></td>
<td>77.7</td>
<td>54.8</td>
<td>48.4</td>
</tr>
</tbody>
</table>

(Source: Central Bank of Kosovo)

Source: MTI, 2017

**The Role of Education**

Knowing that attractive outsourcing destinations are often considered as such due to their ability of providing high quality services for a lower cost, exploring the educational background of the employees in the ICT sector of Kosovo is quite important. According to the Sector Profile of ICT, 74.3% of the surveyed businesses have employees holding a university or postgraduate degree (Kica 32).
While holding a higher education degree does not necessarily ensure the provision of high quality services, it does suggest that the workforce in this sector can be qualified to provide the services that are usually classified as outsourceable (refer to Figure 3). Furthermore, the same report shows that only half (52%) of the surveyed companies believe that the employees with the right skills are not low in supply, and little less than half (43%) believe that these employees are not expensive to acquire (33,34). Furthermore, 89% of the companies in the ICT sector do train their employees (33). This can be an indicator that these employees do not possess the right skills (or at least not all the necessary ones) to perform well in their job. Such a claim is also supported by STIKK’s report on the labor demand and supply in this sector, according to which there is a shortage of skilled labor in the ICT industry and despite the high supply of university graduates, they are not readily employable due to the needs and expectations of experience in the field or of specific technical competencies (“Mapping of ICT Sector Labour Supply and Demand” 38).

Knowing this, it is better to avoid using overgeneralizations or other fallacious claims about how Kosovo’s young population is highly educated and therefore able to increase Kosovo’s competitiveness in this sector in the region.

**Semi-structured Interviews**
The semi-structured interviews with six representatives of Kosovar companies providing outsourced services and two other representatives of relevant organizations resulted in the gathering of very useful information regarding this sector. The majority of the interviewee
responses corresponded with the existing literature and confirmed some of the most common ideas. However, due to the limited existing literature about the outsourcing sector in Kosovo, the interviews helped shed light on some of the issues that have not been widely discussed in the past. The interviewees provided information which revolved around some of the following issues: whether Kosovo is an outsourcing-friendly country, Kosovo’s comparative advantage in outsourcing in comparison to the Balkan countries, the main barriers for outsourcing businesses in Kosovo, the government’s role in supporting this sector, diaspora’s impact in the sector’s development, as well as the overall potential for the outsourcing sector in Kosovo.

**Kosovo as an outsourcing-friendly destination**

Whether the outsourcing sector in a country is developed and well established can definitely depend on whether that country is an attractive outsourcing destination, or what could be called as being outsourcing-friendly. All the interviewees agreed that overall, in the general perspective, Kosovo is in fact an outsourcing-friendly country. However, this would depend on how “outsourcing-friendly” is defined, and which aspects or areas this definition would include. Overall, all respondents agreed that Kosovo is outsourcing-friendly in the sense that it has a strategic location, the population is young and skilled in foreign languages, there is cultural affinity to Western countries, wages are relatively low (in a regional level), there is high unemployment, and profit and income taxes are not very high. Additionally, Interviewee C pointed out that Kosovo’s ranking as one of the best places for doing business by the World Bank shows that there are no huge barriers when it comes to investing in this sector by third party service providers, whether they are international or local investors (see Figure 10).
Although outsourcing is a new industry in Kosovo, there are several companies currently providing qualitative services to international businesses, including some of the latest technologies in AI, VR, and augmented reality. As such, Kosovo seems to have the potential for expanding its outsourcing sector in a larger scale and become a competitor in the regional market.

At the same time, however, it was noted that something that could undermine all of the aforementioned positive factors is a negative image of the country to the rest of the world. Considering that many foreign businesses still associate Kosovo with the 1999 war and political/economic instability, they are less likely to be willing to outsource part of their operations here.

**Kosovo’s Comparative Advantage in Outsourcing**

As already mentioned in the literature review section of this project, some of the main advantages of Kosovo as a potential outsourcing destination are its young population, the high number of people fluent in English, cultural affinity with Western countries, a high internet penetration rate, and a favorable climate for doing business. These factors were also confirmed of being advantageous for Kosovo’s outsourcing sector by the interviewees. Some of the additional advantages that were identified are: the high number of university graduates who are interested to enter the labor force, tax levels which are comparable with the Balkans region, a well-developed infrastructure, cheap public facilities (such as water supply, electricity supply,
and sanitation), the lack of taxes for exported services, the same time zone with the DACH region, high number of qualified professionals for the BPO subcategory of outsourcing, and proximity to the Europe region.

While Kosovo seems to have several advantages when evaluating it as an outsourcing destination, none of the interviewees affirmed that any of these characteristics can be considered as giving Kosovo a comparative advantage in relation to other Balkan countries. One factor that was identified as something that could give Kosovo a comparative advantage in the Balkans region is the ability of Kosovars to speak foreign languages, particularly English and German, without a foreign accent. As opposed to our neighboring countries, specifically Serbia, Macedonia, or Albania, Kosovars seem to adopt quite a native accent when learning foreign languages. This is seen as an advantage when the job requires the use of verbal communication with clients, which is often needed when the services being outsourced belong to the ICT sector. In addition to the provision of qualitative services at lower costs, the clients of the foreign company will not detect a distinction on whether they’re receiving customer services from somewhere in Kosovo or from the main office, which, for one reason or another, is often desirable.

