

WHAT MAKES A CITY ATTRACTIVE FOR BUSINESS SERVICES CENTERS? CLUJ-NAPOCA CASE STUDY

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Abstract

As proven in the case of Cluj-Napoca, Cluj for short, business services centers, either in-house or outsourced, can expand phenomenally in a city or an area, and become one of the major employers; their evolution being limited only by the local conditions. This paper analyzes the business services sector, both from the perspective of available statistics and data as well as from the perception of the major companies in the market. Companies which setup shared services centers (SSC) and business process outsourcing (BPO) companies have been surveyed to understand what has drawn them to Cluj and what the challenges they are confronted with are.

Looking forward, the theoretical and practical strengths and weaknesses, as well as the opportunities and threats are used to build potential strategic directions for the development of the city, as they result from a Quantitative Strategic Planning Matrix (QSPM) application. While the contents of the article are based on Cluj, the framework for analysis and the method of eliciting feedback from the major participants in the market can be applied on any other area or city which has or wishes for a similar development.

Keywords: business services sector, outsourcing, strategic directions for development, Cluj-Napoca.

1. Introduction

Whenever an economic activity or group of activities seem to grow consistently and out of proportion with the general economic activity it is worth investigating and understanding the drivers behind the growth, what are the attraction points for the companies which contribute to the growth. The formulation of a quantifiable strategy for the future such as the growth is maintained or the advantage is kept in the long run is equally important.

Based on the figures regarding the number of employees in each sector, provided by the National Institute of Statistics (2018, indicator FOM105F), the two sectors of the economic activities which presented the largest growth in Cluj county are the ones related to Information and Communication as well as Administrative and Support Service Activities. These activities more than doubled, having growth rates of 232% and 132% respectively. The overall growth was 13%, with some sectors decreasing (negative growth rate) and others having single digits growth rates. The industrial sector, with no exception has been losing employees in the reported timeframe. Yearly figures are presented in Table 1. It is worth mentioning that the compound average growth rate (CAGR) of these sectors is above 10% and with one exception in 2010 for Administrative and Support Services, the annual growth rate has been positive.

Table 1: Employees' evolution for key growth sectors in Cluj County

Employees at December 31st by economic activities for CLUJ	2008	2010	2012	2014	2015	2016	Growth 2008-2016	CAGR 2008-2016
Administrative and Support Service Activities (section N)	6,452	6,775	9,146	12,196	13,952	14,981	132%	11.1%
Information and Communication (section J)	5,438	7,004	9,458	13,289	14,671	17,521	222%	15.7%
Total CLUJ	212,803	190,285	198,797	219,001	227,518	239,609	13%	1.5%

While the figures above refer to the entire county, the total number of employees in the city of Cluj-Napoca compared to the county is about 75% with an increasing trend towards 2015. In other words, Cluj-Napoca has three quarters of the workforce in the entire county (National Institute of Statistics, 2018, indicator FOM104D) and this clearly shows that the Cluj overall figures are driven by the city dynamics.

Early papers have analyzed the IT services in Romania, especially from the IT outsourcing point of view (see Mesnita and Dumitriu, 2005) and quite some details are made available by trade associations or individual companies. This paper will focus on the development of business and support services, defined in the next section. The companies analyzed, part of which the author is a member of, did not exist in Cluj in 2007 and nowadays they employ, based on my estimates, 45%-50% of total employees in the services sector in Cluj, with a phenomenal growth rate year by year. Alongside the benefits in terms of employment and salary advancement, this growth rate brings

along some pressure for the public authorities in terms of creating an environment in which these companies can thrive. They operate in an asset-light model, the main resource being the human capital, and, as result, any shortage of this resource can hinder the development and trigger a relocation of services which would create additional issues for the local administration. Assuming a public administration which is open to the voice of the companies, this paper is one of the few structured attempts to crystalize an entire sector view on the opportunities and challenges of operating in Cluj. At the larger scale, the findings and the strategy can be applied to other cities, either by reproducing the steps of the research or, for communities with a similar profile, considering what challenges companies are quoting and what strategic options might be applicable.

