Offshore location decision and economic crisis (The case of Greece)

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Abstract

Outsourcing is a trend that has penetrated many industries over the last years taking the form of offshore outsourcing in many cases. However the location decision that follows the offshore outsourcing or the offshoring decision is quite complex and almost impossible to be answered through a linear model. A series of frameworks have been developed attempting to facilitate the process above.

The focus of this work is the analysis of the location decision making through the reflection of the existing literature and the example of a specific country, Greece. Greece is chosen as a dynamic environment where the recent economic crisis has provoked structural reforms at the country, affecting the attractiveness of the location. The analysis of country is based on an OECD recent survey while the comparison is made with the assistance of a specific location decision model.

Based on the findings of this study, it can be claimed that the case of Greece is quite different compared to other countries at the past which have faced similar situations. Further the reforms that take place need more time in order to be projected and trigger the attractiveness of the location.

Keywords: outsourcing, offshoring, offshore outsourcing, economic crisis, location decision
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1 **Introduction**

1.1 **Background**

More than $500 Billion are estimated the global revenues from outsourcing in 2010 (Plunkett, 2010). Oshri (2009) indicates that by the end of 2009 ITO (Information Technology Outsourcing) revenues exceed $250 billion while those from BPO (Business Process Outsourcing) were more than $140 billion. Furthermore, the total market for offshoring IT (Information Technology) and offshoring business processes exceeded $100 billion in 2009, and was growing between 7 and 10% annually (United Nations, 2009). While according to (Kaka, 2009) the ITO-BPO sectors represented an $80 billion global industry in 2008 that is expected to grow to $500 billion by 2020. By 2006, over 200 firms from the Forbes 2000 companies and nearly 50% of the Fortune Global 250 had offshored IT and business process activities (Oshri, 2009). Thus, the industry attracts more and more attention while managing outsourcing becomes of high importance within a global context.

1.2 **Problem description**

As it was mentioned by Daub (2009) BPO providers often rely on a limited number of geographic locations, exposing themselves to unnecessary risk. Almost 70 percent of offshore delivery centers have their offshore operations at just two countries (India, China). Even if this concentration may drive to lower labor costs providers are exposed to risks like abrupt currency and wage fluctuations, intense competition for employees, and regulatory limits. In addition Vestring (2005) has already mentioned the risks in taking too narrow a geographical view when deciding about offshoring. Besides, investment diversification is supposed to be the most important component of reaching long-range financial goals while minimizing risk (Investopedia, 2011).

Thus, in order to accomplish future growth, providers need to create a network of offshore centers to diversify their risk and provide greater management flexibility (Daub, 2009). However selecting location is not a “piece of cake” decision in most
cases. It is one of the major challenges organizations face when making offshoring and outsourcing decisions (Oshri, 2009). That is why it is very important to align the chosen outsourcing location with the priorities of the firm. If the country of choice is not able to provide the desired benefits the outsourcing company can end up without the desired results. According to Aron and Singh (2005) location is one of the two most important factors that affect the result of offshoring strategies.

Furthermore the recent economic crisis has changed the financial map especially at the south European region. To sum up, factors that affect the outsource location decision are influenced making the above decision more and more complex.

1.3 Research question and purpose

This study aims to identify the main factors that affect the offshore outsourcing location decision. Furthermore the case of Greece is examined in order to define whether the reforms at the Greek economy transform the country to a more appealing offshore location.

Thus, the purpose of this thesis could be accomplished through the answering of the following research questions:

1. How have changed the factors that affect the offshore outsourcing location decision in Greece the last three years?
2. Are these changes enough to turn Greece to a competing outsourcing location?

1.4 Limitations

This thesis does not aim to prove the importance of outsourcing and the drivers of this decision. Contrary, it goes a step further focusing on a category of outsourcing, offshore outsourcing, and the factors that affect the location decision of offshoring. Further a specific country is chosen in order to be the reference point of this study.

The research is limited at the ITO and BPO sector as these are of high importance, holding the biggest market share of the offshoring industry.
Some models that describe the offshore location decision are examined while some others might have been concealed. In addition a specific model is picked up for the evaluation of the Greek economy while a combination of models could drive to a more detailed approach. An approach that could come closer to the dynamic environment of Greece, which is very difficult to be described.