**Barriers for the Outsourcing Sector Development**

While the previous section shows some of Kosovo’s advantages as an outsourcing destination, the Kosovar companies serving as third-party service providers face many challenges in both the process of starting a business as well as operating it. While all the interviewees agreed that the process of opening a business in Kosovo is very straightforward and easily done in a short time, there are other challenges that businesses in this sector face. The most commonly mentioned challenge seems to be the short supply of qualified professionals, especially in certain fields such as software development. Two of the interviewees claimed that they would be willing to immediately hire more people if there were skilled and qualified individuals in the market.

“The biggest and most critical challenge is having a qualified stream of professionals, and having enough of them. The outsourcing scene in Kosovo, especially in software development, is having a scarcity of qualified resources. I think that we can increase the employment in that
sector for at least 10% if we would have more qualified professionals working in software development. We would hire more people if there were qualified job seekers” (Interviewee C).

Furthermore, the labor shortage in certain industries drives up the salaries of the current qualified professionals, which reduces the competitiveness of Kosovo as a potential outsourcing destination. In addition to the lack of professionals with specific skills, Interviewee F claims that there is also a general unpreparedness of individuals for the job market, since they lack some of the basic skills of work ethics. Interviewee G also emphasizes this problem, saying that while Kosovo has a high number of university graduates who may be very knowledgeable, they lack important skills which are required by the job market. According to this interviewee, two important factors lead to this mismatch of skills in the demand and supply sides of the job market: first, the curriculum in most universities being very outdated, especially when it comes to the IT field which develops and changes rapidly, and second, the lack of a dual education system in which both theory and practice are given equal importance. This limitation of the education system leads to high numbers of university graduates who have no work experience and are not readily employable.

When it comes to companies offering services to the US markets, another problem seems to be the unsuitable schedule (such as 3 pm till 12 am, or 1 pm till 10 pm), since this reduces the pool of individuals willing to work under such conditions (although they may be highly qualified to do the job). Additionally, Interviewee A noted that offering services to US markets is also problematic in that it requires a more fast-paced work ethics, and Kosovar employees do not seem to have the same dynamics when it comes to getting the job done: while a US client may expect that the work be done regardless of the predetermined work and break schedule, most Kosovar employees have not adopted the mindset of working overtime, sacrificing a lunch break, or working from home.

Finally, a highly problematic issue is the reputation of Kosovo in the international markets. According to the interviewees, Kosovo is highly associated with negative things like corruption, political instability, and cultural backwardness. Interviewee E claims that before cooperating with certain foreign business-owners, they have had to change their perception on Kosovo by
arranging a visit to Kosovo and, in a way, convince them that it is not as bad as it is usually portrayed. When it comes to business visits, another barrier that Kosovar business-owners face is the lack of visa-free travelling:

“In terms of doing business, visas are a problem since there are cases when a client asks to arrange a meeting for the following week to discuss a new project, and that’s not doable for us since it takes at least a month to get the visa and arrange the trip. This is too time-consuming for the client, since they have the alternative to contact a company from Poland or Bulgaria that can make it to the meeting within a day” (Interviewee E)

This claim was also supported by Interviewee G, who said that mobility (or lack thereof) is among the main barriers when it comes to creating connections and representing Kosovo internationally as an outsourcing destination. This interviewee shared an experience when their organization was invited to participate in an international IT fair in Barcelona, which would serve as an opportunity for Kosovar companies to establish relations with other foreign businesses, but none of their member companies were able to attend since they had no visas.

**Government’s Role in the Sector**
The role of the government in developing the outsourcing sector is crucial, as witnessed by the cases of Philippines, Egypt, or Romania (refer to the literature review section). Whether it is through tax exemptions, education/training opportunities, or other support mechanisms, the government has the authority and (in most cases) the necessary budget to support the growth of this sector. According to the results from the semi-structured interviews, the Kosovar government has not been playing a crucial role in the development of this sector – their stance has been relatively indifferent. However, all but three of the interviewees believe that the government can and should take action into providing more support for the Kosovar businesses providing outsourced services, as well as into branding Kosovo as a favorable outsourcing destination.

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1 Quote translated by the author.
Considering that Kosovo as a country has not earned its spot on the map of attractive outsourcing destinations, as of now the development of this sector relies solely on the initiatives of private individuals who are willing to open a business and find clients who they then will export services to. As such, these businesses will need all the help they can get during their startup phase. Some of the ways in which the government could help is by offering subsidies for startups in this sector, such as by paying for a percentage of the salaries for the first year. According to Interviewee A, this is especially important if the services are being provided for clients in the United States or other countries with a different time-zone from Kosovo’s – which would require that the business in Kosovo work in irregular schedules – because such companies usually have to compensate for this inconvenience through higher salaries. Additionally, while Kosovo does not have overall higher taxes than the Balkans region, the government could further improve the situation by creating tax holidays on profit for companies in their initial phase, which would allow these startups to grow and increase their client base. Interviewee G also stressed the importance of tax holidays for startup companies in the outsourcing sector, since these companies have the potential to bring multiple benefits to the country: they can eliminate brain drain by encouraging qualified professionals to work from their home country, the export of services helps improve the trade balance, and they contribute in increasing the money flow in the country.