The paper continues with a presentation of Business Process Outsourcing and Shared Services Centers, their presence in Cluj and the methodology for the study, which includes secondary/ statistical data and a survey as means to gather primary data. Additionally, as the aim is to formulate a strategy and identify strategic options for the city, an advanced SWOT analysis is built. These three areas of research are presented in the main findings section. Future developments are also considered in the last section of the paper.

2. Business process outsourcing and shared services centers

Year 2007 marked the first inward of multinational companies in Cluj, one of the key university cities in Romania and one of the largest in terms of population after the capital, Bucharest, for setting up centers for delivering business services, either in the form of companies setting up centers for providing services to third parties or for centralizing own activities. In case of services provided to third parties, the term used is business process outsourcing (BPO) while for own activities shared services center (SSC) is the name usually mentioned.

On the potential question why researching a city versus country's development in this sector, I would argue that cities seem a more reasonable structural unit to be studied, as they have a life and development of their own. And, as Globalization and World Cities (GaWC) Research Network (2009) puts it, cities exist in global, outside country borders networks and 'they grow through relations with one another', of course the nature of their relations being ambivalent, both cooperative and competitive. So, cities do matter and 'their diverse roles as centers for commerce, employment, education, culture, social services and interaction, are inextricably linked with the globalization process.' (Pain, 2012, pp. 6-7)

Table 2, based on Contractor *et al.* (2012, p. 8), highlights the differences between in-house activities and outsourcing, with a focus on activities which are performed in the country of the company and activities performed in a different country.

Table 2: Outsourcing vs. in-house activities

Geographical location/ Sourcing of activities	In-house/ same company	Independent supplier/ vendor
In-country	Company performs activities in-house	Domestic outsourcing
Foreign Country	Own subsidiary or affiliate in a foreign country (SSC)	International outsourcing (BPO)

Another angle to consider BPO versus SSC is by considering the following descriptions:

- BPO is based on contracting of the operations and responsibilities for specific business functions or processes to a third-party service provider, replacing in-house services with labor from an outside firm (Retová and Pólya, 2011). The embedded expectation when it comes to outsourcing, both for companies and public institutions, is that it provides ‘a better way of performing activities’ (Lazăr *et al.*, 2010).
- For a SSC, the activities are delivered from a shared location, offering certain benefits. Unlike a centralized department it functions as an internal customer service business, charging for its services and delivering the results in accordance with set KPIs (key performance indicators), based on a contractual agreement (Deloitte, 2011).

The types of activities performed by BPOs or in SSCs do not differ, hence the article will refer to business services or business processes. The measurable expectations around the services offered are around cost-effectiveness, reliability of support and, potentially, innovative solutions, ranging from standardization to transformation of processes (Shared Services and Outsourcing Network, 2017).

Quickly defining business processes, as the term will be used quite frequently, the common approach is that any business activity with an input and output is a process. Davenport and Short (1990) define business processes as being ‘a set of logically related tasks performed to achieve a defined business outcome’. For a more detailed definition, accounting for all the elements involved, one can study the Business Process Manifesto (Burlton, pp. 2-7). To be mentioned that earlier than 1990, Porter (1985, pp. 36-39) identified a series of primary functions in a company: firm infrastructure, human resources management, technology, development, procurement, inbound logistics, operations, outbound logistics, marketing & sales, (customer) service, which are all high-level business processes, having sub-processes and so on.

The BPO and SSC companies in Cluj, their year of establishment and the number of employees (based on company data and my estimates), are presented in Table 3.

As mentioned, 45%-50% of total employees in the services sector in Cluj are employed by these companies. The estimated turnover in 2017 for these companies/centers in Cluj (some of them do not report figures broken down for Cluj only) is in the range of 100-120 million €/ 125-150 million \$. The estimation is done based on the number of employees.

