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**OUTSOURCING IN UKRAINE:  
OVERVIEW, OPTIONS,  
REASONS AND CHALLENGES**  
– Finnish Presence in Ukrainian Outsourcing  
Market

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# OUTSOURCING IN UKRAINE: OVERVIEW, OPTIONS, REASONS AND CHALLENGES

## - Finnish Presence in Ukrainian Outsourcing Market

The initial goal was to explain the pattern of international outsourcing in Ukraine, define its methods and characteristics. Additionally, the author's target was to identify the perspectives for Finnish enterprises and provide an understanding of how the market works and what kind of activities can be delegated to Ukraine.

The objective of this thesis is to determine which characteristics of the outsourcing form the core basis of cooperation between Ukraine and international enterprises. Some outsourced areas as IT, HR, production and manufacturing count for a significant part of the whole outsourcing coming to Ukraine, including the Finnish participation. Looking into these areas it is possible to highlight the main key factors that are linked to the successful outsourcing.

The theoretical framework forms the secondary information and the structure of the research. The primary information is collected by a questionnaire sent to the largest Ukrainian companies in each industry where the theory evidences outsourcing in Ukraine. The purpose of the questionnaire was to ask top Ukrainian companies to share information regarding the volumes and specifics of Finnish outsourcing requests transferred to them. The poll was sent to 24 companies and collected 20 responses.

Results show that the majority of Finnish companies outsource HR of both skilled and non-skilled labour. The second most prevailing industry of Finnish outsourcing functions is ITO. However, it can be argued that ITO is still undiscovered by the majority of Finnish firms and enterprises. An outcome also evidences that, although the initial value for the companies outsourcing to Ukraine stays cost-effectiveness, a huge number of Finnish clients find other values as primary incentives beside the reduction of costs.

The conclusion combines and compares the theoretical findings and the questionnaire output to define the potential industries for outsourcing for a reader and what things should be considered before outsourcing to Ukraine.

### KEYWORDS:

Outsourcing, Ukraine, IT, subcontracting, international, HR

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## List of Abbreviations (OR) Symbols

IT	Information Technology
FDI	Foreign direct investment
SME	Small and medium sized enterprises
ITO	Information Technology outsourcing
SOE	State-owned enterprise

# 1. INTRODUCTION

Each and every business or enterprise aims to improve its own efficiency. In today's market conditions being efficient means to produce more with the same consumption of resources, funds spent – is an integral part of the business strategy. The effectiveness of the business development depends on many components, including product quality, after-marketing maintenance and others. They depend on the organizational structure of a company. Bacea (2015, p. 13) assumes that 'the structure of the company is one of the most important factors of its activity success'. Outsourcing has become an essential part of the majority of international companies nowadays. However, the concept of 'outsourcing' is not new in international business: it has developed dramatically from the time it was introduced.

At the end of 19th – beginning of 20th century as a result of the emergence of the industries and financial market, the first monopolies appeared. It caused the transition of competition from the local to global level. Consolidation of all required resourced was required. Giant companies were forced to forward the management of small, non-profile functions to other companies, which were specialized in those functions (Harasymchuk, 2013).

Historically, outsourcing was first recognized as a business strategy in 1989, but the methods of outsourcing were used much earlier during 70s years in the automobile industry. The practice of frequent usage of subcontracting methods caused outsourcing to become an essential part of the international business and trade (Stahurska, 2017).

From its development in the 70s, outsourcing was used in such spheres of servicing as the professional guards, logistics, parts production, cleaning services, catering, infrastructure management, technical and administrative building maintenance, hotel and entertainment services and others. Outsourcing was effective method of enterprises' activity optimization in the 80s' of 20th and up to the beginning of 21st century (Harasymchuk, 2013, s. 286).

In conditions of raising the competition when one company tries to be more successful than another, implementation of outsourcing is the method of enhancing company's effectiveness (Nordin, 2008). A new wave of development of outsourcing began in 2009, right after the financial crisis. Outsourcing has started to be widely used in the sphere of attraction of human resources (HR), information technology industry (IT), and the wide spectre of the financial services (Stahurska, 2017).

The necessity to increase the competitive ability of an enterprise or a company, as well as its products and services includes the implementation of the outsourcing practice. Information Technologies, which have also promoted to IT outsourcing development in Ukraine, contributed to the rapid growth of IT outsourcing companies. Yet, it is necessary to study the market of IT outsourcing, international tendencies of the computer technologies sphere in order to improve this sphere further. All these helps to extract problems and shortages of the business management, which would result in searching the ways of their solution and improvement of IT outsourcing in Ukraine and globally (IT outsourcing in Ukraine today, 2015).

Finland demonstrates stable interest to the development of offshore outsourcing especially in the sphere of the software development projects. Similarly to the most of the European countries, the stimuli of the outsourcing for Finns in Ukraine are cost saving, flexibility increase and improvement of the productive capacity (Smerechivska & Olieniev, 2017). Small and medium-sized companies as well as large corporations select offshore teams for doing their business.

Today, the Finnish offshore industry includes approximately 150 active companies. This sphere has experienced the substantial growth in exports during 2010-2015 years. The most important segment of Finnish outsourcing is technology. 'Technology is the most important offshore industry segment in Finland. It constitutes approximately 1.3 billion Euros, or around 70 % of the industry's total revenues. Strong Finnish players in this segment include companies such as Wärtsilä and Steer prop, specializing in propulsion, power and engine technologies' (Finnish Offshore Industry 2015).

This thesis discusses some in-depth analysis of international and Finnish outsourcing in Ukraine. The study starts from the theory behind the definition of 'outsourcing' as such, providing necessary explanations. There is a brief description of the emergence, features, methods and characteristics of outsourcing in Ukraine, collected in the theoretical part. As for the empirical part: there is a questionnaire conducted among the top Ukrainian companies in the industries, which seem to contain the largest stake of international outsourcing according to theory. All the results along with other relevant data and analysis of questionnaire outcome is also included in the thesis.

Research includes the descriptive method. It focuses on the explanation of outsourcing in Ukraine and aims to give more understanding of the characteristics of Ukrainian outsourcing market environment and its practice for foreign companies.

The research questions for this thesis are stated below:

1. *What are the main industries in which Ukraine provides outsourcing?*
2. *How can Ukrainian outsourcing be characterized?*
3. *What are the potential industries for Finland to outsource in, can Finnish outsourcing to Ukraine be classified and explained?*

For the theoretical part, I took Quelling (Quelin B., 2003), Ogorlec (Ogorelc, 2007) and Bacea & Borza (Bacea & Borza, 2015) as these materials represent easy and solid definitions of the concepts. The primary data has qualitative characteristics and, is basically obtained in a shape of self-completing questionnaires.

That author's personal motivation in this topic is based on the need to conduct this research as there is not any recent paper done. Ukrainian outsourcing market has been developing rapidly from the beginning of 21st century, therefore, there is a little data that has been collected and explained. Moreover, the characteristics of outsourcing in Ukraine are still deemed to be blurry and unclear for the companies. This research can be useful for enterprises, willing to start outsourcing as well as for the enterprises who already outsource some of their activities and are aiming to change the subcontractor. Due to global unawareness, a huge number of international companies have no data, knowledge or understanding of what and how they can outsource in Ukraine. The results of this thesis can be used by enterprises and other institutions to get an overview, facts and possibilities when considering outsourcing to Ukraine.

## 2. THEORETICAL FRAMEWORK OF OUTSOURCING AND ITS CHARACTERISTICS IN UKRAINE

### 2.1 The concept of 'outsourcing'

According to the 'Business Dictionary' (2008), the term 'outsourcing' means 'the contracting or subcontracting of noncore activities to free up cash, personnel, time, and facilities for activities in which a company holds competitive advantage'. The Cambridge Dictionary gives even the simpler definition of outsourcing. It states that outsourcing is 'a situation in which a company employs another organization to do some of its work, rather than using its own employees to do it' (Cambridge Dictionary, 1995). The external feature of outsourcing is confirmed by Quelin and Duhamel who define it as transition of the internal transaction to the external supplier. For example, human resources can be transferred from a vendor to an outsourcing party (Quelin B., 2003, p. 652). Sen and Shiel consider that outsourcing relates to the transference of activities to the third party providing 'off-shore' (Sen F., 2006). A. Ogorelc interprets 'outsourcing' as the way of delegating the business operations to the external providers. They administer the delegated processes according to the specified procedures (Ogorelc, 2007, p. 371). As inference, outsourcing means the process when one company transfers part of its internal activities to the external company. Summarizing the definitions of 'outsourcing', in this study I will perceive it as the transference of certain processes and functions from a company to another enterprise.

Outsourcing practice has many core competences, which are the subject of study. Referring to J. Quinn, the features of outsourcing can be grouped as follows:

1. outsourcing allows company to adapt itself to the changes in the context of the customers' long-term demands;
2. core competences can be limited if it is required by effective management;
3. outsourcing makes companies dominate over their competitors;
4. outsourcing provides the opportunities for the companies to continue their constant development and reach the domination over their competitors;
5. outsourcing is a way to be closer to the clients as a recognized leader (Quinn & Hilmer, 1994).

According to Alexander (1996), outsourcing is characterized by the following features: (1) its activity performed internally; (2) it creates the current or potential competitive

advantage; (3) it affects on the future growth of the company (Alexander & Young, 1996, p. 117).

In present business context characterized by the tight competition, companies find externalization as a way to increase their competitiveness. The theory and practice of outsourcing prove it can be efficient in strengthening the position of a company. In particular, it can increase its internal potential (Nordin, 2008, p. 40). Moreover, outsourcing helps to become competitive in tough market conditions. This idea is confirmed by Aron (2005, p. 147), who believes that companies, which outsourced human resource in a sphere of design, manufacturing, engineering and marketing, benefited a lot from it.

It should be noted, that an outsourcing company always takes risk when delegating the tasks to the other firm. Respectively, it is important to conduct an in-depth analysis before outsourcing. Bacea (2015, pp. 15-16) states that 'the best decision can be taken after a rigorous plan. It must contain a structured view of the company's end to end process. Only then it will be possible to identify and eliminate the non-value added and non-strategically areas, which will be subject of outsourcing'.

Sosunova (2015, p. 329), considers three types of outsourcing: manufacturing outsourcing, IT outsourcing, knowledge process outsourcing.

1. Manufacturing outsourcing means the company can do outsourcing during manufacturing processes. It outsources to the third companies or providers in order to work together. This type of outsourcing enables companies to improve the manufacturing flexibility.
2. Outsourcing of Information Technology covers the complete or partial performance of IT functions. IT outsourcing is most often applied because of the lack of high-qualified personnel.
3. Finally, knowledge process outsourcing is applied for receiving the necessary knowledge from the consulting companies to make the right decision.