Finally the nationality of the author is Greek, a fact that could cause some bias at the interpretation of the data. However the data used where carefully collected from OECD, an independent organization that can guarantee the accuracy of the data.
2 Methodology

2.1 Research strategy

The research question is underpinned through an overview of the existing literature combined with conceptual work. For this purpose information from primary and secondary sources will be synthesized to evaluate the research question.

Primary sources:

OECD economic review

Secondary sources:

Academic journals, Books and literatures, Articles

At first a descriptive research of the offshore outsourcing models is conducted. Descriptive research involves gathering data that describe events and then organizing, tabulating, depicting, and describing the data collection (Glass, 1984).

Afterwards trying to explain how the social and political transforms in Greece and how these affect the outsource location decision a interpretive qualitative approach is adopted. In general qualitative research can be defined as “any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification” (Corbin, 1990).

To be more specific, the hermeneutic approach which is a general methodology for interpretation, is followed. According to Gummarson (2003) hermeneutic research equally embraces qualitative methodology consisting of three phases pre-understanding, understanding and explanation.

Pre understanding is what we already know about the phenomenon explained at the theoretical framework, understanding is the new knowledge that is brought from the data that are collected from the analysis of the OECD economic review and then the explanation where the findings are discussed in correlation with the theoretical framework.
2.2 **Research method**

Data collection methods in qualitative studies can be classified in interviews, observation, document analysis, or questionnaires (Saunders, 2009). The data collected for this study are from document analysis, a systematic process for reviewing documents. Like other analytical methods in qualitative research, document analysis requires that data are examined and interpreted to elicit meaning, gain understanding and develop empirical knowledge (Bowen, 2009). For this purpose the OECD economic survey for Greece is reviewed. Afterwards, the data collected are categorized, based on a specific location model that has been picked up after the literature review. All data that are presented at the OECD survey, which at the same time are associated with any factor of the chosen model, are categorized in the empirical part.

A deductive approach is used to analyze the collected data. Existing theory is analyzed to formulate the research questions and develop a conceptual framework. The established theory of offshore outsourcing location decision is used seeking to see whether it applies at a specific instance, Greece.
3 Theoretical framework

3.1 Outsourcing - offshore outsourcing

The fact of outsourcing happens when firms acquire some value adding activities, which may be either intermediate goods or finished products, from independent suppliers rather than to produce them in house. (Doh, 2009; Jain, 2008).

The outsource term can be approached form two different points of view: the location decision and the barriers of the company decision, with four distinct cases identified according to Varadarajan(2009) : in-house operations (domestic divisions), domestic outsourcing (domestic suppliers), captive offshoring (foreign affiliates) and offshore outsourcing (foreign suppliers).

In order to continue within the same context follows a definition of the key terms that are used at this study according to (Oshri, 2009).

Sourcing: is the act through which work is contracted or delegated to an external or internal entity that could physically be located anywhere.

Outsourcing: is defined as contracting with a third service provider for the management and completion of a certain amount of work for a specific amount of work, length of time, cost, and level of service.

Offshore Outsourcing: is the relocation of organizational activities to an independent service provider in another country.

Captive Offshoring: is the relocation of activities to a wholly owned subsidiary in another country.

Nearshoring: when activities are relocated to a neighboring country the term nearshoring is used.

Over the last years globalization and increased level of competition have led many companies to consider various options of sourcing as part of their activities in order to maintain the expertise, skills and cost at an appropriate level. However, when did the outsourcing of IT services actually start? The concept was first applied by Ross Perot, when he founded Electronic Data Systems in 1962. EDS told a prospective client, "You are familiar with designing, manufacturing and selling
furniture, but we're familiar with managing information technology. We can sell you the information technology you need, and you pay us monthly for the service with a minimum commitment of two to ten years.” Afterwards at the mid of 90s outsourcing and offshore outsourcing became an indispensable part of any large organization while at the same time was introduced to smaller companies.

At the globalization era that we are facing right now, offshore outsourcing of IT is increasingly transformed into Business Process Outsourcing, where whole business processes are outsourced to a third party provider. Thus, ITO and BPO coexist and offer two different options according to the company’s needs.

Finally, from all the above becomes clear that offshoring can take place either internally at a single international company or through an outsourcing contract with a third party supplier. At the same way, outsourcing can emerge within companies at the same country. To conclude, offshoring and outsourcing are two autonomous options, which in case that occur at the same time, lead to offshore outsourcing as a specific form of outsourcing.