Table 3: Major BPO/ SSC companies in Cluj

Company	Type	Estimated no. of employees	Started in Cluj
Arvato	BPO	150	2016
BEIS/Hunnebeck	SSC	30	2016
Bombardier	SSC	750	2009
BUW / Convergys	BPO	200	2014
Emerson	SSC	900	2008
Endava SSC	SSC	50	2011
E.On Business Services	SSC	600	2012
Evalueserve	BPO	150	2008
EXL	BPO	150	2009
Genpact	BPO	750	2007
Leoni	SSC	50	2015
Office Depot	SSC	450	2007
Recall / Iron Mountain	SSC	20	2016
SIG Combibloc	SSC	150	2017
Steelcase	SSC	350	2011
SYKES	BPO	1200	2010
Tenaris	SSC	50	2012

3. Factors for location selection

Understanding the factors that lead to the initial location selection, would allow us to map potential development or what would be needed for maintaining the initial advantage. Companies are always actively considering multiple locations, ideally some well-established cities and some surprise ones, deciding based on the scope of activities as defined by diversity and size of languages to cover and type of processes. When Deloitte (2013, 2014) surveyed BPO and SSC executives a consistent key finding was that ‘organizations have become more open in their location selection for SSCs as compared to 10 years ago’ and ‘second tier of developing outsourcing destinations can expect to see more rapid growth’, but not at the expense of established sourcing destinations. This illustrates the need for continuous search for new destinations even before defining the scope of services.

Additional to consulting companies’ reports, several academic articles have been published on the topic of location selection. The ones this paper have been built on are Manning, Massini and Lewin (2008), Kedia and Mukherjee (2009), Lewin, Perm-Ajchariyawong and Russell (2011), Schmeisser (2013) and Gerbl, McIvor and Humphreys (2016).

Companies are in a continuous search for the next location that can accommodate the growth, the key element being the availability of workforce. The selection process of a new location is quite extensive and contains several factors (the framework is based on author’s research, yet to be published).

Qualifying Factors:

- Presence of local universities; and
- Presence of a local airport within a decent radius.

Assessment Factors:

- Availability of foreign languages skills in the talent pool;
- Experienced individuals in the market on the desired processes;
- Potential for cost optimization;
- IT&C infrastructure;
- Real estate availability & quality;
- Business climate and competition;
- City development plans and overall quality of life; and
- Accessibility of the city (airport, roads).

Risks:

- Labor law risk (general regulations, hiring & firing, unions);
- Financial risk including exchange rate risk;
- Risk of changing the ease of doing business;
- Natural disaster risks; and
- Geopolitical risks.

The fact that companies are conducting 'extensive' analyzes is confirmed in the press release from E.ON when it selected Cluj and Berlin for setting up two shared services centers (E.ON, 2012). This makes, of course, rather important for a city to offer strong and sustainable factors. For Cluj, these factors will be analyzed in the subsequent sections. Worth noting that the final decision will always be a combination of factors that play different roles based on the company's need at a certain moment in time.

While the risk factors would be related to a country or larger area, the qualifying and assessment factors can and are influenced by the local authorities. In fact, based on my experience and numerous meetings and discussions with public authorities all across Romania as part of due diligence assessments, the qualifying factors related to the airport and universities are the ones which are strategically influenced by the local authorities. The strategy of a city and the plans for the future and improving the quality of life are clearly related to the city hall, while the partnership with the businesses and openness to enter areas like real estate (via public-private partnerships) could create an advantage for that particular city. Any advantage alongside these dimensions would either attract more companies or support the development of the existing ones.

4. Methodology of the study

Considering the factors presented in the previous section, and looking to the supporting evidence, we assess which factors can constitute a strength and which ones could be a weakness for Cluj, having in mind the purpose that current companies

stay and expand in Cluj, and potentially new entrants are also attracted here. The data comes from secondary sources, mainly statistical sources which are interpreted in the context of the location selection factors.

Besides the data and the potential strengths and weaknesses for Cluj coming from secondary data and other research reports, a survey was run in the first quarter of 2017 among the companies in Cluj to check the factors which made them choose Cluj and the opportunities and/or challenges they currently face or faced in the day to day operations. The survey method was used several years by the Offshoring Research Network (The Conference Board, Inc., 2011) and it produced very useful primary data, this being my aim as well.