Another area in which the government could intervene is by developing trainings for recent university graduates in fields which classify as outsourceable services. This would consequently help in lowering the costs of businesses of the outsourcing sector since they would no longer need to train their employees in-house. In addition to offering trainings in the specific field, such as Accounting, Software Development, or Project Management, two of the interviewees noted that it is also important to provide trainings on general work requirements in this sector (and other sectors, for that matter), such as communication skills (written and verbal), teamwork skills, critical thinking skills, and work ethics, but also on the specifics of work in an outsourcing company – what Interviewee A referred to as a “crash course on Outsourcing”. It was also suggested that Kosovo could follow examples by other countries and create an association of outsourcing companies which, among other things, would have its own academy for offering
trainings to new jobseekers, similar to Bosnia and Herzegovina’s Bit Alliance. Interviewee H provided some insights regarding the services their organization provides, among which are soft skills trainings for students of the public university “Hasan Prishtina.” The interviewee’s views were compatible with those of the other interviewees, noting that due to their lack of experience, most university graduates lack in basic work skills such as business communication, teamwork, or public speaking. As such, it is important to have more such trainings being offered free of charge to university students or new graduates.

Related to the lack of skilled professionals, specifically in the fields of IT and software development, four of the interviewees claimed that the root of the problem lies in the education system of the country, and as such can only be fully resolved by the government. They suggested that the government should reform the educational curricula by including subjects like coding, single network engineering, and IT from the early stages of education. This would prioritize computer science as a field of education, and potentially increase the number of students willing to choose it as a field of study (as opposed to the most commonly chosen fields of economics, architecture, or management). This could help solve the issue of staff shortage in this field, at least in the long run. Interviewee G explained that STIKK has continuously tried to cooperate with the government, but the government has only recently started considering outsourcing as having potential in the development of the country. While currently non-governmental institutions such as STIKK and the Innovation Center of Kosovo are working in supporting startups in the service-exporting industry, there have not been any well rounded attempts by the government in supporting this industry. Interviewee G explained that one of STIKK’s suggestions to the government has been to add Coding as a course for first graders, but this idea has not been welcomed by the government officials with the excuse of it being infeasible. The interviewee claims that this response is mainly a result of our politicians’ shortsightedness, since they’re often reluctant to undertake long-term projects which are likely to outlast their political mandate.

Another common suggestion among the interviewees is the creation of an association of outsourcing companies, which is easiest done through a government initiative. Such an association could serve both for the purpose of branding Kosovo as an attractive outsourcing
destination, as well as provide opportunities for current outsourcing company representatives to meet, discuss, and work together in developing the sector.

**The Role of the Kosovar Diaspora**
The Kosovar Diaspora is a crucial component of the Kosovar economy, mainly due to the large flows of remittances coming into the country. Additionally, as confirmed by the majority of the interviewees, their role extends to the development of the outsourcing sector. Kosovar people living and working abroad, especially those with influential positions in large companies, have the chance to act as a bridge (businesswise) between Kosovo and their country of residence. This is especially important when it comes to the DACH region, as Interviewee G noted, since they have a particular business culture where it is highly important to establish trust between two companies before they commit to outsourcing to a third party. Interviewee B claimed that very few of the existing outsourcing companies of Kosovo have managed to find clients without having some sort of international network, and oftentimes it is the diaspora that creates such connections. Interviewee C also agreed that in addition to marketing, using connections is one of the most effective ways of getting new clients in the outsourcing industry. On the other hand, four of the other interviewees agreed that while diaspora’s role in establishing trust and goodwill between Kosovar and clients from abroad is crucial, their role is also important in actually investing in Kosovo and starting companies which provide outsourced services. Three out of the eight interviewees were either themselves part of the Kosovar Diaspora, who chose to start a business and offer outsourced services, or their “foreign” clients were part of the Kosovar Diaspora, who had their own businesses in their country of residence. However, two of the interviewees (who are themselves Kosovars having lived abroad their entire lives) claim that there are many obstacles that they faced in the early stages of their initiatives, since back in 2012 (when they started their businesses) there were basic problems such as internet and electricity shortages. While they were resilient and decided to work past these problems, due to their special connection with their homeland, they claim that foreign investors would not be as willing to work under such conditions.
Kosovo’s Potential for the Development of the Outsourcing Sector