Outsourcing has the long-term character of interaction in comparison with the one-time services demanded randomly. When a customer takes the decision about outsourcing, he receives an access to the systems and infrastructure of external companies. He concentrates on the core business of his company. Also, he increases the productive capacities with growing the market share. The processes, mostly affected by the outsourcing development in the international scale, are as follows:

- technology – the completeness, location and nature of services, which can be used for outsourcing;
- globalization – grown political and regulatory stability, improvement of the labour staff education, reduction of the resistance to mobility, and implementation of the mobile decisions;
- economic and political factors – the necessity to stick to the established budget in the state sectors of economy, toughening the requirements to the estimation of the financial services risks (Bulajic & Domazet, 2012, p. 1321).

Several types of outsourcing are distinguished dependently on 'client – provider' location and relations between them:

1. Offshoring. It takes place when a client and provider are territorially located in the different countries. An executor is a customer's subdivision;
2. Outsourcing. It means that a client and provider are territorially located in one country. A provider is an independent enterprise;
3. Offshoring outsourcing. It is a mixed type of two above-stated. A client and provider are territorially located in the different countries. A client is an independent enterprise (Chongvilaivan, Hur, & Riyanto, 2009).

Three types of outsourcing are distinguished dependently on the tasks transferred to be solved:

1. Production outsourcing is a transference of the production functions to a client;
2. Outsourcing of the business processes is a transference of the processes, which are not the basic type of a client's activity, to a client;
3. IT outsourcing is the transference for the maintenance of the client's information systems. For example, it is the development or support of the software, website creation, and technical maintenance (Krstić & Kahrović, 2015, p. 33).

## 2.2. The emergence and features of outsourcing practice in Ukraine

The long-term economic crisis in 2007-2008 put the businesses to the challenge of survival in the conditions of tough competition. As a result, international SMEs as well as huge corporations started to have a deeper look for the ways of reducing their expenditures and raising their profits. Ukraine was among the countries, which suffered from the financial crisis. Lots of plants and factories have lost their clients as the prices dropped and the competition increased (Stern, 2009). Outsourcing to Ukraine was one

of the truly helping ways for the economic sufficiency of both Ukrainian and international enterprises. As inference, international enterprises started to transfer particular business processes to Ukrainian enterprises connected with accounting, investment transactions, informative and marketing technologies of the staff management, etc. Although Ukrainian outsourcing has been existing since late 90<sup>th</sup> in this paper I indicate the post-crisis period as a new, biggest wave of outsourcing Ukraine have experienced.

The market situation in Ukraine is connected with the dynamical changes of the external environment of businesses (Stahurska, 2017). Ukrainian market has perspectives for improvement of its economic positions in the international business. Ukrainian specialists can compete with foreign colleagues offering effective cooperation and performance (Maksimenko, 2016). The problem of outsourcing becomes substantially important for Ukrainian companies that were not able to establish international relations in time (Stahurska, 2017).

### 2.2.1 Information Technology outsourcing in Ukraine

Among the most important news in the sphere of IT-technologies in the world is an expansion of IT outsourcing in Ukraine. For 25 years of independence Ukrainian IT companies have been achieving substantial results, which determined their high place on the global markets and expanded the boundaries of their effect. It leads to the necessity to study more properly this sphere because it is characterized by the rapid growth and can be more beneficial for Ukrainian business. Different problems of outsourcing in various industries each year become the object of research among the scientists all over the world. In conditions of the intellectualization of economy, IT outsourcing represents attracts a lot of interest for the research (Smerechivska & Olieniev, 2017).

Outsourcing generates the development of IT market in Ukraine. Nowadays it is the most developed sphere in comparison with other segments. According to the different estimations, there are 4 ths. of IT companies in Ukraine, 855 of them are – SMEs staffing less than 80 persons (Velykholova, 2016). Statistics shows that:

1. Above 90 ths. of IT experts work for the IT companies located in Ukraine;
2. Ukraine takes the 4th position in the world by a number of IT experts;
3. It is expected that by 2020 the number of software engineering labour force will increase to 200 ths.;



4. Ukraine ranks the 5th place among the top 25 IT services exporters. For example, in 2015 the value of software exporting reached about \$2.7 bln. It demonstrates the double growth each year since that time;
5. Above 100 research and development subsidiaries of the global companies are located in Ukraine. They are engaged in the software industry, gaming, e-commerce and telecommunications. For example, subsidiaries of such gigantic international companies as Microsoft, Apple, IBM, Siemens, Samsung Electronics and others are located in Ukraine;
6. Ukraine belongs to the top countries entering into 10 emerging market locations for the offshore services (Velykholova, 2016).

The development of IT outsourcing in Ukraine is one of the biggest achievements for the last several years. Nowadays the effect of IT outsourcing on the different spheres of economy expanded much. The structure and tendencies of IT outsourcing in Ukraine is represented in Figure 1: the structure of IT outsourcing by industry used (IT outsourcing in Ukraine nowadays, 2015):

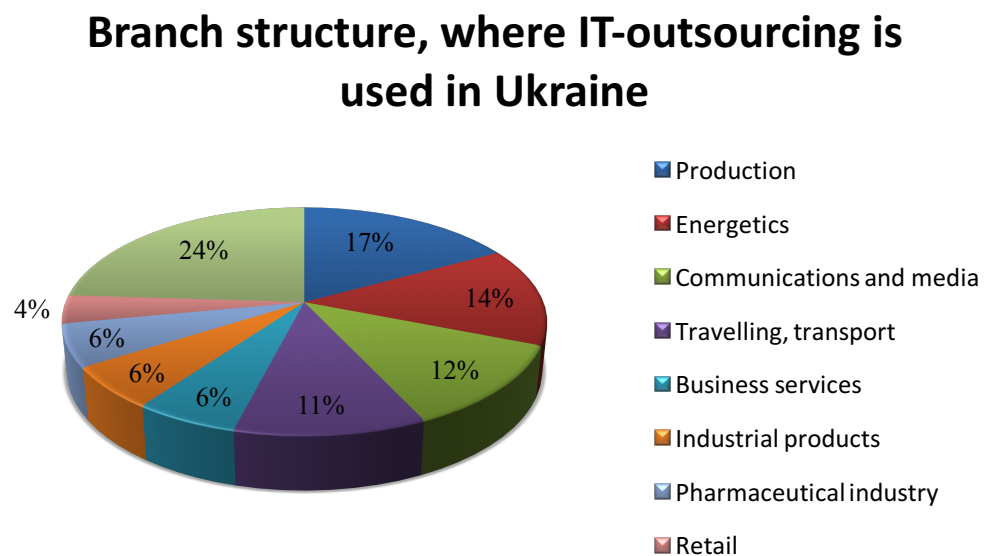


Figure 1. The branch structure, where IT-outsourcing is used in Ukraine

The main number of IT companies is located in the biggest cities of Ukraine, particularly in Kyiv (44.9%), Kharkov (18.7%), Lviv (9.3%) Dnipro (8.2%), and Odessa (5.5%). In Figure 2 the average volume of IT market in the different cities of Ukraine is represented. It covers the period of 2015-2018 (IT outsourcing in Ukraine today, 2015):

## Volume of IT companies market in the largest cities of Ukraine

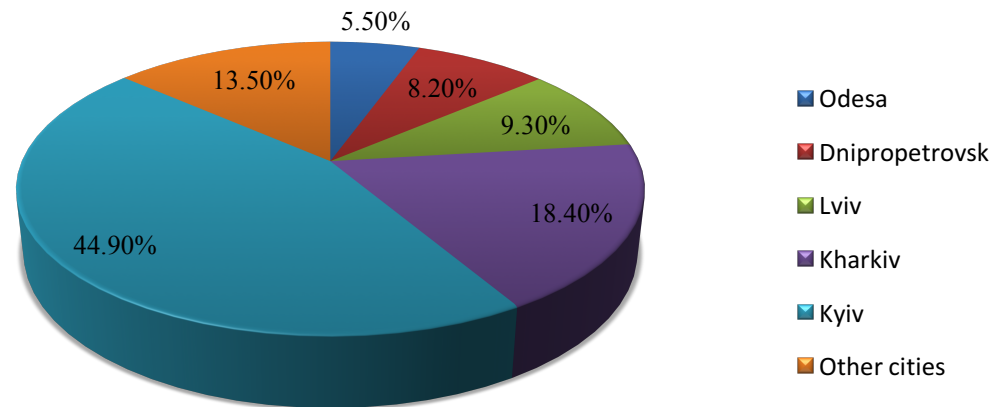


Figure 2. Volume of IT companies market in the biggest cities of Ukraine

It is worth mentioning that In Ukraine companies use several models of outsourcing meaning that IT companies perform different functions. Some develop the most complicated software, while others offer complex software with the product or execute maintenance of IT processes. The models of outsourcing are as follows:

- Service model. It means that IT company performs the software development by the order for the foreign clients. All intellectual rights are the client's property.
- Products model. It means that IT company executes licensing the technologies and/or software products both individually and being the part of the other software. The clients of certain type of outsourcing are first of all the software producers and licensing companies.
- Mixed model. It unites above-mentioned two models, when the majority of companies develop the software by the order of the foreign clients and at the same time design the own software (Vasyuk, 2017).

Moreover, outsourcing of business processes has also been an active field of business. This means services of the companies on performance of the daily business transactions for the foreign clients. These services are not connected with the direct development and support of the software. They are frequently provided by the companies, which work on the IT services export market (Vasyuk, 2017). As inference, adoption of IT outsourcing gives the companies two important benefits: cost-reduction based on the diminishment of the volume of services and reduction of the fixed costs for the daily activities. According to the research of Ukrainian software development company 'N-six', 'there

were a lot of positive changes in the Ukrainian IT outsourcing industry in 2017. Ukrainian software vendors signed many new contracts with global clients and attracted a lot of new business to the country. Ukrainian talent pool has grown significantly in 2017, so the country has all the chances to get a bigger piece of the IT outsourcing pie in 2018. Moreover, businesses that partner with Ukrainian developers value their engineering skills and the high quality of provided services'. Referring to the statistics of the association of the programmers in Ukraine, 'Ukrainian IT professionals also feel hopeful and positive about 2018. According to the survey, 2017 year was more or less successful for 96% of the specialists, whereas 68% believe 2018 will be better than the previous year' (N-iX, 2018).

### 2.3. Methods of outsourcing in Ukraine

After outsourcing has started to develop rapidly in Ukraine, researchers began to study its methods. It led to the creation of classification issued by Ukrainian company 'Staff Management' which has classified methods of outsourcing by the staff as follows:

- HR outsourcing, which means the transference of staff work to external company. It can include employee's hiring, wages settlement and payment, provision of bonuses, development of the duty instructions etc.
- Staff leasing means that the specialized agency provides the employees. They are staffed to a client for the relatively long term. It can last from three months to several years.
- Outstaffing means transference of the staff from the regular group into irregular. The specialized agency registers the existing staff of the client company in its staff or specially hires the employees for it. Services of the different agencies which provide outstaffing services can include such components as payroll. For example, opening the bank account for each employee, settlement and payment of the allowance during temporary unemployment and indemnification for the holidays etc. (Rzhepishevska & Holovko, 2015).

Based upon the above-stated, all the methods of outsourcing can be divided into three ones in Ukraine

- ✓ *Functional outsourcing* belongs to the external providers of certain functions. It is required for running the business: accounting, financial-economic planning, marketing and sales, information provision, security ensuring etc. This method of outsourcing suggests the choice between the creation of the own sub-branch and attraction of the contractual experts specialized in performing certain functions.