The survey has been sent to decision makers from all major companies in the market (see Table 3). Decision makers included strictly people either involved in the setup of the center/site or the management of the center/site. Because the results are based on the knowledge of the participants, it was crucial to target the decision makers, people closely familiar with the company, in order to avoid uninformed responses, i.e., 'guesses' as per Saunders, Lewis and Thornhill (2016, p. 442).

While getting to the decision makers is not always an easy endeavor, I got responses from all the companies operating in the market. One company, SYKES, was excluded as its management is represented by the author, and author's bias was to be avoided. As results the survey had 16 answers which would fit the criteria for a non-probability sample size considering a homogeneous population (Saunders, Lewis and Thornhill, 2016, pp. 297-298). Out of these, 15 surveys have had all the questions answered, as some of the questions were optional and/ or based on a survey logic determined by previous answers.

The platform used to collect the surveys is SoGoSurvey.com Plus and the relevant questions for this article are included in the Annex. While the first five questions were used to assess the factors and risks for location selection, in this paper the questions six onwards are the relevant ones.

Given the statistical data and the outcome of the survey, certain key opportunities and threats from the city's point of view can be highlighted, keeping in mind the goal to retain or even grow the current business services footprint. Starting from the top strength and top weakness, considering the opportunities and threats, a Quantitative Strategic Planning Matrix (QSPM) will be built for Cluj, later proposing directions for the future.

To build the QSPM the internal and external factors are ranked. The Weight column is based on how important the respective factors are for the organization to be successful and it is a constant sum game, the sum of the weights is always one. Each factor has also a Rating based on how well the organization is performing regarding that factor, from four (superior performance) to one (below average) (David, David and David, 2009). In this respect, the organization is the city of Cluj. Multiplying the Weight and the Rating would offer a WScore, which will provide a good indication on what to focus on.

Starting from the internal factors, the strengths and weaknesses are put together with the opportunities and threats and four types of strategic options can evolve – SO Strategies, WO Strategies, ST Strategies and WT. Each strategic option will aim to build on one or more strengths, counter the weaknesses while capitalizing on an opportunity and diminishing the threats. Following this methodology is less likely that key factors will be overlooked or, more importantly, strategic options will be inadvertently selected, by ignoring key factors and/or overlooking the fact that a viable strategic option can also work to diminish a weakness based on a threat (which can be a threat in other geographies/industries as well).

Assessing the strategic options will aim to give a score based on the elements mentioned before, how much they build on a strength, how much they counter a weakness, how much they capitalize on an opportunity and how much they diminish a threat, using a scale of one to total number of options assessed, where one is the lowest. This is also called attractiveness score (AS) and each option is given a different score, as rarely two different options can give the largest impact (David, David and David, 2009). In formulating strategies, David, David and David (2009) mentioned the debate on the extent this process should be more objective/quantitative as opposed to more subjective/qualitative. Building the QSPM will help determine the ‘relative attractiveness of various strategies based on internal and external factors’ (David, 1986).

5. Main findings

5.1. Statistical data

For Cluj, clearly the large presence of universities and the existence of a local international airport are two factors fitting the qualifying criteria. In the context of Romania, the number of students in Cluj is one of the most notable strengths, as Cluj is the second largest city in Romania, by the actual number of students, while being the largest when it comes to the ratio of students to the general population.

Table 5 based on the figures from CNFIS (2015) presents the latest available number of students in the public universities (the private ones have a declining share of about 10-15%, consistent data not being available) in different cities in Romania, while the general population comes from 2011 census. The table also shows that Cluj is the second largest city in Romania, when stable population is considered, and one

Table 5: Number of students for major cities in Romania

City	No. of students (CNFIS, 2015, pp. 26-28)	Stable Population (2011 Census)	Ratio
Braşov	19,512	253,000	8%
Bucharest	123,352	1,883,400	7%
Cluj-Napoca	69,885	324,576	22%
Iaşi	55,058	290,422	19%
Sibiu	15,247	147,245	10%
Timișoara	39,282	319,279	12%

of the few which experienced a population growth from the 2002 census to the 2011 one (2% from 317,953 to 324,576).

The ratio of students to general population (Figure 1) highlights the advantage Cluj would have over competitor cities in Romania.