As elaborated in the literature review section of this research project, outsourcing is considered as positive and desirable for the countries providing these services, especially when talking about developing countries like Kosovo. With that in mind, it is important to discuss the potential for growth of the outsourcing sector in Kosovo. When asked whether Kosovo is well prepared for the further development of this sector, the interviewees’ responses were rather mixed. Interviewees A and B believe that while there is potential for its development due to the several advantages which were discussed above, this sector can only be further developed if the government begins taking concrete measures in that direction. Two other interviewees claim that there is a problem with the current mindset of both the government and some of the businesses currently offering outsourced services, in that they do not seem to see the potential that this industry holds for the development of the country. Therefore, they are not focusing on creating long term and sustainable initiatives that would help develop the sector. Additionally, the majority of the interviewees agreed that the lack of skilled staff is the main hindrance in the development of this sector; interviewee E claims that if this problem is not solved soon enough, the sector will not be able to step up any further from its current state, and simply have a small number of companies offering such services here and there. Similarly, interviewee F believes that for the sector to further develop it is crucial to initially invest in the labor force and develop the most demanded skills; according to him, the current developments in the sector are mainly based on luck, since we have quite a large Diaspora and some of them decided to invest in Kosovo and create this bridge between our markets and international ones.

While all interviewees agreed that Kosovo’s potential on developing its outsourcing sector is rather untapped due to the lack of investment, this can be changed by taking the appropriate measures. Considering that reforming the education system and increasing the supply of professionals in the IT field is more of a long-term goal, interviewee C noted that Kosovo is readier to develop the BPO subcategory of outsourceable services, since there is sufficient staff that only needs minimal training to be ready for the job, which is also less costly. However, Interviewee G noted that Kosovo should have its focus on developing the ITO subcategory of outsourceable services, as this category provides for more stable and sustainable businesses.
Discussion: Semi-structured Interviews Results
The semi-structured interviews with professionals and other representatives of organizations in Kosovo have provided some very useful insights related to Kosovo’s current position as an outsourcing destination, the country’s comparative advantage in outsourcing relative to the Balkans region, and possible steps that the government can take to develop this sector.

Overall, the interviewees held common views regarding Kosovo’s status as an outsourcing destination, with the main advantages being the young population, the high number of people fluent in English or German, having the same time-zone with European countries, relatively low wages compared to the qualitative services being provided, and the high internet penetration rates across the country. However, while these characteristics are necessary for a country to be considered as a potential outsourcing destination, they are not sufficient. Throughout the primary data collection several barriers were identified which can hinder Kosovo from reaching its full potential as an attractive outsourcing destination, the three main ones being: the short supply of qualified individuals, especially in the ITO subcategory; the lack of mobility as a result of visa requirements; and the insufficient involvement of the relevant government agencies which could contribute in the development of the sector.

There were some conflicting views among the interviewees, mainly regarding the role of the government: while five of the interviewees agreed that the government’s intervention would be helpful in the development of the attractiveness of Kosovo as an outsourcing destination, three of the interviewees claimed that it is best if the government stays out of the picture and the private sector is given freedom to handle this situation. Regardless of the conflicting views, based on the barriers which the interviewees presented (in almost unanimous agreement), it seems that the government’s role can have the biggest impact in improving the situation and placing Kosovo in the map of attractive outsourcing destinations. Not only does the government have more decision-making authority and power over state resources, but it also is the only institution that can undertake reforms in the education system which can have long-lasting positive impacts in
the supply of qualified individuals (as the main identified problem in the development of the outsourcing sector in Kosovo). Additionally, while there is general agreement that government intervention can interfere with the free market forces and consequently have negative economic effects, it is important to keep in mind that a developing country like Kosovo needs government intervention until it reaches economic stability: for instance, because Kosovo has imperfect financial markets, it is difficult for startup companies to secure funds due to their inability to get loans, therefore government subsidies or tax holidays can make up for this inefficiency to some extent.

**Survey: Inside a Service Exporting Kosovar Company**

Considering that a crucial component of the potential for success of the outsourcing sector is the qualified workforce, analyzing the background and experience of employees of companies in this sector can give important information. The survey conducted with 40 employees of a medium-sized enterprise in Pristina which provides services for 9 clients in the United States provided useful information regarding the demographics and educational background of employees typically involved in this sector.

From the 40 respondents, 40% were female and 60% were male, which is a relatively balanced sample gender-wise. With regards to age, almost half of the survey respondents were between 23 and 27 years old. Such results are rather expected, knowing that Kosovo has a young population and also considering that fluency in English is a requirement for any employee in this company. The next largest proportion of the surveyed employees are individuals aged 28 to 32, who constitute 27.5% of the total. A rather surprising result is the fact that there are more employees who are 33 or older (15%) than there are employees from 18 to 22 years old (10%). This suggests that newly graduated individuals, who we would expect to fall in the latter category, are not necessarily the targeted employees from these companies.
1. Level of Education
The level of education of individuals employed in the outsourcing sector is highly important to our analysis, considering that the quality of services provided is partially dependent on this factor (only partially because education is not always equal to skillfulness). More than half of the respondents had completed their graduate studies, and the next largest portion, 17.5% of the respondents, were currently pursuing their graduate degree. Only three out of the forty respondents had no undergraduate degree, and two of these three were in the process of finishing their undergraduate studies. These figures suggest that the workforce engaged in providing outsourced services is highly educated.