- ✓ *Operational outsourcing* means the transference of the individual operations connected with the production, storage, transportation and sales of the products. This method of outsourcing is the most rapidly developing in the present economic conditions in Ukraine. For example, Ukrainian clothes and shoe producers almost do not have own production. Another example is the oil production industry. Ukrainian companies working in this sphere must appeal to the small companies, specialized on the production process maintenance
- ✓ *Resource outsourcing* is the specific direction. It means the refusal from the own resources, required for business running, in favour of their obtainment from the other sources. For example, companies are renting buildings, production capacities and the whole production complexes. An example of resource outsourcing is the provision of the labour resources, which allow solving the current production tasks (Olsun, 2010).

In most cases, the local outsourcing suggests the placement of orders not in the country of ordering company. In other words, the client is usually an independent enterprise located in another country, therefore, *offshore outsourcing* is the most used method adopted in Ukrainian outsourcing.

To sum up, the emergence of the outsourcing in Ukraine has taken place in the mid-late of 1990<sup>th</sup> when the economic situation of an independent Ukraine has stabilized. As soon as the outsourcing appeared, HR and IT services featured most, consequently, becoming the most developed and active up to nowadays. The new wave of outsourcing came in the end of 2007 and rescaled the margins of outsourcing in this country to an international level. Regarding the methods of outsourcing: staff leasing, HR outsourcing and outstaffing have become the most widespread methods of outsourcing in Ukraine. In order to simplify perception of the methods of outsourcing in Ukraine they can also be defined as functional operational and resource. It should be noted that a huge number of technical universities as well as poor economic conditions made IT outsourcing a very high-quality field with exceptional staff working within the country. High tech programmers can cooperate in service, product and mixed model or even outsource the business processes.

#### 2.4. Problems and advantages of outsourcing in Ukraine

The primal reason of an outsourcing adopted by enterprises is cost advantage. Chou (2011, p. 351) assert that cost saving concerns the transaction costs. Also, it is

expressed in the reduction and controlling of the operating costs and re-engineering of the transactions processes. It helps to cover the internal resources internally. Outsourcing contributes to market competitiveness that suggests the improving and privilege on the world market. Consequently, in my opinion, outsourcing in Ukraine in practice is effective in several main areas: technological development of the company, high-quality achievement and high productivity. The types of activities outsourced have the nature of repetitive ones. They bring low or non-added value for the company. For instance, if a company is specialized in logistics and outsources accounting to a provider then internal employees focus on the strategic measures instead of reforming the crew in order to be able to spend extra costs on accountant. Outsourcing of particular functions is directed at the improvement of business and value-added aspects. Referring to Oshima (Oshima, Kao, & Tower, 2005, p. 8), companies, which do outsourcing 'had diminished their administrative tasks with more than 50% and increased their strategic focus by 40%'. As a result, outsourcing contributed to the increase of the internal vendor's employees that are aiming to strengthen the key specifics of the company.

Other advantages of outsourcing in Ukraine, which earlier were offered by the foreign scholars Dolgui (2013, pp. 23-24) in the context of the international business are as follows:

- Reduction of staff resulting in having fewer people on the payroll. The buyer, in its turn, will not challenge staff deviations. They are caused by the changes in the demands. Outsourcing suggests that a buyer pays for the volume of work to be done, instead of the employees needed to do it. Thus, a vendor is responsible for the hiring, and training of the human resources;
- Employees free from the unclear, sophisticated tasks they do not have experience dealing with. Instead, they focus attention on the core activities. 'A company outsources in the first place the repetitive activities that require a lot of time invested but do not bring back those much financial benefits';
- Access to the external technologies and skills. This clause is applied only if a vendor takes the responsibility not only to provide the labour force albeit to improve business running due to using the innovative procedures and technologies.

As for disadvantages of outsourcing to Ukraine, there are two different aspects: macro and micro. Macro aspect includes all the country-specific factors that are unavoidable for any international company doing business in Ukraine, while micro aspects contain issues

which can be avoided by an enterprise, however, they still stay as a most common notions that characterize the outsourcing in Ukraine.

Considering macro aspects, there is an insufficient support from the government, corruption and bureaucracy, issues with converting client's currency into the local one, the absence of legal framework when dealing with an outsourcer. Starting from the first drawback – insufficient support from the government usually emerges on the very early stage of establishing relations in Ukraine. There is a little of information given regarding the laws and regulations that must be followed by an international enterprise in Ukraine.

In fact, the government should either protect and assure international clients in the reliability of the partnerships or eliminate the emergence of the fraud organizations in the country. Corruption and bureaucracy slow the obtainment of the registration certificates of the company as well as other documents if an international enterprise will establish a subsidiary first. Although the taxation system is simple enough in Ukraine it will be sophisticated to avoid corruption when auditors will check the subsidiary's bookkeeping. Transference of currency into a local will be problematic as Ukraine is not part of European Union and barely supports SWIFT payment system, consequently, having a number of limitations hindering the successful cooperation.

In addition, the main micro aspects include unreliability of the partner in Ukraine, the absence of profound regulation of outsourcing sphere in local codex and risks connected with the potential information leakage. Outsourcing party can sometimes be untrustworthy which can possibly emerge when the cooperation has already been established and the companies deal with each other. This issue can cause the work to be done without following the deadlines, the quality can be poor or even unacceptable which will lead to the unexpected expenditures occurred in client's company. Combining with the poor regulation basis that does not oblige local provider to commit to any principles it can potentially threat the existence of the relations between a client and provider in overall.

To sum up, some of the additional common advantages and disadvantages of outsourcing in Ukraine can be summarized as follows in the Table 3 'benefits and disadvantages of outsourcing to Ukraine':

<i>Advantages</i>	<i>Disadvantages</i>
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Focusing on the basic type of activity	Loss of control over the transferred functions
Increase of the macro productivity due to the concentration on the basic directions and more effective usage of the living labour	Profitability of the business operator becomes dependent on the level of the producer's economic effectiveness
Access to the resources and funds, which are not available, for example, trained staff, financial information resources, production funds etc.	Outflow of information
Reduction of the prime cost of the functions transferred on outsourcing	Reduction of the quality and dishonesty of an outsourcer
Reduction of the risks due to the collective investments	Dependence on the partner, especially if he received important functions or functions connected with the funds turnover
Quality improvement	Complication of the logistic processes
Absence of the necessity to have mobilized assets, and invest into the additional directions of activity	Social tension and open resistance of the staff, transferred to the other company
Usage of others' experience and algorithms of solving the problem	Restriction of the possibilities for training and career growth of the specialists inside the company
Minimization of dependence on the subjective reasons of discontinuation of the business processes, such as employees' illness, conflicts	Possibility of corruption deal of a supplier of the services (subcontractors) with the employees from the customer's enterprise controlled by it
Taking into account that volume of knowledge and qualification of each concrete specialist are restricted. It is possible to involve the collective intellect to outsourcing	The threat of gap emergence between the management and business practice

Table 3. Strengths and weaknesses of outsourcing to Ukraine

### **3. THEORETICAL PERSPECTIVES OF FINNISH OUTSOURCING IN UKRAINE**

#### **3.1. The emergence and features of the Finnish outsourcing in Ukraine**

The cooperation between Finland and Ukraine is based on relations between the EU and Ukraine that have been developed in the 21st century. Finland recognized Ukraine's independence on 30 December 1991. Diplomatic relations were signed on 26 February 1992 when President Kravtshuk signed the CSK Final Act (Trojan, 2017). The Embassy was established on 1 April 1992. There is a solid basis for an excellent condition for developing bilateral cooperation. For example, it includes the geographic proximity – the capitals are located within a short flight distance of two hours. Besides, they are characterized by the historical convergence. Ukraine's positive attitude and interest in Finland, as well as the emerging and developing market in Ukraine provides a good basis for further cooperation (Kahdenväliset suhteet, 2017).

The most significant Finnish companies operating in Ukraine are Konecranes, Sanitec, Tikkurila, Ruukki, Nokian Tyres and Telko, a distributor of plastics from Aspo. Altogether, an estimated 80 companies operate in some way in Ukrainian market. There is very little Finnish staffing in Ukraine. Most often, Finnish companies have only a sales or service point in Ukraine. For example, Tikkurila has its own factory and outlet just a few miles from the centre of Kiev. The factory does not have Finnish workers, meaning that a local human resource (or HR outsourcing) is being present there.

Ukraine is interested in the attraction of Finnish capital in different spheres of economy. Finnish outsourcing is considered to be an important factor of the technological innovation of in many industries in Ukraine. The local market gives many possibilities for Finnish companies to do business in the country. The representatives of Finnish companies working in Ukraine showed the interest in the expansion of the economic connection with the Ukrainian companies. Although the impact, as well as clear evidences of cooperation between two countries, is not yet clear, as seen in Figure 4: 'Statistics of the Ukrainian outsourcing customers', Finnish outsourcing in Ukraine takes 28% among other countries:



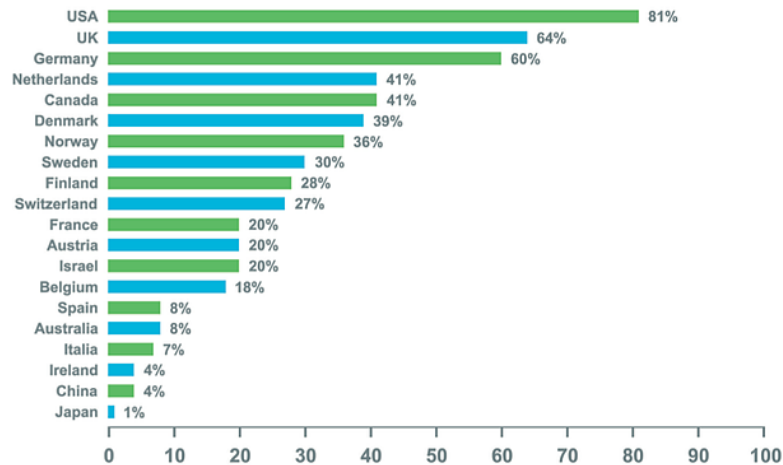


Figure 4. Statistics of the Ukrainian outsourcing customers (Obod, 2012).

The Finnish Minister of Foreign Trade and Development of Finland said that many Finnish companies today 'cannot work in Russia, that's why they are interested in Ukrainian market' (The Finnish Companies are interested in the Ukrainian Market - Kai Aslak Mykkänen, 2016). In his words, the active work of the European Investment Bank in Ukraine is a good signal to the foreign countries. An effective functioning of mechanisms of cooperation of Ukraine with the international financial institutions is very important for the involvement of new investments (The Finnish Companies are interested in the Ukrainian Market - Kai Aslak Mykkänen, 2016). According to the Finnish-Ukrainian Business Forum, organized by the European Business Association together with Finer, 42 companies are interested in working in Ukraine. In particular, Finnish companies are ready to sign contracts and create joint enterprises with Ukrainian companies (42 Finnish Companies want to run business in Ukraine, 2009).