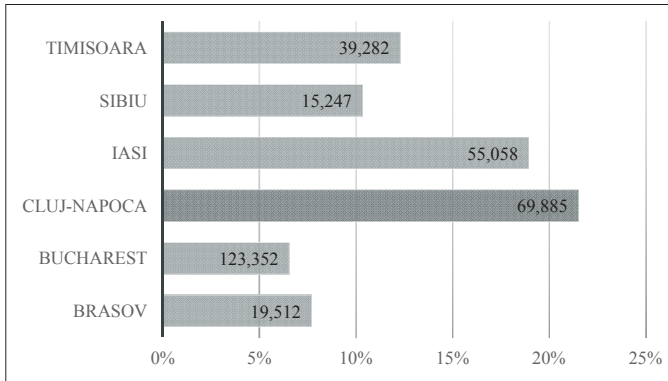


Figure 1: Students to general population

Source: Author's own calculations based on data from CNFIS (2015)

The presence of a well-educated workforce, also confirms the availability of people which are fluent in foreign languages, and while official statistics are rarely available, companies would assess this element via consultancy companies, job ads, estimates from local schools and universities.

Once the first companies providing such services have been established, the existence of experienced individuals on the market is also checked. In fact, one can also see a 'clustering' effect, as one or two companies enter the market, others looking for similar profiles will follow, and as results an untapped talent pool rarely exists. This effect has been observed by former Manpower Group CEO, Jeffrey Joerres: 'Let's say you find a previously undiscovered workforce of multilingual IT professionals in Bratislava, and you set up a processing center. Pretty soon your competitors are going to follow you there, deplete the skills pool, and drive up wages. In other words, the greenfield you originally had all to yourself has become a battlefield. And now it's not just the decreasing value of labor arbitrage, it's also a shortage of the most competitive skills. You're once again fighting for talent, you're investing more in training, and you're back to the micromarket mining of these labor skills.' (Bernstein, 2016)

Moving on to the cost optimization, compared with other countries, especially in the EU, the labor costs are clearly lower. Still based on the evolution, this factor becomes a weakness for the city, given recent developments and trends and the effect described above. As the sector increases in terms of number of employees, the salary inflation can be observed, which would reduce the cost-advantage of the location. While all companies consider in the long-term planning a certain cost-base increase, the question currently lingering around Cluj is if the rate of the salary growth in the market is sustainable, being, based on my estimates, about double than planned by any company.

The evolution and prognosis of minimum wage and average wage for Cluj are presented in Figure 2. The average wage prognosis comes from the National Prognosis Agency (CNP, pp. 14-15) and are specific to Cluj area. These figures do not account for changes in the tax structure, in effect with 1st of January 2018, but for companies there is no total cost to company impact, so one can expect that the net income to the employees will be kept at the same level.

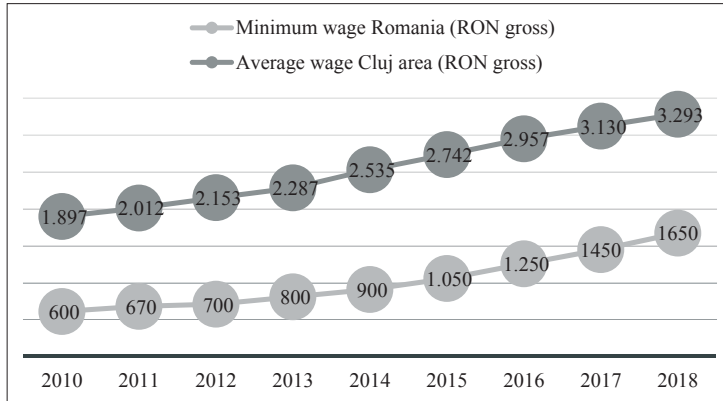


Figure 2: Gross salary evolution in Cluj (2017 tax structure)

Source: Author's own calculations based on data from National Prognosis Agency (CNP, 2017)

Certain cost elements and potential for optimization are not specific to Cluj, they come from the specifics of the country, both in terms of minimum wage, average wage, tax structure, and costing elements. Same for IT&C infrastructure, which would be readily available in urban areas of Romania. The country is well positioned in terms of Internet speed and broadband penetration increased year by year. Additionally, the costs compared with Western Europe are about 40% lower, based on our experience and estimates. Contractor *et al.* (2012, p. 8) mentioned the decreasing trend in IT&C costs as one of the reasons for outsourcing, as distance is not a factor anymore in selection of a location.