Considering that three of the surveyed employees of this company did not have an undergraduate degree, we can infer that the degree is not a requirement for employment; knowing this, it is interesting to see that more than half of the surveyed employees hold a graduate degree, something that can imply that outsourcing companies are considered as desirable workplaces from Kosovar jobseekers. Another reason why a large portion of the employees hold graduate degrees although the job position may not require one (as indicated by the employees holding only a high school degree) is because of the high unemployment in Kosovo: since new university graduates may not always be able to find a job as soon as they finish undergraduate studies, they choose to pursue a graduate degree in the meantime, avoiding a gap in between their education and employment experiences. Furthermore, due to the large supply of individuals seeking work, employers have a chance to choose from a large pool of candidates, therefore being inclined to hire individuals with higher educational attainment, although the job position may not require it.
2. Field of Study
Considering that the company being analyzed in this case study offers a rather wide range of services (general administration, accounting, estimating, procurement, contracts management, and virtual design and construction), it was expected that the surveyed employees would have different educational backgrounds. With the exception of the one employee who had a high school degree, all the other respondents listed their field of study. Although each respondent listed their specific study program which they were enrolled in/had graduated from, in general, the majority of the respondents had listed Management, Economics or Accounting as their field of study. The second most listed fields of study were Architecture and Civil Engineering. These were also considered as the most commonly chosen fields of study by one of the interviewees who claimed that there is a large supply of labor in these fields. Based on this claim, it would make sense why 82.5% of the respondents have either completed or are enrolled in graduate studies: because of the large supply of labor in these fields, achieving higher levels of education makes it possible for them to distinguish themselves in the job market.
3. Employees’ Work Experience

To evaluate whether a typical employee of the outsourcing sector is a newly graduated individual with no work experience, the respondents were asked whether their current job was their first job. Only 5 of the surveyed employees had no previous work experience. Once again, this can be an indicator that jobs in the outsourcing sector are desirable and not perceived as only transitional. Additionally, employees with some work experience are more likely to have better work ethics and other related skills.

4. Length of Employment

The results from the question of the length of employment at the company are in contradiction with the abovementioned claim that jobs in the outsourcing sector are highly desirable and not only transitional. More than half of the survey takers (55%) had been working in the company for less than a year, which can indicate that employees do not see jobs in this sector as long-term stable jobs. However, knowing that the company has started doing business in Kosovo in 2014, such figures should not be taken as indicative of the previous claim. Additionally, considering that the company offers services to clients in the USA, and as such operates on an unusual schedule for Kosovo’s time zone (from 2:30 pm until 11 pm), one reason why employees may be seeking other jobs (hence, not reaching more than about a year of employment in the company) is the intention of finding a job with a more desirable schedule.
5. Employee Salaries
A significant portion of the reason why outsourcing is practiced is to obtain high quality services at a lower cost. As such, it is expected that individuals providing these services would be paid less than their counterparts in the recipient country. After all, if this difference did not exist there would be no point in outsourcing whatsoever. Regardless, the importance of this question is not related to the difference in wages between employees providing these services and their counterparts in the recipient countries, but rather relative to the average wages in Kosovo. While half of the surveyed employees preferred to not disclose information regarding their salary, the responses of the other half of the employees shows quite a wide range of wage differences between employees. Although in general these wage levels seem comparable to the average wage in Kosovo, the disparities between employees are not anticipated, especially when considering that oftentimes employees with the same job position are paid very different salaries. A potential reason behind these disparities, however, can be related to the education level, different professions (since the company offers services in 6 departments), as well as their previous work experience. Another important conclusion that can be drawn from these results is that Kosovo does not necessarily provide cheap labor, unlike some other countries where the outsourcing sector has flourished, but rather provides professional services which are comparatively cheaper for the recipient countries.
6. Work Conditions

In an attempt to evaluate a typical outsourcing job in Kosovo from the employee’s perspective, the survey takers were asked about changes that would make their current job better.

The most selected option was the possibility of a different schedule, followed by the possibility of a better salary. Additionally, three additional listed reasons were: hiring more people within departments, having written policies and procedures for each department, and implementing a deadline-based scheduling. Regardless of these answers, the surveyed employees seem to be generally satisfied with the work conditions in their workplace relative to other Kosovar workplaces. All but one respondent consider the work conditions in their current workplace as the same or better relative to other Kosovar workplaces. Moreover, it is important to note that the majority of the respondents (82.5%) believe that their work conditions in terms of wage, fringe benefits, days-off, and office facilities are better or much better than other workplaces. These responses further support the previously drawn conclusion that jobs in the outsourcing
sector are quite desirable and not merely transitional.

This employee survey of a Kosovar company exporting services to firms in the United States sheds some more light to the whole picture of outsourcing in Kosovo and its potential as an outsourcing destination. The main theme throughout the answers of different survey questions suggests that jobs in the outsourcing sector are quite desirable by the Kosovar jobseekers, and such conclusion has been drawn mainly from the highly educated employees and the fact that the majority have previous work experiences. Although these results cannot be used to generalize for the whole outsourcing sector, they still contribute in expanding the pool of information available for such companies operating in Kosovo.