Ukraine is expected to become a market for Finnish companies. In the opinion of Anne Havana, Ukrainian financial crisis caused a lot of problems for the Finnish business in Ukraine. Two of them are corruption and bureaucracy. Despite of it, Finland continues to outsource Ukrainian specialists and develop its business in Ukraine. For example, 'Konecranes, one of Finnish companies in Ukraine, has its factory in Zaporozhe. It is located not far away from the Donetsk region. Risks have increased since the crisis began, but it has also had positive consequences for Kone. When Crimean ports are no longer used by Ukrainians, new ports will be opened and new cranes needed' (Ukraine - the Future Market for Finnish Companies?, 2015). As a matter of fact, I define cranes production and internal sales as a first type, offshoring by Chongvilaivan (Chongvilaivan, Hur, & Riyanto, 2009) when the client and provider are placed in different countries and

an executor is a customer's subsidiary . In addition, cranes production in Ukraine would also lead to the search of human resources.

Outsourcing is used in the Finnish Embassy in Ukraine. Thus, during demanding seasons, when the embassy has a big flow of people willing to receive Finnish travel visa, the only way to ease the load and eliminate extreme time delays is to outsource the visa specialists. According to the Embassy information, it cannot expand the visa department, so outsourcing is believed to be a good decision, which would help to reduce the queues. The transference of the service function on outsourcing helped the European diplomatic missions substantially reduce the terms for visa registration (Embassy of Finland opens visa centre in Kyiv, 2010).

### 3.1.1 Perspectives in Information Technology Outsourcing

Finnish IT sector is one of the most developed and can be progressive fields for outsourcing. Statistics show that 70% of Finnish companies offer IT outsourcing and outstaffing services, which mean hiring specialists in this sphere Helsinki (Marina, 2017). In their own turn, Ukraine has a lot of IT professionals, which could compete with the Finnish ones, resulting in the emergence of a niche of outsourcing the functions taken by Finnish companies to the third party provider (Ukraine). Delegating the outsourcing received by Finnish enterprises could shrink company's resources allowing to hire highly-skilled programmers in Ukraine as the costs are lesser than the Finnish experts' one (Figure 5):



Figure 5. Statistics of IT specialists' salary in Finland and Ukraine.

According to my research, Finnish IT specialists receive the salary nearly \$3.700, while the salary of the Ukrainian IT professionals in Finland would be nearly \$2.400. 'In order to find an answer to a question whether it is profitable to hire developers in Helsinki, look at the next rates. A JavaScript developer wage is evaluated at \$3,500 per month. A .Net developer will ask \$3,800 for his work on an average. Monthly salary of a PHP developer is approximately \$3,200' (4) (Marina, 2017). According to Figure 6, it is proven that the IT wages in Helsinki are almost twice as high as in Kyiv, therefore I see a space for transferring of outsourcing to Ukraine.

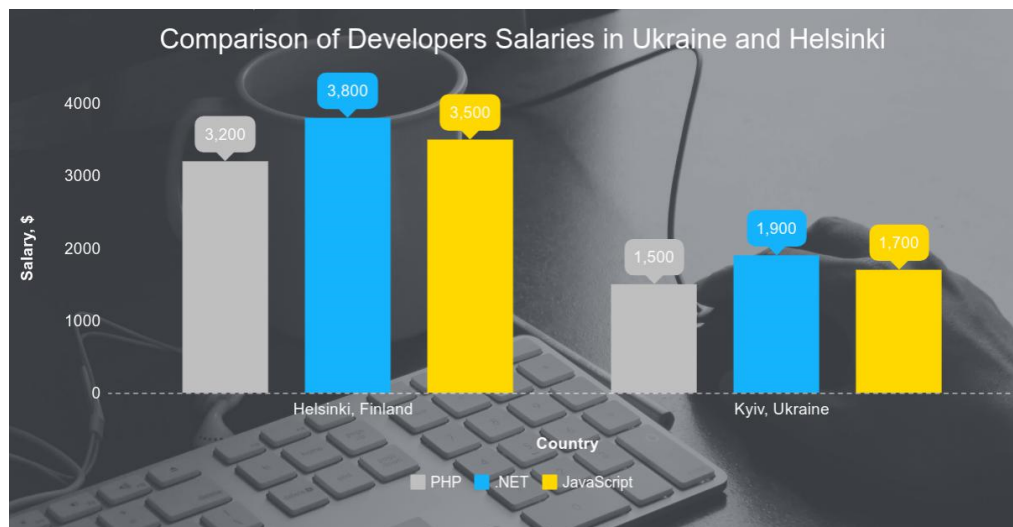


Figure 6. Statistics of IT specialists 'salary in Helsinki (Finland) and Kyiv (Ukraine)

The demand in IT specialists is summarized below in Figure 7: Demand for IT specialists by city (Software Development Technologies in Demand in Finland, 2017):

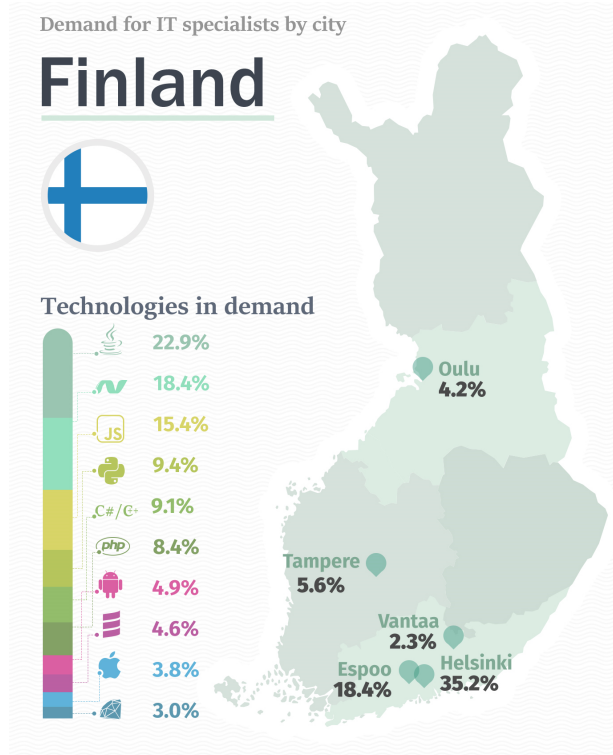


Figure 7. Demand of Finland in IT specialists

Figure 8 demonstrates the demand in IT specialists represented by the both countries. Figure 9 shows the demand comparison between Kyiv – the heart of outsourcing and Finland (Software Development Technologies in Demand in Finland, 2017):

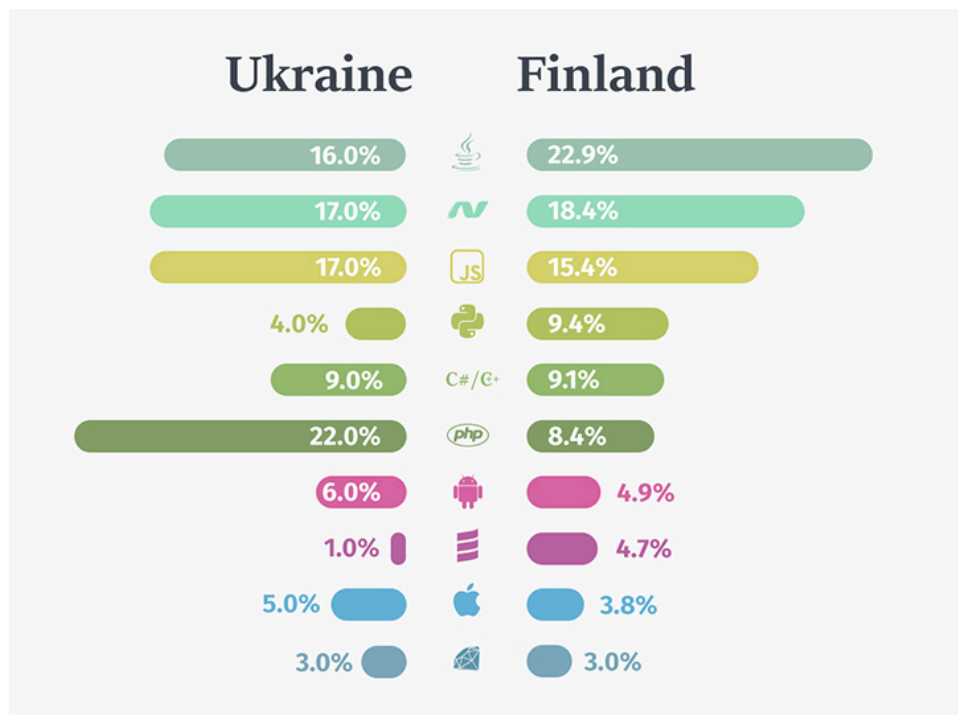


Figure 8. The demand observation between Ukraine and Finland (Software Development Technologies in Demand in Finland, 2017)

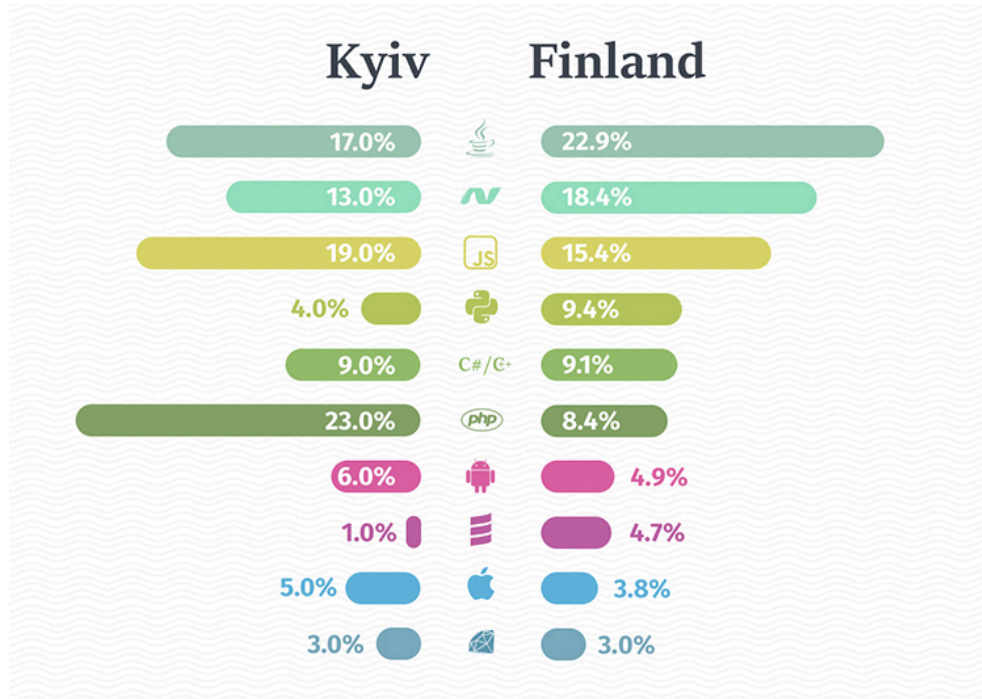


Figure 9. The demand observation between Kyiv and Finland (Software Development Technologies in Demand in Finland, 2017)

### 3.2. Challenges Finnish companies facing in Ukraine

Finnish companies have been cautious in their investment plans for Ukraine. The business environment is considered to be weak. For example, running business is difficult due to massive corruption and bureaucracy (Peleschuk, 2017). These issues are clearly correlated with the section 2.4 Advantages and disadvantages of outsourcing in Ukraine. Much of the individual problems are related to VAT refunds, customs tariffs and the definition of value, product categorization and technical regulations. Finnish companies expect to see stable and predictable markets in Ukraine. Moreover, they need equal conditions of competition, Europeanization of legislation and the development of an efficient transport infrastructure.