The rate of broadband penetration has constantly increased as the figures from National Authority for Management and Regulation in Communications (ANCOM) show. As data for 2016 show, the broadband penetration in Romania is overall 53.7%, urban versus rural being 67.5% to 35.8% (ANCOM, 2016, pp. 6-8). For comparison the overall penetration was less than 40% and the increase is quite important as some activities can be carried out in various locations.

Considering the real estate, while the stock of office buildings, especially large available space (2,000-5,000 square meters), class A buildings is considered limited in Cluj (CBRE, 2017), the improvement compared with 2007 is openly visible and while that was a weakness for the city, it was clearly of minimal impact, as early signs were showing that demand will generate supply. In the meantime, some companies will still have to use multiple locations in the same city or even go for work @home solutions.

The image of the city or the country is helped by the inclusion in lists and ranking of locations to outsource, and/or with respect to ease of doing business, contribute to creating a good and solid image with respect to the business environment. Overall Romania had some mentions in different lists (AT Kearney – Global Services Location Index, Tholons – Top 100 Outsourcing Destinations, KPMG – Shared Services and Outsourcing Institute, World Bank – Ease of Doing Business Index).

The second major strength, after the number of students, for Cluj is related to the quality of life and the aim to become the city people would like to live in. The quality of life in the city is the key element of the City Hall’s strategy (CMPG, pp. 261-269) and we see the growth of people from other countries which move to Cluj to live and work. Mega-events and designations, like Cluj being European Youth Capital in 2015, help in raising the profile of the city. The estimates of March 2014 were that about 6,000 EU and non-EU citizens were present in Cluj, both students and people which came here for work. It is not uncommon for a BPO or SSC to employ 10-15% of the workforce as non-Romanian citizens, and this is beyond senior management to associate/ agent/ operator level.

5.2. Survey findings

As mentioned, the relevant questions for this paper are Q6 and onwards. Q6, ‘Compared with the initial assumptions, how did the following factors turn out in Cluj-Napoca’, probes for the outcomes of key factors. For the current companies in Cluj, the outcomes of these key selection factors are quite positive, most of the factors having ‘more/better than expected’ as the chosen answer. The notable difference is the ‘Real estate availability & quality’ which had six ‘less than expected answers’ and seems to be the key weakness companies perceive. ‘Availability of foreign languages’ and ‘City development and quality of life’ had only one ‘less than expected’ answer, the latter being the positive surprise, having nine ‘more/better than expected’ answers. Despite having only one ‘less than expected’ factor, ‘Availability of foreign languages’ turned out ‘as expected’. The other three factors, ‘Experienced individuals in the market, Potential for cost optimization, Business climate and competition’, turned out to be ‘as expected’, that is at least 2/3 of the companies considered this to hold true. All the answers are presented in Table 6.

Table 6: Outcomes after selecting Cluj as a location for the center/site

Compared with the initial assumptions, how did the following factors turn out in Cluj?	Availability of foreign languages skills in the talent pool	Experienced individuals in the market on the desired processes	Potential for cost optimization/ lower salary cost base	Real estate availability & quality	Business climate and competition	City development plans and overall quality of life
Less than expected	7%	20%	20%	40%	13%	7%
As expected	67%	73%	73%	47%	80%	33%
More/better than expected	27%	7%	7%	13%	7%	60%

Overall the answers given by the companies in the city seem to confirm the secondary data presented in the previous section.

There are other benefits, though, discovered/available to companies after they were established. On this topic, and as the answer to Q7, companies have repeatedly mentioned:

- The ability to add additional processes and activities due to the existing competencies in the market;
- Strong collaboration with universities; and
- Short geographical and cultural distance with the markets served (especially Western Europe, but not only, for example Russia).