3.2 Offshore outsourcing location

Once the firm takes the outsource decision it must select a business partner as well as a location in order to implement this decision. These two decisions are highly related. However, according to Podoshen (2004), only few firms rely absolutely on their partner about the location that their process will take place, having an active role at the location decision.

Thus, one of the major challenges organizations face when making offshoring decisions is the selection of the appropriate location. Different models have been proposed from the literature and from consulting companies trying to highlight the important factors that affect this decision.

Heeks (2002) define five success factors (demand, national vision and strategy, international linkages and trust, industry characteristics, domestic input factors/ infrastructure) that a country must adopt in order to grow their own exports industry to a level similar to countries that have already been successful. Carmel (2003) expands this model and introduces the “Oval Model” that incorporates eight factors. Certain factors are emphasized, such as human capital, which are not considerable in the previous model while some secondary factors are de-emphasized,
such as piracy and finally certain factors, such as quality of life are added. In addition an analysis of countries that are making their first steps in the industry is made, aiming to give them a framework to improve their status.

Graf (2005) is also giving a framework regarding the offshore location decision. In order to accomplish that a stable ground on the existing literature is set regarding FDI (Foreign Direct Investments). More specifically they add a human capital factor to the existing model of Dunning (1988) who mentioned three major factors that affect the FDI location decision including infrastructure, country risk and government policy. Finally they also add some variables like outsourcing objectives and experience, the nature of the business process and customer expectations.

Kearney (2011) also provides an index with the top fifty offshore locations based on an evaluation of three major factors financial attractiveness, people skills and availability and business environment.

<table>
<thead>
<tr>
<th>Reference</th>
<th>costs</th>
<th>skills</th>
<th>environment</th>
<th>infrastructure</th>
<th>risk</th>
<th>Market potential</th>
<th>Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dunning (1988)</td>
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<td>Carmel (2003)</td>
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<tr>
<td>Graf and Mudambi (2005)</td>
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<tr>
<td>Farrel’s (2006)</td>
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<tr>
<td>A.T. Kearney (2011)</td>
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Factors that affect the offshore location decision as mentioned at each model
To sum up, different frameworks for selecting offshore location have been proposed with some of them being more analytical than others. In this study the Farrel’s (2006) six factors model will be used as it is perceived as the most analytical and effective (Oshri, 2009). This will give us the ability to have a better insight of the Greek economy and understand more effectively whether the transformations that take place have a kind of impact at the offshore location decision.

3.3 Farrell’s model

Farrell’s (2006) six factors model (costs, availability of skills, environment, quality of infrastructure, risk profile, market potential) is one of the most detailed.

According to Farell (2006) different types of cost are taken into consideration, these include labor costs, infrastructure cost, real estate costs and corporate taxes.

Labor costs are the average wages for skilled staff and managers, infrastructure costs include the telephony costs, internet and power, real estate costs refer to the costs of a class A office space while corporate taxes costs include the tax burden.

The second factor that is examined is the availability of skills and it is composed of three sub-factors. These are skill pool, the size of labor force with the desired skills, size of offshore sector, meaning the share of employment in the sector and the vendor landscape, which is a measurement of the local sector that equals to the amount of personnel that is able to provide the desired services. Furthermore according to Oshri the scalability of labor resources in the long term is a major issue to consider while deciding on a sourcing destination.

The environment is the third factor that is mentioned by Farrell, consisting of the government support, the business environment, the living environment and the accessibility of the region. Government support is associated with the policy on foreign investment, the laws on labor as well as the level of corruption play. The business environment in Farrell’s model includes the differences in culture and ethics. The living environment refers to the overall quality of life as well as the prevalence of
HIV infections and the serious crimes rate per capita. Accessibility measures the flight time, the frequency of flights and the time difference.

Further the quality of infrastructure is taken into consideration. This comprises of the quality of telecommunication meaning the IT network downtime, speed of service restoration and connectivity, the availability and quality of real estate, and the reliability of power supply.

In addition the risk profile consists of disruptive events, security, regulatory risks, macroeconomic risks and intellectual property risk. Disruptive events refer to the risk of labor uprisings, political stability and the possibility of natural disasters. The variable security includes the risks of fraud and the crime-terrorism rates. Regulatory risks are measured through the stability, fairness and the efficiency of the legal framework. Furthermore the risks of inflation, currency fluctuation and capital freedom are considered within the macroeconomic risks and intellectual property risks include the strength of data and IP protection regime.