Nowadays the development of the Finnish outsourcing in Ukraine is worsened because of the war conflict on Donbas. However, Finland still looks for the successful ways of integrating with Ukraine and European Union as well. Finnish companies to be outsourced in Ukraine try to reduce costs and ensure the revenues. Frankly speaking, 'the comparative advantage in the Ukrainian market could be achieved in sectors requiring technology intensive knowledge. For example, such sector is telecommunications in which the Finnish companies have strong knowhow' (Vahtra &

Pelto, 2006). Of course, the development of Finnish-Ukrainian business faces the problems of the cultures diversity: 'It can often be difficult for Westerners to understand that a Ukrainian company might be a reliable partner and never let down its partners but it might also be engaged in heavy tax evasion activities. This is a contradiction which it might be difficult to understand' (Vahtra & Pelto, 2006).

In contrast, Finland has an investment protection agreement with Ukraine and a double taxation agreement. The value of Finnish investment in Ukrainian economy is about 100 million Euros (Nahorny, 2017). Some Finnish companies have a positive mood and are ready to increase the amount of cooperation between countries. Moreover, they have an inspiration to take a fresh look at Ukraine's business environment (Kahdenväliset suhteet, 2017).

## 4. RESEARCH METHODOLOGY

The nature of my research is *descriptive*, by which it is usually meant: 'to portray an accurate profile of persons, events or situations' (Robson, 2002). In other words, the intention is to describe the phenomena of Ukrainian outsourcing from the beginning (late 90<sup>th</sup>) to nowadays. The research approach is deductive. In this case, the author collected a pool of theoretical data and then deduced those theories and concepts that did not fit to the implementation of outsourcing and its particular functions and methods in Ukraine.

The right choice of research methods is crucially important. Results depend on the information available in the study. In this paper I will apply the method of *data collection*. This method is important to gather as much information as possible. Data collection allows to select the data required for the further research (Kotler & Armstrong, 2010). On the first stage of the analysis, it is necessary to gather all required theoretical information from such sources. These sources include scientific articles, web-resources, books etc. The information obtained from them will help to understand the important concepts of each paper. The findings were collected from the works related to the period of late 20<sup>th</sup> century to nowadays. This data demonstrates the dynamic development of outsourcing practice. Also this period is characterized by the rapid growth of IT technologies. After data collection I applied the method of *data analysis*. It includes decoding of obtained information. It is followed by selection of the important data and, referring to Strauss and Cobin (1998, p. 101): 'the analytic process through which concepts are identified and their properties and dimensions are discovered in data'. The effective analysis can be done only if the gathered data is reliable. I have attempted to collect the data from the different sources and different groups of companies. Due to the fact that the information is collected from the different sources, I could easily set questions on validity and reliability of the results gathered by me.

Another method applied in this study is *snowball sampling*. Berg (2012) state that: 'the strategy of snowball sampling involves several stages. The first is the identification of people or employees having necessary features. The second is interviewing them. These employees are then asked for the names (referrals) of other people who possess the same attributes they do. Consequently, there is a chain of subjects driven by the referral of one respondent to another'. Relying on this method, the author asked the participants who had the experience of Finnish-Ukrainian outsourcing practice as well as international outsourcing to provide me with contacts of their clients and partners in other enterprises in the same industry in Ukraine. The respondents came from the senior management.

It should be noted that snowball sampling has some clear *disadvantages*: it can not be considered as a representation of the whole sector of each industry where the questionnaire was conducted. Therefore, since every company has been linked by a previous respondent, snowball sampling depicts only those companies (respondents) who were initially suspected to have an international (Finnish) outsourcing.

Apart from the questionnaire, there was an interview conducted with the company X which has a number of Finnish enterprises outsourcing to them. The interview was aimed to reveal the difficulties Finnish companies face when outsourcing in Ukraine as well as the specifics of cooperation among the countries in the specific case of company X, therefore, these findings shall not represent the whole idea of ITO to Ukraine. Though, the findings should serve as a great source for the Ukrainian Ministry of Economic Development as they contain precise data that depicts current issues and problems occurring in ITO.

#### 4.2. Questionnaire design

Collection of the empirical data was done based on the questionnaire. Fortunately, there are a lot of Finnish companies outsourcing in Ukrainian market. The major limitation of this study is that it is impossible to receive data from all Finnish companies outsourcing in Ukraine. However, the sample of research is sufficient to draw some broad conclusions.

At the beginning of the study, the target groups were identified. They include the Ukrainian companies offering the outsourcing services for the Finnish entities. Mainly mid-sized and large companies were targeted. The questionnaire included 10 questions; each one consisted of the several objective answers. The respondents had to choose one which is most relevant to their outsourcing activities. The main task of the questionnaire was to find out whether the Ukrainian companies outsourced Finnish companies, and detect the advantages and benefits of outsourcing, impacts of outsourcing, costs of outsourcing and the level of satisfaction with the services provided to Finnish companies.



## 5. RESEARCH ANALYSIS OF FINNISH OUTSOURCING IN UKRAINE

### 5.1. Questionnaire analysis

There are 20 Ukrainian enterprises that took part in the questionnaire. They included such companies as:

- ‘Ukrnafta’, PJSC ‘Ukrasvydobuvannya’, ‘Eustream’, ‘PGNiG’, ‘Ukrtransgaz’ working in the sphere of *power plants and marine propulsion systems*;
- ‘Azovmach’, PJSC ‘Zaporozhkran’, ‘Popasnyanskii vagonoremontnyi zavod’ (‘Popasyansk car-repair plant’), PJSC ‘Kryukivkii vagonobudivnyy zavod’ (‘Krukovsk car-building plant’) working in *building and repair industry*;
- ‘IT Selecta’; staff agencies ‘Nikoloz Job’, ‘Contact’, LLC ‘RTV-TIARA’, All-Ukrainian network ‘Euro Ukrainian Group’ working in *human resource etc*;
- ‘N-iX’, ‘Eleks’, ‘Intellias’, ‘Infopulse’, ‘Ciklum’, ‘SoftServe’ in *IT*.

Based on the collected data, a quantitative analysis was done and it is shown below. Almost all the chosen questioned companies received orders from abroad and provide the outsourcing services for them (Figure 10):

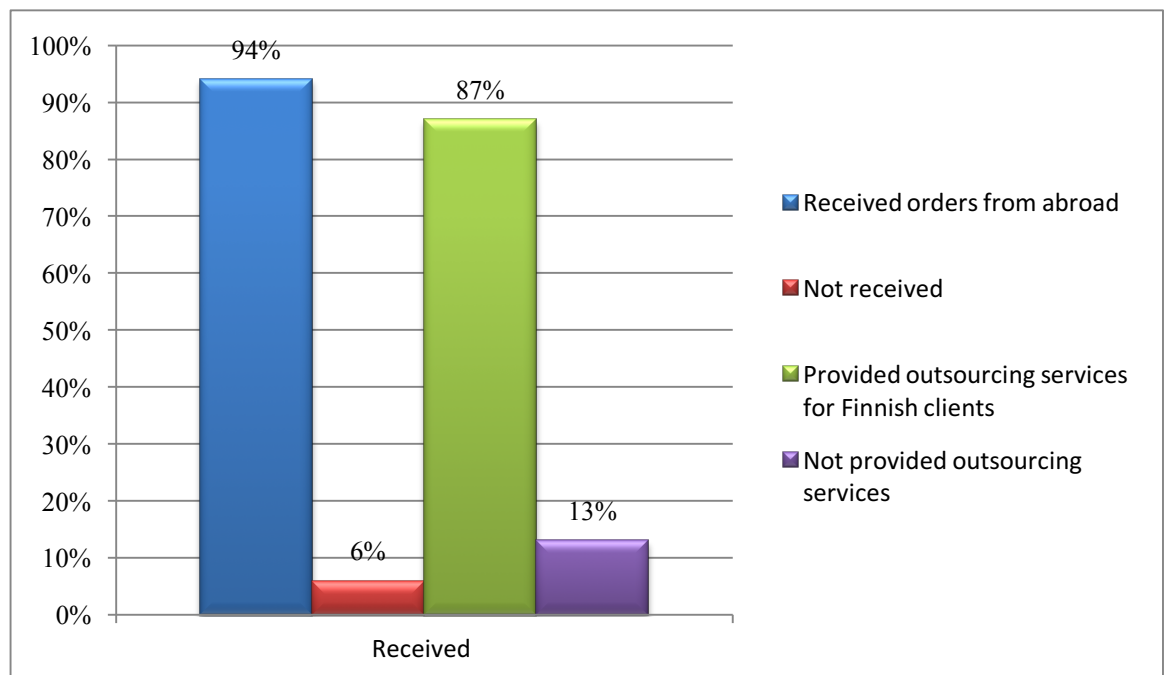


Figure 10. The percentage of Ukrainian companies received orders from abroad and provided outsourcing services

Figure 10 demonstrates that a lot of Ukrainian companies (94%) received orders from abroad. It proves that Ukrainian specialists and services provided by the companies are popular among foreign firms. It is confirmed by that 87% Ukrainian companies provided outsourcing services for Finnish enterprises – which is a great number of respondents. Consequently, it can be argued that delegating functions from Finland to Ukraine happens in almost each of four industries where the survey was conducted.