For Q8, companies repeatedly mentioned two key challenges, one around the cost of doing business, primarily coming from the pressure on salaries and high personnel turnover/attrition coming from the competition in the market. One respondent was asking him/ herself if by now Cluj is not too crowded for these companies/services. Additionally, some of the respondents mentioned that it is quite difficult to hire certain profiles, be it technical/engineering or certain foreign languages. All these challenges are quite important elements to be considered, because these types of activities are easily relocatable and that would mean a hit on the overall quality of life and jobs available for a large population group. For a quick summary on how easy is to relocate activities in such a center, consider ING Service Center Europe which in 2011, less than one year after opening, announced it will close the operation in Cluj (Cotu, 2011).

5.3. Formulating a strategy for the City

The strengths and weaknesses for Cluj are emerging from sections 5.1 and 5.2, while with respect to threats, first and foremost is the legislative landscape. Contractor *et al.* (2012) noted the threats are coming from the regulatory environment changes. Recent rapid changes in the overall tax structure in Romania and other measures which are not planned, even without an impact on the cost of doing business can put an additional pressure on the businesses and have them consider a more predictable environment. Sometimes regulatory constraints from other countries tend to impose limitations on moving services outside the domestic market (see Italy, Poland and other examples), those must be constantly monitored and mitigated.

On the other hand, acting as an opportunity, key pieces of legislation coming into effect and other announced, especially at EU level can benefit Romania and Cluj when assessed against non-EU location, even if those offer a lower cost of doing business. GDPR (General Data Protection Regulation) is a good example, business services dealing with personal data having more restrictions on data transfers outside EU, and a small list of countries considered as having an adequate privacy level.

The EU legislation coupled with the geographical distance and cultural fit, as mentioned by the respondents to the survey constitutes a strong opportunity for Romania in general. The threat here is that other cities in Romania have the same advantage and they might become competitors for Cluj in attracting some of the existing busi-

ness or potentially new ones. Especially if these cities are on an earlier development path and salary pressures are not that high (see for example Oradea and Craiova) or their unique ability to supply resources which are in high demand (see Iași, Brașov, even Sibiu). Given all the above, the SWOT matrix for Cluj, as a destination and host city for business services centers is presented in Figure 3.

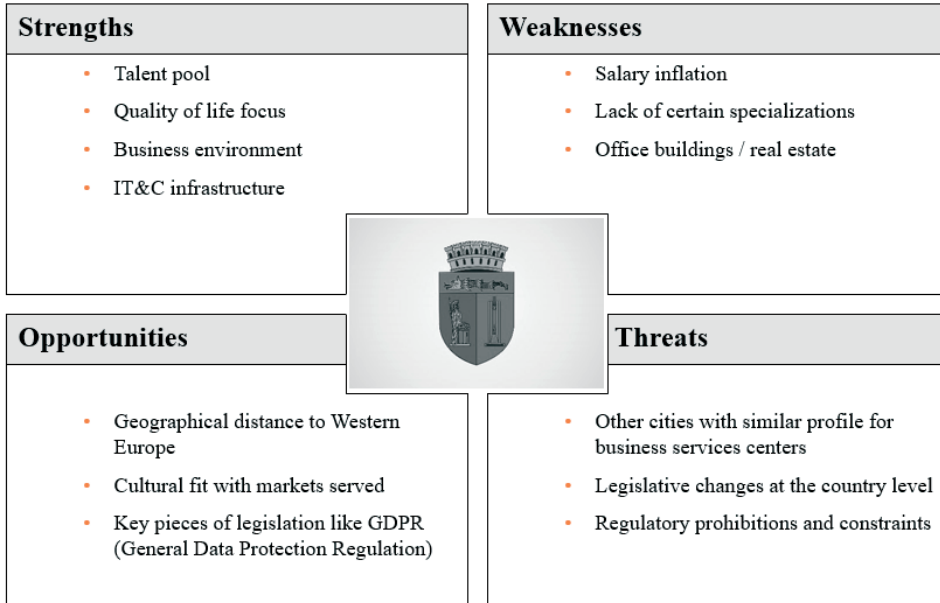


Figure 3: SWOT for Cluj

Source: Author's own compilation

The external factors are listed below, as the case was made so far, the city cannot make much of a difference in rating, as the decision is based on other criteria, hence the ratings are with one exception scored as two (average). This also explains the score of 2.1, close to the average.