**Conclusion and Recommendations**

The aim of this research project was to analyze Kosovo’s outsourcing sector, its comparative advantage in the Balkans region, and potentials for growth. The results of the primary and secondary research confirmed that while Kosovo has several advantages which make it an attractive outsourcing destination, there are also many barriers that Kosovar companies face in their attempt to serve as third-party providers for outsourceable services, which also challenges their ability to expand and thus develop the outsourcing sector.
The poor image of Kosovo as a country has been identified as one of the main challenges of the development of this sector. While Kosovo has been evaluated as one of the best places for doing business by the World Bank, due to the lack of the branding of its outsourcing sector potential, Kosovo has remained off the map as an attractive outsourcing destination. Another barrier which is likely to hinder the development of this sector in Kosovo, relative to neighboring countries, is the visa liberalization problem: while globalization has indeed made the world smaller by alleviating transportation costs, Kosovars’ inability to move freely in the majority of the world’s countries puts it at a disadvantage in its position as an outsourcing destination.

Another problematic issue was identified to be the lack of qualified staff, especially in the fields of IT and software development. The lack of qualified staff affects the development of the sector negatively in more than one aspect: it increases the costs for the companies of this sector – either because of necessities to train the staff or because of higher labor costs due to the shortage of supply – and also hinders such companies from growing and expanding their range of offered services.

On the other hand, some of the key advantages of Kosovo as a potential outsourcing destination have been identified to be the ease of doing business, having the same time zone with European countries (specifically with the DACH region), Kosovars’ ability to speak languages fluently and without a foreign-sounding accent, the well-developed infrastructure and cheap public facilities. At this point, it is important to note that while Kosovo’s “young and educated” population seems to be a common theme in Kosovo’s promotion as an outsourcing destination, even by official government programs and agencies, first-hand information from professionals in this field do not support this claim. While it is true that Kosovo has a young population and a high number of university graduates, it is fallacious to assume that this indicates that these youngsters are highly qualified in providing outsourceable services. Moreover, not only do these university graduates need extra in-the-job trainings before they can contribute to the company, the lack of work experience is often shown through poor work ethic which can negatively affect their job performance.
The main finding of this research project is that while Kosovo does not have a significant comparative advantage in the outsourcing sector in relation to the Balkan countries, it can earn its place in the map if it acts fast enough and adopts policies which support the development of the sector. Furthermore, it should be emphasized that if the government in cooperation with the private sector do not act soon in alleviating the main barriers that the outsourcing sector is currently facing, it is very likely that Kosovo will lose its chance of further development in this sector. While it is difficult to increase the stream of qualified professionals in short periods of time, there are certain actions the government (in cooperation with the private sector) can undertake to improve the situation. Among others, some recommendations for the government and other stakeholders can include:

Short term goals:

- **Initiate the creation of an association of outsourcing companies**

Although STIKK is doing a good job in promoting Kosovo’s ICT sector as well as service exports in this field, the effect of their initiatives would be much greater if they received better governmental support. By creating an association of outsourcing companies which is supported by the government, as exemplified by IBPAP of the Philippines, the member companies can coordinate and join efforts in presenting requests to the government which they believe would improve the business climate for service exporting firms. Additionally, the association would facilitate the organization of domestic or international conferences in which they would be able to share the success stories with their current or previous clients.

- **Work on branding Kosovo as an attractive outsourcing destination**

Knowing that Kosovo has quite a negative image to the rest of the world in terms of doing business, working on improving this image should be a priority of the government. Branding the country as an attractive outsourcing destination can increase the number of international companies willing to outsource their services in Kosovo. A part of this branding campaign could include increasing the online presence of Kosovar companies in the outsourcing sector, including testimonials from current clients which could make the initiative more credible. Another
component of the branding initiative could include the Kosovar diaspora by targeting influential Kosovars living and working abroad, who can serve as a bridge between Kosovar companies in the outsourcing sector and potential client companies.

- **Provide tax incentives/subsidies for startups in the outsourcing sector**

Providing tax incentives or subsidies for startup companies in the outsourcing sector can incentivize more individuals to consider the service exporting industry and finding clients who are willing to outsource to Kosovo. Since finding clients is often the most difficult part of startups in this sector, alleviating part of the financial burden via tax holidays or subsidies can be very helpful. Additionally, the tax incentives can lead to lower overall costs which can help give Kosovo a comparative advantage in the Balkans region.

Long term goals:

- **Reform the education system by putting a focus on the IT and software development fields**
- **Create an academy which provides trainings for new graduates, preparing them for work – specifically for the outsourcing sector**

By undertaking the two goals listed above, the government would be tackling the main barrier which outsourcing companies in Kosovo face – the lack of qualified staff. Reforming the education system and providing trainings for new graduates will increase the number of qualified jobseekers while at the same time decreasing the costs of companies in this sector, because they will no longer need to provide in-the-job trainings for new employees.