The data show that the majority of companies provided outsourcing services more than two times (Figure 11):

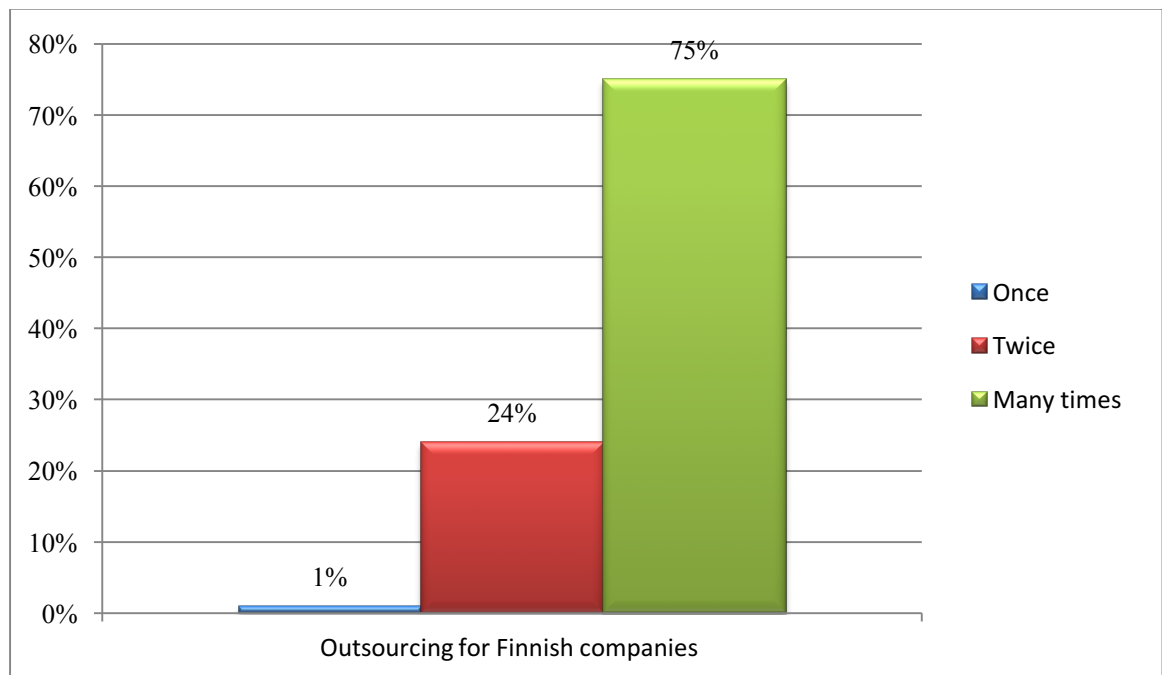


Figure 11. How many times the Ukrainian companies outsourced Finnish requests

Figure 11 shows that 75% foreign companies appeal for outsourcing more than two times. This tendency proves that the relations between executor and client (Ukrainian company and Finnish company) are long-lasting. According to Dolgui (2013) it reduces the risks of cooperation with new unknown companies. Also, it means that clients were satisfied with the provided services. Thus, there is evidence about the formation of loyalty and trust, which are important factors of building strong marketing relations.

The analysis shows that Finnish companies have not used Ukrainian outsourcing in the sphere of IT technologies as much as international companies do (Figure 12):

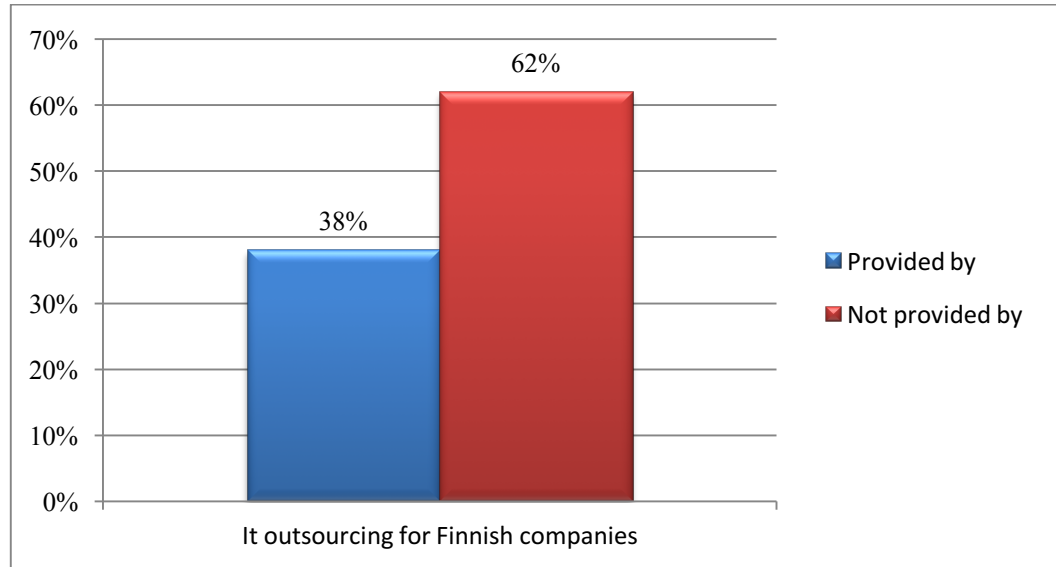


Figure 12. The margins of Ukrainian outsourcing in the sphere of IT for Finnish enterprises

Referring to figure 12 I consider outsourcing of IT services as a niche of outsourcing that is mostly not yet discovered by Finnish companies. It can be argued that Finnish Information Technology industry is still developing rapidly and the government tries to protect this industry from being outsourced.

Most of the questioned Ukrainian companies provided human resource outsourcing for Finnish companies (Figure 13):

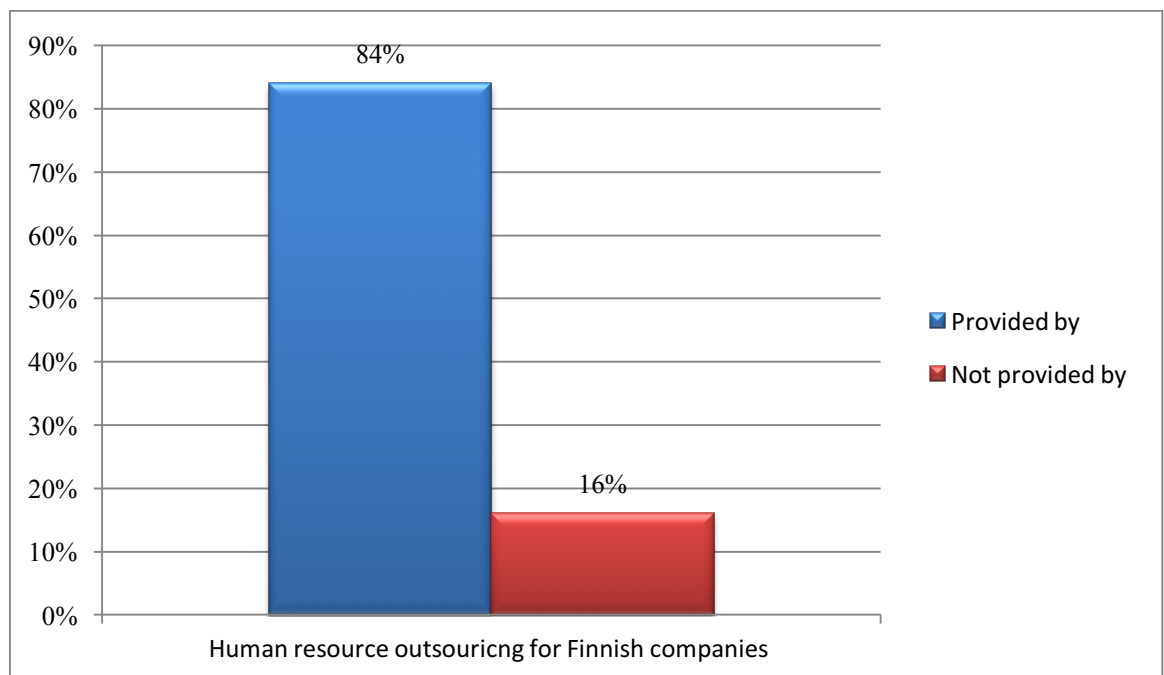


Figure 13. HR outsourcing for Finland provided by Ukrainian enterprises

Considering Figure 13 it becomes obvious that human resource outsourcing is the most popular type of outsourcing in Ukraine for Finnish companies. According to Ostyzniuk (2014), Ukraine has high-competent specialists in the different spheres of work – IT technologies, industry, physical labour etc.. Referring to the secondary data, primary findings prove the correlation with a theory of Rzhepishavska (2015), who assumed that HR outsourcing, staff leasing and outstaffing form a huge stake of outsourcing market in Ukraine. It seems that the first reason of hiring the Ukrainian workers by Finnish companies is aimed at reduction of the cost for labour. The second reason is absence of own specialists, for example in such sphere as engineering and heavy industry.

According to the results, many of the respondents provided technical maintenance and promotion for Finnish companies (Figure 14):

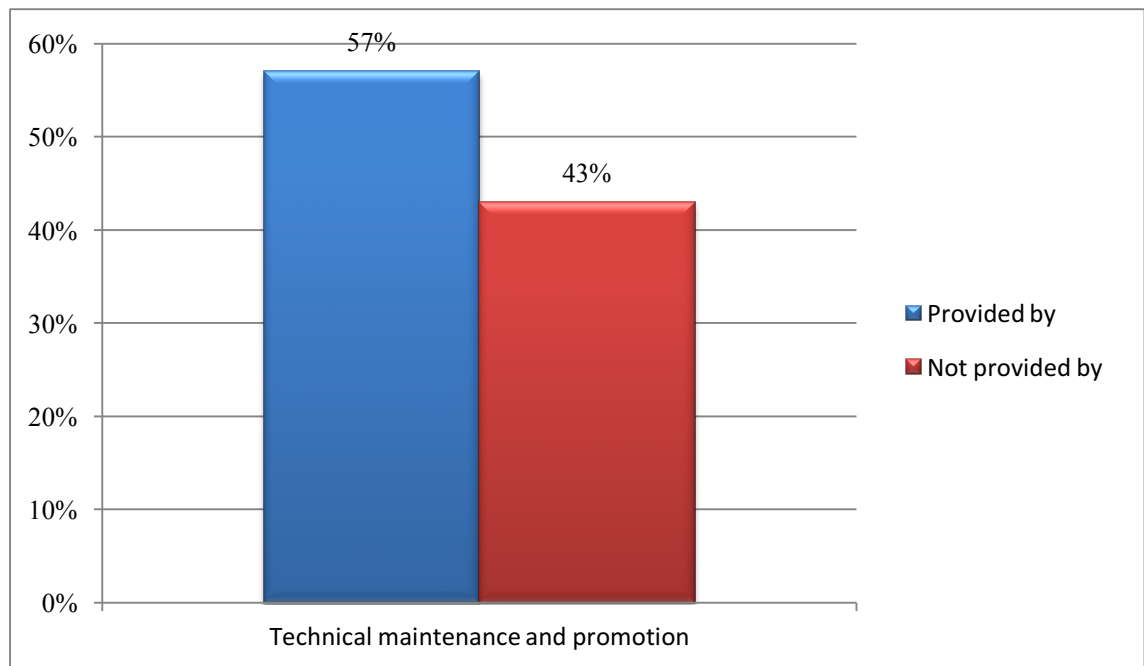


Figure 14. Outsourcing of technical maintenance and promotion

According to Figure 14, 57% Ukrainian companies provided technical maintenance and promotion to Finnish companies. Ukrainian 'Azovmash', for example, has been providing technical maintenance for Finnish 'Konecranes' for a substantially long period (Korabliov, 2003); Finnish companies 'Wärtsilä' received technical support in IT sphere (Lahdenmäki, 2014) etc. The high value of appeals for technical maintenance and promotion means that it is the important factor of servicing.