Finally, location’s market potential can be correlated to the attractiveness of the local market calculated by the GDP, the GDP growth rate as well as the access to nearby markets. According to Oshri this access can take one or more of the following forms: as a captive operation using local labor, infrastructure and resources; as an outsourced operation using local IT service suppliers or as potential suppliers to organizations that are based in the host country and nearby region.
4 Findings

4.1 The case of Greece

The global economy is going through one of the most important crisis of the last years. The first signs of the crisis appeared in the summer of 2007 in USA, when several international banks faced serious liquidity problems. The crisis was spread at the Europe Union and affected almost all the OECD member countries, where the first signs emerged at 2008. As a result of this crisis, a considerable number of countries experienced a dramatic drop in output and a strong increase in unemployment. According to the OECD (2009), between the end of 2007 and the end of 2010, unemployment in OECD countries is raised by 25 million persons, which represents about 10 per cent of the labor force and is an all time high.

To be more specific, in Greece, the crisis that began in 2008 was added to the huge domestic debt provoking an unprecedented debt crisis at the country at 2009. Greece faced the sharpest contraction in activity that was recorded at OECD countries for 2010 as the debt reached 140% of GDP in 2010, GDP declined by 4.4 % and production fell 7.4%.(OECD,2011). In 2011 the Greek economy saw growth rates of –6.9% while the country's public debt reached 165.3% of GDP (Hellenic Statistical Authority,2012)

However the country is on the road of reversing this catastrophic path of the economy. Greece has been following an ambitious adjustment program to face up with the deep economic crisis by restoring sustainable public finances, competitiveness and the foundations for healthy and stable long term growth. Great reforms are taking place at the country with technical and financial support of the IMF, the European Union and the ECB aiming to restore the root causes of this situation (OECD,2011).

4.2 OECD

The Organisation for Economic Co-operation and Development (OECD) aims to promote policies that will improve the economic and social well being of people around the world. The OECD provides a common place where governments can cooperate and seek solutions for common problems they may face. The organization works together with governments to figure out the drivers of economic, social and
environmental change through the measurement of productivity and global flows of trade and investment. They analyze and compare data to predict future trends while they also set international standards on a wide range of things. (OECD, 2012).

### 4.3 Factors examined

The OECD economic survey for Greece is examined in order to get a deeper insight to the Greek Economy. There, a series of factors that affect the offshore outsourcing location decision are discussed. At the table below are presented the most dynamic factors that affect this decision which at the same time are discussed within the report.

<table>
<thead>
<tr>
<th>Cost</th>
<th>Availability</th>
<th>Environment</th>
<th>Market Potential</th>
<th>Risk Profile</th>
<th>Quality of infrastructure</th>
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<tbody>
<tr>
<td>Labor</td>
<td>Skill pool</td>
<td>Government support</td>
<td>Attractiveness of local market</td>
<td>Disruptive events</td>
<td>Real estate</td>
</tr>
<tr>
<td>Corporate taxes</td>
<td>Business environment</td>
<td></td>
<td></td>
<td>Macro economic risk</td>
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</table>

*Factors of Farell’s model mentioned at OECD economic survey*

**Cost**

The structural economic reforms that take place in Greece have several aspects aiming to improve labor market outcomes. Within this context are measures that make the wage setting flexible and adoptive to economic conditions, increase part time work, assist the progress of more flexible work time and facilitate a dynamic working environment.

To be more specific, the drop in real wages in 2010 that continued in 2011 resulted in a decline in unit labor cost improving the foreign competitiveness of the country. This was achieved with a law that reduced the minimum wage and a complementary that introduced sub-minimum wage for young workers that enter the labor market for first time. The latter adjusts that young can be employed for fixed
term contracts that are up to twenty four months with wages 20% lower than those provided in the collective agreement.

Further, the introduction of the Special Firm Level Agreement, allows firm level wages to be completely elastic. These are agreed between the employer and the employee irrespective of the sectoral agreement in order to boost competiveness while this law also allows firms to adjust to the changing environment according to their needs.

Finally, job reallocation has become easier with a series of reforms that support flexibility. These include reduction in notice period, new rules for the settlement of severance payments, redefinition of collective dismissal rules, extension of trying period, possibility of extension to the temporary work contracts.