As of now, Kosovo is better prepared in developing the BPO industry, since there are higher numbers of graduates in comparison to the other outsourcing sector subcategories. Additionally, the primary data research suggests that the training costs for this sector are lower than those of the ITO sector, which would make it easier for startup companies to undergo internal capacity building and expand the range of their services.
References


Ibpap.org. “About Us.” IBPAP


Appendices

Appendix 1: Informed Consent Form

Informed Consent Form for Social Science Research
RIT Kosovo

Title of Project: Outsourcing in Kosovo: An analysis of Kosovo’s comparative advantage and the potential for growth

Principal Investigator: Yllza Hoti, RIT Kosovo (A.U.K) Student
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049-303-499; yllzah@auk.org

1. Purpose of the Study: The purpose of this research study is to explore Kosovo’s potential for growth in the outsourcing sector of Kosovo, identify Kosovo’s comparative advantage within the Balkans region, and evaluate outsourcing as a means of economic growth and reduction of unemployment.

2. Procedures to be followed: You will be asked to answer 10 questions during this interview.

3. Duration: It will take about 30 minutes to complete the interview.

4. Statement of Confidentiality: Your participation in this research is confidential. The data will be used only for the analysis of the subject matter of this RIT Honors Project which will be consequently published online.

5. Voluntary Participation: Your decision to be in this research is voluntary. You can stop at any time. You do not have to answer any questions you do not want to answer.
You must be 18 years of age or older to take part in this research study. If you agree to take part in this research study and the information outlined above, please sign your name and indicate the date below.

You will be given a copy of this form for your records.

______________________________________________  ______________________
Participant Signature  Date

______________________________________________  ______________________
Person Obtaining Consent  Date

**Appendix 2: Interview Questions**

1. When did the company you work for start doing business in Kosovo?

2. How many foreign companies does your company offer services to?

3. What are the services offered at your company?

4. Would you describe Kosovo as an outsourcing-friendly country (taking into account its economic and political situation) and why?

5. What are Kosovo’s main comparative advantages in outsourcing, with respect to other Balkan countries?

6. What steps can the government take in making Kosovo a more attractive outsourcing destination?

7. Does the Kosovar Diaspora play a role in the number of firms willing to outsource to Kosovo?

8. What are the main challenges faced by a new company providing outsourced services in Kosovo?
9. What steps did your company specifically take to begin offering outsourcing services?

10. How prepared are we as a country for the development of the outsourcing sector?

Appendix 3: Survey

Questionnaire for Capstone Project: Outsourcing in Kosovo

I am Yllza Hoti, a senior student at RIT Kosovo (A.U.K), and I am currently working on my Senior Capstone Project. The purpose of this study is to explore Kosovo’s Outsourcing Sector, its comparative advantage, and potentials for growth.

You will be asked to answer 13 questions which shouldn’t take longer than 10 minutes of your time.

Please note that your participation in this survey is confidential and that the results of the study will be used for scholarly purposes only. Your decision to participate is voluntary and you can withdraw at any time. If you agree to participate in this survey and accept the information presented above, please proceed.

1. Please select the category that reflects your age / Ju lutem zgjedheni kategorinë që reflekton moshën tuaj:
   a. Under 18 / Nën 18
   b. 18-22
   c. 23-27
   d. 28-32
   e. 33-37
   f. 38-42
   g. 43-47
   h. Over 47 / Mbi 47

2. What is your gender? / Cila është gjinia juaj?
   a. Female / Femër
   b. Male / Mashkull

3. What is your level of education? / Zgjedheni nivelin tuaj të edukimit:
a. High School Degree / Diplomë të shkollës së mesme
b. Enrolled in Undergraduate Studies / Duke ndjekur studimet universitare
c. Undergraduate Degree / Diplomë universitare
d. Enrolled in Graduate Studies / Duke ndjekur studimet postdiplomike
e. Graduate Degree / Diplomë postdiplomike

If the answer to question 3 is b, c, d, or e, answer question 4. Otherwise, continue with question 5. / Nëse përgjigja e pyetjes së tretë është b, c, d, ose e, vazhdoni me pyetjen e katërt. Përndryshe vazhdoni me pyetjen e pestë.

4. What is your field of study: / Cili është drejtimi juaj i studimeve:
   a. __________________________

5. Is your current job your first job? / A është puna juaj e tanishme puna juaj e parë?
   a. Yes / Po
   b. No / Jo

6. How long have you been employed in your current job: / Për sa kohë keni qenë të punësuar në punën tuaj të tanishme:
   a. __________________________

7. What is your job title: / Cili është titulli i pozitës tuaj në punë: (optional question)
   a. __________________________

8. Are you required to be fluent in a language other than Albanian to do your job? If yes, list the language. / A ju kërkohet të flisni rrjedhshëm në ndonjë gjuhë pos Shqipes për ta kryer punën tuaj? Nëse po, listojeni më poshtë.
   a. Yes / Po ________________
   b. No / Jo