It is worth mentioning that, unfortunately, the majority of the respondents gave the positive answer on the question about the difficulties they challenge when outsourcing to Ukraine (Figure 15):

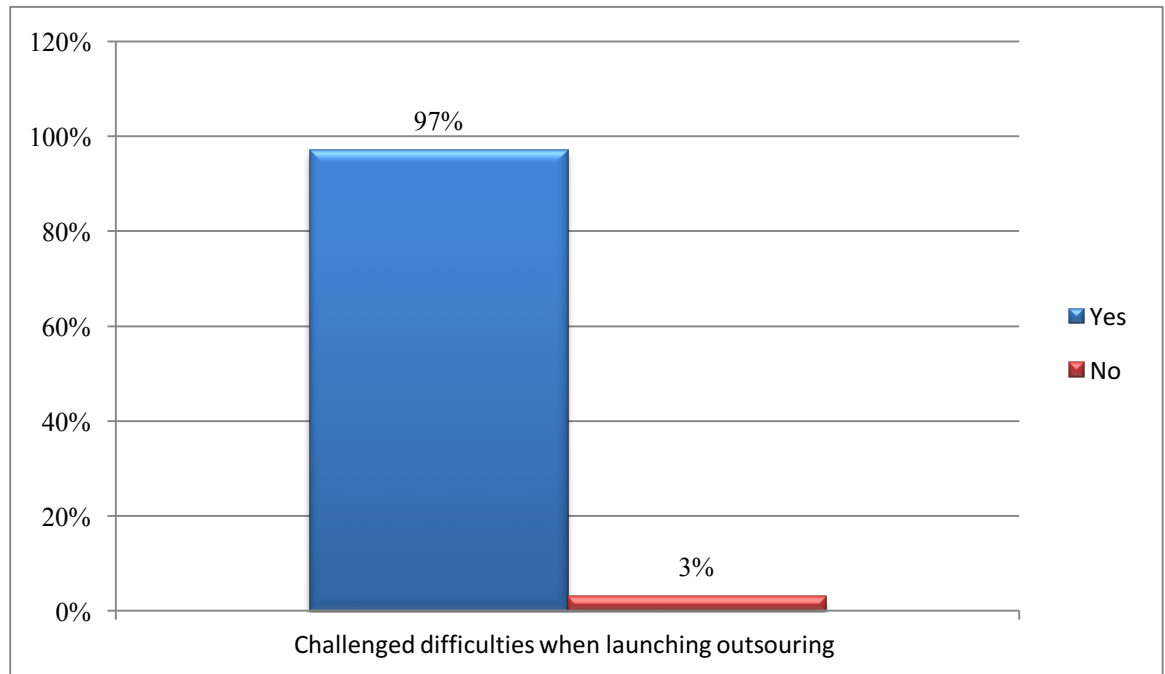


Figure 15. Challenged difficulties when starting outsourcing to Ukraine

According to Figure 15, Finnish companies challenge big difficulties when outsourcing in Ukraine. As mentioned in the theory, these difficulties may include war conflict on Donbas, cultural diversity, bureaucracy and corruption in Ukraine (Vahtra & Pelto, 2006).

## 5.2 Case analysis: company X

Company X is one of the top 10<sup>th</sup> largest IT companies in Ukraine providing IT solutions to various clients. It was established in 2005 and grew rapidly, offering a list of IT maintenance services as well as web-developing. The company X was chosen due to the fact that, unlike the majority of competitors, it concentrates mainly on European clients, specifically Western Europe and Scandinavia. According to the company's data, Finnish outsourcing constitutes around 12% of the total volume of ITO in the company. The company was asked to provide a feedback concerning the difficulties and issues an enterprise faces when establishing outsourcing relations with Ukrainian subcontractor. Moreover, an interview was also aimed to reveal the specifics of Finnish ITO delegated to the company.

According to the findings, company X sees currency rate fluctuations as a very first factor damaging the relations between parties. Ukrainian currency Hryvnia (UAH) has been rotating between 28.05 UAH and 33.70 UAH per 1€. These deviations made parties start making contracts based on Euro or Dollar currency instead of stating agreements in the official currency in Ukraine. As inference, this lead to the increased expenditures for accounting purposes for Ukrainian IT provider, consequently, making Ukrainian IT services fees less competitive than, for example, Polish or Slovenian. Currency fluctuations increase the chances that an international enterprise and Ukrainian company will transfer their deal to another currency, which will also result in the absence of the legal support of this deal by the legislation in Ukraine. If the deal is done and the money are paid using the current exchange rate an international company can always try to get a proper support from the governmental jurisdictions, especially when it comes to Ukrainian company failing to fulfill its obligations.

Secondly, the questioned company agreed that corruption stays one of the major factor hampering successful integration of international companies in Ukrainian business. It occurs on a stage when a client wants to make a deal with Ukrainian IT company and pay for the services officially, using the current exchange rate: for instance Euro to Hryvnia. As stated before, although paying in local currency can be riskier due to currency rate instability it basically saves a client from being fraud. In order to pay for the services received in a local currency the best option for an international company is to open a subsidiary in Ukraine and transfer the funds to that company and then to the provider. This is the phase where corruption makes the cooperation very sophisticated. On each of the step of opening a company in Ukraine starting from approving the name of the subsidiary and finishing with signing the company in various trade registers an international company faces long operating times and queues that can last up to few months. In order to shrink the amount of time needed to open a company there are ways to pay some 'extra' fees to the state-owned company which will 'assist your business and reduce the time your enterprise is registered and send all the documents to you in a timely manner'. In other words, when a client sees the perspective to outsource to Ukraine and he wants to make an official deal then he should be ready to pay some extra costs to avoid difficulties.

The third issue argued was about the obstacles local enterprises facing when applying for funding through governmental programs. There are few state-owned enterprises (SOE) designed to increase the chances for a local IT company to receive a loan with a

low interest rate from different investors. The SOE takes a role of an intermediary between the investor (either a bank, an enterprise or an investment company) and the IT company in Ukraine. These intermediaries provide almost risk-free investments into Ukrainian high-tech companies, all the risks occurred will be covered by the state-owned company, therefore, making investing in Ukrainian IT sector more favourite and profitable for investors. When Ukrainian company aims to get the funding through those intermediaries it challenges a lot of bureaucracy. In order to apply for the funding, an IT company has to provide SOE with all the accounting books and taxation reports as well as other company-specific information that can easily be used by competitors. SOEs do not assure participants that their trade secrets will not flow out of the state records or be acquired by corrupting someone from SOE. Moreover, each and every participant in the state-program, which is oriented to ease the procedure of receiving funding from a third party, has to pay huge fees in case the company has been servicing an international client and the deal was done excluding local currency conversion. Referring to the first issue discussed, it happens that more than a half of the young IT companies in Ukraine that have been sourcing international clients and receiving payments in Euro or Dollar currencies are basically unable to bear all the costs they have to pay to take part in the governmental program in order to receive low-interest loan offers. Likewise, it is obvious that almost every high-tech company in Ukraine has to have a well-grounded support by the government as well as nice conditions to be able to apply for a loan from a bank which will boost the company's effectiveness and competitiveness. When being unable to receive any side-funding a company risks to be overtaken by existing competitors, both local and international, as well as being unable to master their own direction of IT services a company wants to cover as a part of an international outsourcing.

More to add, international subsidiaries still sometimes face issues related to the double taxation. Even though the double taxation has been eliminated among the majority of Western European countries and the U.S, tax authorities in Ukraine try to gain some extra funds from international companies as they are the weakest players on the local market with the lowest level of awareness of all the features and specifics of Ukrainian corporate taxation system. As a result, internationals have to hire a huge state of personnel responsible for accounting and taxation issues which leads to increased expenditures or, hire staff which is able to provide 'clean and easy taxation' for some certain amount of funds which are then transferred to the tax authorities as a bribe.

### 5.2.1 Specifics of Finnish ITO

In the case of company X, the relations with Finnish clients have some distinctions in comparison to the general international cooperation. At first, Ukrainian company argues that there are a lot of misconceptions emerging when the task is delegated to them. In other words, it sometimes occurs that Finnish companies are lacking competence in IT sphere, as inference, there is a need for the subsidiary that could understand and adjust client's wishes to provider's capabilities. The mismatch appears when the Finnish client carries an idea he or she is not able to launch. The first thing what the company does is trying to find a local IT company capable of fulfilling the task. When the search for the local outsourcing ends with no solution found the company searches outsourcing provider globally. Here, it should be noted that there are two common reasons Finnish clients unable to settle outsourcing at home: money constraints and inability to explain the task coherently. Finnish IT company does not have much of incentives to carry the task because of the risk of money and reputation lose if the outcomes do not suit the client's criteria. At this stage, the local IT enterprise will either deny the request or accept it for the purpose of outsourcing to the third party. Therefore, company X faces challenges in understanding what is expected from them to be done in both cases: either the initial client will contact the company X or Finnish IT company that undertook the original request will offer the same deal.

Furthermore, referring to company X's experience, Finnish clients are not willing to establish solid, long-lasting relationships with one particular provider in Ukraine. When the ITO is provided for the first time and the results are even more than satisfying for the Finnish client the company X expects the client to return later with another request. However, Finnish client does not see much difference among the Ukrainian IT companies ready to undertake his request. There were some cases when Finnish client went from company X to company B – a partner of company X in IT sphere in Ukraine with the next task and received the same quality for the same fee and then returned back to company X after a while with a different request. In fact, company X provides ITO for the Finnish client more than twice – that supplements to the primary data questionnaire findings, albeit, the relationships are not always long-lasting, as Finnish company may switch to another supplier for a period of time and then return back to the first provider after a while.

In contrast, it should be noted that there is a bunch of values Finnish companies find crucial apart from cost-savings. Based on the feedback of company X, their Finnish



clients appreciate the level of proficiency of local programmers. Company X does not only provide exceptional quality for the reasonable price but also consults and helps the client to find the best solutions for any other IT related issues. For example, when company X provides internet banking maintenance for Finnish client it also offers him some ideas and suggestions on how can the internet banking can be improved and secured without losing its speed. Also, Ukrainian company tries to navigate to the right outsourcing party in case they are unable to provide the solution for the client. One more value that stands prior to the cost reduction is the time it takes for company X to create a solution for Finnish company. In the majority of cases, time is extremely valuable for both sides. When the solution is high-qualitative and provided faster than the terms agreed it boosts Finnish client's motivation to refer to the same outsourcing company in further.

All in all, there are some tough challenges that may occur when outsourcing in Ukraine, however, each and every case is unique and we can not assume that the issues discussed above are the constant obstacles between Finnish companies and Ukrainian provider. The problems derived from the company X interview are aimed for the Ministry of Economic Development of Ukraine to give a deeper understanding what can still be fixed and improved.

## 6. DISCUSSION OF RESULTS

Results demonstrate that IT management in Finnish companies and public institutions is moderately satisfied with the benefits of IT outsourcing: both locally and offshore outsourcing, consequently, there is no need for them to seek a new hub for delegating IT processes, especially in Ukraine. Those who outsource IT to Ukraine consider the benefits and reliability of information systems as the greatest values. Leaders also appreciate the technical expertise and skilled staff.