**Availability of skills**

![Graph from OECD, Economic Survey, Greece, August 2011](image)

As we may see at the above graph unemployment is increasing at the whole euro area, especially for younger workers. The situation in Greece is even worse as the unemployment at the ages 15-24 has really exploited over 35%.

However, what is really impressive is the unemployment by educational level graph. Over 10% of the work-force with higher education is unemployed, creating a pool of available workers with high skills at a productive phase.
Environment

An efficient business environment is one of the main goals of the government. Even some years ago the product market regulations were restrictive while various barriers to entry resulted in low innovation and competitiveness. Recent reforms are trying to remove restrictions and promote investments.

Reforms include the creation of a unique Business Registry, one place for all the bureaucracy, simplification of licensing procedures and fast track procedures to accelerate strategic investments especially FDI. In this direction is also the establishment of a unique Business Registry as well as the creation of multiple contact points following the “one-stop shop” logic, meaning that businesses can accomplish there almost all their administrative procedures. The results of these changes are really impressive: all registration needs are reached in one procedure instead of fifteen, one day is needed instead of nineteen, a single contact point is used instead of eight. While the estimated reduction of cost from this simplified process can be up to 62% in the case of limited liability companies.

Further the new framework aims to support SMEs (Small and Medium Enterprises) through tax inducements and entrepreneurial programs that are supported from the government and the EU.

Market potential

The GDP (Gross Domestic Product) for Greece for 2010 was 230 billion EUR or 26998 per head. The reforms that are taking place with conservative estimates could generate gains that can reach almost 10% of GDP which is equal to a 0.5% percentage point increase in growth to a horizon of 2035.

Risk profile

The decline at wages induced by this situation had a simultaneous positive impact at the inflation within the country. The inflation fell below the euro area level reaching in May 2011 a negative of 1.25 percentage points.

Further Greece is part of a monetary union giving stability to the currency and devaluation of country’s currency is not possible. In general OECD
states that “the large informal sector, the low labor participation rate, the high level of structural unemployment, and one of the most regulated business environments in Europe, the potential for boosting growth is substantial in Greece”.

However confidence is also affected by the few visible signs of the impact of the implementation of the reforms on the economic activity.

Quality of infrastructure

The last decade part of a great part of the growth that was taking place at the country was on the construction industry giving high availability of houses and offices. The stock of unsold office places and houses was estimated to 70,000 with low absorption capacity within the country.
5 Discussion

5.1 Discussion on the findings

The Farrel’s model that was picked up for this study has six main factors which are analyzed at twenty two sub-factors. During this analysis nine factors that were mainly mentioned from OECD where chosen.

A first glance gives the perception that it is inevitable to have appreciable results from this partial analysis of the model. However a more careful look at the remaining factors can help us prove the importance of the findings at the offshore outsourcing location decision.

<table>
<thead>
<tr>
<th>Cost</th>
<th>Availability</th>
<th>Environment</th>
<th>Market Potential</th>
<th>Risk Profile</th>
<th>Quality of infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>Size of offshore sector</td>
<td>Accessibility</td>
<td>Access to nearby markets</td>
<td>Security IT</td>
<td>Telecom and IT</td>
</tr>
<tr>
<td>Real estate</td>
<td>Vendor landscape</td>
<td>Living environment</td>
<td>Regulatory risk</td>
<td>Transportation risk</td>
<td>Intellectual property risk</td>
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Factors that are relatively stable-Not discussed at the OECD.

At first, many factors are relatively stable as these are not affected at all by the dynamic changes that take place at the country. Greece and especially Athens is an easily accessible destination having direct flights with almost all European countries while the living environment is similar to the level of the developed west countries. The security risk is low while the Intellectual Property risk is minimal as the country is member of the EPO (European Patent Office) since 1986 offering reliability and a secure IP regime. Further as we are talking about a developed country the IT and telecom sector are the edge of technology while the free market at the industry offers competitive prices. The power network is stable while the transportation through the
country is at a high level while the geographical position of the country gives access to nearby developing economies.

From all the above we may conclude that the most unstable factors are examined giving more importance at their dynamic change. In order to define the significance of the changes that took place at the factors examined at chapter 4, follows a discussion and interpretation of the findings.