9. What countries does your workplace offer services to? / Për cilat shtete ofron shërbime kompania ku punoni? (optional question)
   a. __________________________________________

10. Select the category that reflects your wage level: / Zgjedheni kategorinë që reflekton nivelin e pagës tuaj:
   a. Less than 250 euros/month / Më pak se 250 euro/muaj
b. 251 to 350 euros/month

c. 351 to 450 euros/month

d. 451 to 550 euros/month

e. 551 to 650 euros/month

f. 651 to 700 euros/month

g. More than 700 euros/month / Më shumë se 700 euro/muaj

h. Prefer not to say / Preferoj të mos e tregoj

11. Which of the following changes do you think would make your job better (check all that apply): / Cilat nga ndryshimet e mëposhtme mendoni se do ta bënë punën tuaj më të mire (selektoni të gjitha që ju përshtaten):

a. A better salary / Pagë më të mirë

b. A different schedule / Një orar tjetër

c. More opportunities for promotion / Më shumë mundësi për rritje në detyrë

d. Other / Tjetër

12. If you answered “Other” in the previous question, list your options below, if not, continue with question 13. / Nëse jeni përgjigjur me “Tjetër” në pyetjen e 11, shkruani ato më poshtë; nëse jo, vazhdoni me pyetjen e 13.

a. __________________________________________________________

13. How would you rate your job’s working conditions (in terms of wage, fringe benefits, days-off, and office facilities) in comparison to other Kosovar workplaces: / Si do t’i vlerësonit kushtet tuaja të punës (në lidhje me pagat, benefitet, ditët e pushimit, dhe objektet e zyrës) në krahasim me kompanitë tjera Kosovare:

1 (much worse) 2 (worse) 3 (the same) 4 (better) 5 (much better)

1 (shumë më keq) 2 (më keq) 3 (njejtë) 4 (më mire) 5 (shumë më mire)
Appendix 4: Socio Economic Impact of Tax Holidays for ICT Exports

**Basic Variables**

Current ratio of service exports => 33% in 2013 – and 44% in 2014 (expected)\(^1\). The data from various research reports indicates that while the government capital expenditures for ICT hardware’s are declining the services part, with specific focus on software development and BPO’s, is increasing and further expected to do so.

Total sales of ICT companies in Kosovo => EUR Mil. 60 / annum. Thus, it results that the exported services weight between 19.8 (EUR Mil 60 * .33%) to EUR Mil. 26.4 (EUR Mil. 60* .44%) / year.

ICT companies’ contributions to TAK budget are estimated 1.5% of total revenues collected.
Short Term

a. Corporate and income tax reduction from 10% to 5%

EUR Mil 19.8 x 5% => 0.99 EUR Mil => less into the budget for 2013 (only 1, 5% of the total revenues on these two categories)

EUR Mil 26.4 * 5% => 1.32 EUR Mil => less into the budget for 2014 (only 2, 5% of the total revenues on these two categories)

b. Subsidized tax contributions for new employees – Income source tax from 10% to 5%

2013 Income tax = EUR Mil 61,962 x 33 % (out of ICT total 1.5% => 0.495 are ICT exports of 33%) = EUR Mil 0.204 (204,000) – reduction.

2014 Income tax = EUR Mil 61,962 x 44 % (out of ICT total 1.5% => 0.66 are ICT exports of 44%) = EUR Mil 0.272 (272,000) – reduction.

Total for 2 years => TAK is of EUR Mil 2.786 (2.31 from CT and 0.48 from IT).

Medium-term

Assuming that only EUR Mil. 2.786, will be reduced from the budget for the two year period as illustrated above (2013 - 2014), the increase of exports of services would mean:

- Reduction of unemployed individuals, mainly among young;

- Assuming that the industry will create ~ 500 and 700 new jobs due to these incentives (5% reduction of CT and IT) with an average salary of EUR 400 => (~ EUR 20,000 – EUR 28,000) / monthly salaries / EUR 240,000 –EUR 336,000 / annually would contribute to Kosovo budget only through income tax (5% rate) with around 12,000 to 16,800 at employee level, while the Employer (company level) with an increase of 20% (EUR Mil. 26.4/20%) this would mean around EUR Mil. 31.68 would be generated in 2015 – representing around EUR Mil 1.585 in Corporate Tax payments.

Under these assumptions, in case that income and corporate tax exemption/incentive and subsidised taxes for new employees are applied to ICT service exporting companies, the short term perspective as compared to the long-term outlook is presented in the two boxes both on the left and right hand side.

This total amount could be recovered for less than two years however these incentives could generate at least two times more income taxes (same reduced rates) with an assumption that around 500 – 700 new employees would be hired by service export oriented ICT companies, representing a yearly income for TAK of around EUR Mil. 1.875

Thus a total of around EUR Mil. 1.875 (EUR Mil. 1.585 for CT + EUR Mil. 0.29 for IT) would be paid in during 2015, compensating for 1 and ½ years the short term gap of EUR Mil. 2.786 for two years in TAK budget.

Source: STIKK, 2014