Business executives, on the other hand, are less satisfied with IT outsourcing. They have been waiting for more than they think they will have to. Focusing on one's own core competence is not always good. The competitiveness has increased greatly. In Finland, the public sector has outsourced IT operations almost to the same degree as companies. Outsourcing of IT public sector is based on the same principles: the workplace wants to focus on its core competence. Public administration of IT outsourcing services shows that the public sector outsourcing is welcome, as well as the skilled workforce from abroad. The results were, as a rule, satisfied: IT services obtained by outsourcing were cost-effective and competent (Korhonen, 2014).

For example, last autumn OP-Pohjola made the decision to outsource IT staff. However, another two Finnish companies 'Wärtsilä' and 'Konecranes' have the depressing experiences of outsourcing. The cost saving turned out to be ineffective, whereas the quality of work was poor (Lahdenmäki, 2014). Thus, companies have begun to recover parts of outsourced IT services back to their own management and to Finland because the experience of outsourcing was bad. Finnish companies applied for IT outsourcing in Ukraine by many reasons:

- high-competent IT engineers, not only software developers;
- highly trained and experienced workforce;
- a broad range of languages for applicants;
- cost-effectiveness;
- minor or non-existent cultural differences;
- minor or non-existent time difference;
- opportunity to meet your partner;
- better exchange rate, so money are saved.

As a result, we can surely argue that when it comes to ITO, Finnish companies do not have cost-effectiveness as a primary value in Ukraine, moreover, local ITO tends to be

even more value-added.

The outsourcing of Ukrainian human resources is especially popular among Finnish farms, for example, 'Hanno Mustaparta', 'Enon Mansikka' and others. Staff agencies 'Nikoloz Job', 'Contact', LLC 'RTV-TIARA', All-Ukrainian network 'Euro Ukrainian Group' provide Ukrainian workers for the Finnish farms. According to Kaisu Lötjönen, in 2017, 14 000 berry pickers arrived to Finland from Ukraine. Approximately 14,000 berry pickers will arrive in Finland this year, according to estimates by the Ministry of Foreign Affairs. It is much more than the jobs in the Varkaus sub-region, for example (Lötjönen, 2016). Kaisu Lötjönen explains that 'the clearest largest group are Ukrainians, the number of which has grown rapidly in Finland. In 2016, more than 9.000 Ukrainians were entering berry farms, compared to 6.000 in the previous two years. About one third of Ukraine's berry pickers were in Northern Savo (Lötjönen, 2016).

The largest number of Ukrainian HR works at farms in North Savo (over 3.000) and in Southwest Finland (over 2.000). The Ukrainian labour force is welcome in reindeer farms, fur farms, greenhouses and pig farms (Ryynänen, 2015). Large farms require additional labour especially for cow milking and work. The recruitment and marketing project of the cattle farms aims at the employees working in the farms during summer. The same employees could work on several farms throughout the year. 'There is also a domestic workforce available, but foreign workers are really active in Finland', says Minerva Rannila. – 'Workers in the Middle East have become employees; especially many of them are from Ukraine. Local Ukrainian workers who are already working here in our area are very active in their country of origin, and they then contact us' (Keski-Pohjanmaa, 2012).

Results in primary findings of production outsourcing correspond to the theoretical framework with an example of the manufacturer of lifting equipment 'Konecranes' which has purchased a plant near the banks of the Dnieper River close Ukrainian line of conflict. CEO of the company's Ukrainian plant Pekka Lundmark reported that: 'Finished products, and crane components have been shipped to customers from the ports of Odessa and Mariupol and by rail'. More than a year ago, the company estimated that costs could be up to six million Euros due to the potential output transfers and currency weakening. As production proceeded efficiently, 'Konecranes' was able to increase its production to Zaporozhe mill and the estimated loss was halved. Zaporozhe factory employs approximately 300 people. The factory manufactures crane components that the company exports around the world (Konecranes Ukrainassa – "Toivottavasti emme

joudu turvautumaan plan B", 2015). Therefore, it can be assumed that this particular case is:

- 1) Outsourcing – because its activity performed internally, creates potential value competitive advantage and affect the future growth of the company referring to Alexander (1996);
  - a) This is an offshoring type of outsourcing stated by Chongvilaivan (2009), when the client and provider are situated in different countries however supplier is a subsidiary of a client;
  - b) Production outsourcing type explained by Krstić (2015) when the process of manufacturing is delegated to a client.

Despite all advantages of outsourcing, Finnish companies face a lot of difficulties. Revolution of 2014 resulted in forming of a new government in Ukraine. Problems with a corruption are not yet decided finally, but authorities are declared, that in the near time the legal aspects of the collaboration of Ukrainian companies will be facilitated with foreign clients (Trakht, 2012). Foreign SMEs challenge ordinary difficulties, when doing business in Ukraine. European investors are not afraid of them. However, there is still a lot of risk for large businesses and investments. The situation is complicated to by the fact that Ukrainian judicial system does not work in practice, corruption prospers and it is impossible to protect the investments in huge business in such terms (Ukraine took 17 positions up in the rating of best countries for outsourcing. What does it mean? , 2016).

Based on the above, it may well seem that Finnish companies should not outsource in Ukraine. However, this is not so black and white. Finnish enterprises and products have a good reputation. In addition, Finland has the significant know-how, for example in energy conservation, forestry and renewable energies and a substantial part of the functions of that business can be delegated to Ukraine to gain an additional competitive advantage.

Summarizing, Finnish outsourcing aims to streamline operations and focus on the company's own business. Outsourcing is not the same as traditional subcontracting, but is about outsourcing some of the customer's business activities. Outsourcing is more knowledge than sales of the actual product. Finnish companies began to increasingly outsource various activities in the early 1990s. Workplace food and cleaning services have been purchased from outside for many years, but subcontracting has progressed to increasingly demanding and more centralized operations. In recent years, companies have also started outsourcing key business processes.

Internal outsourcing is becoming more common in Finland. The most commonly outsourced activities include personnel and financial administration, customer service and IT services. Outsourcing of information technology is possible either in the case of machines only and their maintenance or larger entities. Many companies outsource individual entities such as payroll or accounting. In the broadest possible form, outsourcing includes entire administrative processes, for example, as logistics.

Outsourcing can be done so that the company's IT staff will transfer to the service provider company and continue to work the customer's premises. In this case, it is about internal outsourcing or repatriation. Another option is that a customer purchases IT services entirely from outside their own home, which is 'real outsourcing'.

Hiring one's own expert is one solution, but not all companies want to compete in the field of the labour force. In addition, it may be difficult for small companies to stay up-to-date in a rapidly developing industry. In addition, it may be difficult to get a skilled workforce in the public sector because the wage level is lower than in private companies.

Satisfaction with IT outsourcing varies. As the major challenges for outsourcing, managers consider a good contract and a successful choice of service provider. The success of change management, the definition of responsibilities and the management of cooperative relations are also important.

## 7 CONCLUSIONS

This thesis combines both theoretical and empirical research with the purpose of understanding the characteristics of international outsourcing in Ukraine and its perspective for Finnish companies. So far, secondary findings on the internet do not give a broad picture of the volumes and specifics of international and Finnish outsourcing. In combination with the fact that there was not any consistent study done before, this research represents the first step of studying this issue deeper.

Theoretical findings distinguish three types of outsourcing techniques: offshoring, outsourcing and offshore outsourcing. The most common technique used in Ukraine is offshore outsourcing when a client and provider are different enterprises situated in different countries. Results confirm that there are three common characteristics of outsourcing in Ukraine: functional, operational and resource. When it comes to IT sphere, all three common models are adopted by Ukrainian companies: service, product and mixed.

Prior to this research, IT outsourcing industry was found as a major spot of interest for international companies. However, since Finland has its own well-developed IT sector the author wanted to find is ITO also demanded among Finnish enterprises. This study argues that ITO in Ukraine is the most common request from abroad. It is supported by the fact Ukraine has exceptional conditions for the industry to grow: constantly increasing pool of specialists in this field and comparatively low wages. Secondly, outsourcing of some particular functions as manufacturing and accounting were also spotted to contain a huge stake of international outsourcing.

As for primary data, in contrast to the theory of international outsourcing in Ukraine, Finnish outsourcing pattern goes more into Human Resource outsourcing of both skilled and non-skilled layout in Ukraine. As for skilled labour, the reasons for that demand is the absence of native specialists in Finland in various spheres, especially in maritime technology. Low-skilled labour is outsourced by Finland due to cost reduction incentive mostly. In addition, the pattern also fits with the theoretical framework of Rzhepishavska (2015) who defined the characteristics of HR outsourcing.

Primary findings also point out that there was some evidence of production outsourcing requested by Finland in Ukraine. Production outsourcing volumes are rather small so far, however, there is a solid basis for companies specializing in cranes and propulsion systems production to step in Ukrainian outsourcing market. Besides, the cooperation between two countries carries long-lasting character, the majority of respondents among Ukrainian companies confirmed that their Finnish clients find cost-effectiveness as a secondary value dealing with them, which gives a good sign for the further research on this topic.

Ukraine offers a range of advantages for outsourcing, starting from the reduction of costs due to low salaries in the country and ending with some factors as geographical proximity to Europe, experienced labour and the diverse amount of consultants in diverse industries. On the other hand, there are some clear and constant disadvantages of establishing outsourcing in Ukraine such as corruption and bureaucracy. These issues represent the most substantial obstacle. Also, there is a list of other weaknesses that are mostly case specific and can be avoided by an international party. If outsourcing takes place without settling up a subsidiary in Ukraine there are almost no risks that can hamper the cooperation.

During the writing process I have obtained the vast amount of information concerning outsourcing in Ukraine and its particular structure and chronology. Unfortunately, all of my findings can not be put in the final work as lots of them still require further, precise research.

Overall, the author has a positive attitude on the future development of outsourcing relations between Finland and Ukraine and hopes this research will provide the reader with a solid understanding of the primary characteristics, methods and understanding of the pattern of cooperation between these countries. The author recommends considering drawbacks and finding out their real impact on the outsourcing market in Ukraine for the further research. Besides, it is recommended to conduct broader survey among the SMEs in Ukraine to find out their influence of the general picture of Finnish outsourcing in Ukraine. Moreover, the sampling technique should be changed to a different in order to depict the situation on the market decently.

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## APPENDICES

### Appendix 1. The questionnaire

Question	Answers (Fill in)	
1. Do you have orders from the foreign companies?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
2. Have you ever provide outsourcing services for the foreign companies?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
3. Are Finnish companies among your clients?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
4. Have you ever supplied materials for the Finnish companies?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
5. Have you ever provided technical maintenance for the Finnish companies?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
6. Have you ever provided services connected with IT support?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
7. Have you ever provided promotion or sales services for the Finnish companies?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
8. What is the main value your client finds when decides to outsource his activities to your business?	<input type="checkbox"/> Reduction of costs	<input type="checkbox"/> Other value
9. Have your Finnish client ever met obstacles while cooperating (outsourcing) with your enterprise?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
10. Is your client satisfied with outsourcing services provided by Ukrainian companies and do you planning to provide outsourcing for Finnish companies further?	<input type="checkbox"/> Yes	<input type="checkbox"/> No