Cost

The main drivers that affect the offshore outsourcing decision are labor cost savings and the scalability of labor resources at a long term perspective. As it was found from the offshoring research network (Lewin, 2012) at their survey for the three most important factors of this decision 72% indicated the cost savings, 30% organizational flexibility and 29% access to qualified personnel.

However despite the reforms that take place in Greece, the impact of them is not reflected at the labor market and the competitiveness of the country. This is expected as an extended period of time is needed in order to estimate the impact of the changes at the real economy of the country. A possible advantage is the participation at the euro union as a country participating in a common currency union should be in a more advantageous position for attracting FDI than one which is not (OECD, 2011). Further the tax concessions for transactions within the EU at the context of the “One Market Policy” could be another point of departure for investments from European countries.

On the other hand despite any possible advantage Greece cannot compete directly to the cost reduction that the industry leaders (India, China) bring to their customers.

Availability of skills

The high unemployment at highly educated workers combined with the high percentage of university education within the country implies a remarkable skill pool. Though, the Greek educational system does not provide students with skill level as high as country’s expenditures on education indicate. It can be explained by the dominant public sector at the Greek educational system and the weak motivation of the students. (Souitaris, 2002; OECD, 2007).
Further as Papazoglou (2009) concludes, that Greece has not taken full advantage of the technological opportunities that came up with its entry to the EU. In spite of some improvements Greek exports are stacked towards low and medium technology products out of competition of the growing foreign demand for high technology products.

This lack of both local vendors and international suppliers at the technology landscape may generate low competency and a gap between the desired and available skills (Oshri, 2009).

Environment

From all these changes that take place it becomes clear that Greece is on the road of an ambitious program with a goal to reform the institutional aspects of the business environment, attract foreign investments and promote entrepreneurship.

However, despite the measures that were taken over the recent years to improve the business environment, Greece still ranks poorly compared to the international environment. Two recent studies that were published by the Federation of Hellenic Enterprises (SEV) and the Foundation for Economic and Industrial Research (IOBE), identify a large number of remaining drawbacks to entrepreneurship in Greece (SEV, 2010; Vasilidis, 2011). These include high barriers to entry, difficulties at the expansion of firms, complex and lengthy licensing procedures, transport restrictions, public sector inefficiencies, labor market barriers as well as low R&D and innovation.

It is clear that all these changes are going to create a business friendly environment at a long term. Though, as the business environment was tightly regulated the impact of the reforms will be demonstrated step by step. Finally, existing enterprises could take advantage of the potential that EU offers, through the EU Services Directive for instance. The full implementation of the EU Services Directive would enhance competition by giving access of foreign providers to the Greek market either via direct establishment or through cross border service provision (OECD, 2011).

Market Potential

The GDP of Greece is about 75% larger than the average GDP for the countries of the region (Nugent, 2011). That means that the demand of product and
services is high and possible investors can take advantage of this at the domestic market. However, the GDP cannot be forecasted precisely because of the dynamic environment and a series of factors that affect it.

**Risk Profile**

The most important drawback of investing in Greece is the high risk that is involved in this decision. The financial instability creates an unfriendly environment for investments as the exact prediction of the path that the economy will follow is almost impossible. A stable framework between the Greek government and all the stakeholders could be a reference point of the recovery of the economy while at the same time would equilibrate the risk of the country.

**Quality of infrastructure**

As it was mentioned above the availability of houses and offices is at high level and the prices have a falling attitude following the low absorption capacity. On the other hand new taxes on the real estate have confused the situation on the ownership status.
6 Conclusions

As it is mentioned by Kearney (2011) several countries managed to get a better position at their Global Services Location Index as a direct consequence of the economic crisis that erupted there. Countries like Estonia, Latvia and Lithuania rank among the top fifteen locations as the strong people skills combined with the consequences of the crisis have allowed them to develop small but strong BPO. On the other hand these countries managed these results through the depreciation of their own currency and aggressive cutting of wages at the case of Latvia more specifically. Nevertheless, the case of Greece is quite different as it is part of a currency union where depreciation is not possible.

Greece underperforms at the attraction of FDI compared to other countries of the same region meaning Southern Europe, Central and Eastern Europe, North Africa and Western Asia (Nugent, 2011). Further it seems that the reforms that take place cannot overturn this situation immediately; a longer period of time is needed in order to estimate the reflection of changes at the factors that affect the offshore location decision.

Additionally the leaders of the market have created economies of scale and it is almost impossible to compete directly with them. Nearshoring could be a possible way for other countries like Greece to compete with India, China (the market leaders) for market share. Nearshoring includes benefits like lower travel costs, fewer time zone differences, closer cultural compatibility, linguistic, historical and political linkages (Oshri, 2009). Carmel (2007) at a study of nearshoring claims three major nearshore clusters around the world, among them a big one at the western European area. At other studies it is identified that European companies in particular prefer nearshore solutions rather than India or China for making offshoring operations. (Lewin, 2007; Kearney, 2011).

From the above we may conclude that the aim of Greece should be to be a part of a nearshore cluster at the wider European area. As the reforms continue, the impact of them may create an attracting environment for cross border service provision. However, for the time being, the lag of the reforms reflection in combination with the high risk creates an unfriendly environment for investments.
6.1 Further research

Outsourcing reflects the synthesis of the powerful forces of the service economy, the more and more importance of information technology, and of course globalization. Taking into consideration the complexity and dynamics of outsourcing, location decision making for the needs of outsourcing, is an area of research that is likely to continue to be of relevance and interest for the foreseeable future. Further the wider European area is a great part of Global economy and its dynamic environment is of relevance, especially for the nearshore cluster at the area.

The case of Greece is of high importance, as it is part of a currency union while further research at the close future is needed for the comprehension of the impact of the reforms at this complex offshore outsourcing location decision.
7 References


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Appendix

8.1 Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITO</td>
<td>Information Technology Outsourcing</td>
</tr>
<tr>
<td>BPO</td>
<td>Business Process Outsourcing</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investments</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
</tbody>
</table>

8.2 Farrell’s six factors model

Cost

<table>
<thead>
<tr>
<th>Factor</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>current average wages for skilled workers and managers</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>unit costs for telecom networks, Internet access, and power</td>
</tr>
<tr>
<td>Real estate</td>
<td>cost of class A office space</td>
</tr>
<tr>
<td>Corporate taxes</td>
<td>the total tax burden or, conversely, the tax breaks and other incentives for local investment</td>
</tr>
</tbody>
</table>

Availability of Skills
<table>
<thead>
<tr>
<th>Skill pool</th>
<th>size of labor force with the required skills</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size of offshore sector</strong></td>
<td>dollar volume and share of employment in the sector, as well as share of these services as a percentage of total exports</td>
</tr>
<tr>
<td><strong>Vendor landscape</strong></td>
<td>size of local sector providing IT services and other business functions</td>
</tr>
</tbody>
</table>

**Environment**

<table>
<thead>
<tr>
<th>Government support</th>
<th>policy on foreign investment, labor laws, bureaucratic and regulatory burden, and level of corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business environment</td>
<td>compatibility with prevailing business culture and ethics</td>
</tr>
<tr>
<td>Living environment</td>
<td>overall quality of life, prevalence of HIV infection, and serious crimes per capita</td>
</tr>
<tr>
<td>Accessibility</td>
<td>travel time, flight frequency, and time difference</td>
</tr>
</tbody>
</table>

**Market Potential**

<table>
<thead>
<tr>
<th>Attractiveness of local market</th>
<th>current GDP and GDP growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to nearby markets</td>
<td>in the host country and adjacent region</td>
</tr>
</tbody>
</table>

**Risk Profile**

<table>
<thead>
<tr>
<th>Disruptive events</th>
<th>risk of labor uprising, political unrest, and natural disasters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security</td>
<td>risks to personal security and property from fraud, crime, and terrorism</td>
</tr>
<tr>
<td>Regulatory risk</td>
<td>stability, fairness, and efficiency of legal framework</td>
</tr>
<tr>
<td>Macroeconomic risk</td>
<td>cost inflation, currency fluctuation, and</td>
</tr>
<tr>
<td><strong>capital freedom</strong></td>
<td></td>
</tr>
<tr>
<td>---------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Intellectual-property risk</strong></td>
<td>strength of data and IP protection regime</td>
</tr>
</tbody>
</table>

### Quality of Infrastructure

<table>
<thead>
<tr>
<th><strong>Telecom and IT</strong></th>
<th>network downtime, speed of service restoration, connectivity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real estate</strong></td>
<td>availability and quality</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>scale and quality of road and rail network</td>
</tr>
<tr>
<td><strong>Power</strong></td>
<td>reliability of power supply</td>
</tr>
</tbody>
</table>