The weights have been assigned by the author, but derived from the scientific literature for opportunities and threats and from the survey of companies.

Table 7: Weighting for opportunities and threats

	Weight	Rating	WScore
Opportunities			
Geographical distance to Western Europe	0.10	2	0.20
Cultural fit with markets served	0.20	2	0.40
Key pieces of legislation like GDPR (General Data Protection Regulation)	0.20	2	0.40
Threats			
Other cities with similar profile for business services centers	0.30	3	0.90
Legislative changes at the country level	0.10	2	0.20
Regulatory prohibitions and constraints	0.10	2	0.20
Total	1.00		2.10

The picture is different when it comes to internal factors, where the local policy and development can play a different, more active role. The score above average, close to three, explains the development of this sector so far.

Table 8: Weighting for strengths and weaknesses

	Weight	Rating	WScore
Strengths			
Talent pool	0.25	3	0.75
Quality of life focus	0.20	3	0.60
Business environment	0.05	2	0.10
IT&C infrastructure	0.05	2	0.10
Weaknesses			
Salary inflation	0.25	3	0.75
Lack of certain specializations	0.15	2	0.30
Office buildings/real estate	0.05	1	0.05
Total	1.00		2.65

The strategic options are developed in Table 9.

Table 9: Proposed strategic options

		Strengths	Weaknesses
		S1 Talent pool	W1 Salary inflation
		S2 Quality of life focus	W2 Lack of certain specializations
		S3 Business environment	W3 Office buildings / real estate
		S4 IT&C infrastructure	
Opportunities			
O1	Geographical distance to Western Europe	Position Cluj as the city to be and live in, a place equally attractive for citizens and visitors which can settle here. (S2, O1)	Work with local and international universities to start specializations which are in demand on the market. (W2, O3)
O2	Cultural fit with markets served		
O3	Key pieces of legislation like GDPR (General Data Protection Regulation)		
Threats			
T1	Other cities with similar profile for business services centers	Strengthen Cluj brand as a city to study and live in by increasing the available housing for students at affordable costs. (S1, T1)	Create industrial/office parks via public-private partnerships to increase the office stock on the market. (W3, T1)
T2	Legislative changes at the country level		
T2	Regulatory prohibitions and constraints		

For a company, the typical areas of impact would be around customers, employees, internal processes and financials. In this case, I considered two areas, the resources that would be generated for the companies that offer business services, companies we want to retain and/or attract, as well as the impact on the city. The former is weighted at 55%, while the latter is weighted at 45%.

The resources for companies include three elements – overall availability of (extra) talent, the increase of the quality of skills in the market, and the potential decrease on the cost of doing business in Cluj.

The city would benefit from either more investments or ability for the people employed by these companies to get higher wages. This direction of assessment would ensure that, besides the private actors, public community also benefits, following the concept of macro-quality as mentioned by (Popescu, 2007) – ‘gain for society/community’.

The options considered, starting from the elements with highest WScore in Tables 7 and 8 are:

- Position Cluj as the city to be and live in, a place equally attractive for citizens and visitors which can settle here. (S2, O1) – based on the focus on the quality of life and the fact that Cluj is well positioned geographically both in Romania and Western Europe, one can attract more people to expand the labor pool and enhance S1; especially if attracted from Western Europe, these people would be extremely suitable for business services, due to the ability to speak at a native level the foreign languages.
- Work with local and international universities to start specializations which are in demand on the market. (W2, O3) – as some companies mentioned the lack or limitation of certain skills in the market, these could be started in one of the local universities. Coupled with key legislative changes in EU, it will be less likely that these skills, even if available at lower costs in other locations will be able to be employed for servicing EU companies or subsidiaries of multinational companies. This would again augment the talent pool.
- Strengthen Cluj brand as a city to study and live in by increasing the available housing for students at affordable costs. (S1, T1) – as other cities in the area aim to develop and potentially mimic the development Cluj had, it is quite important to be able to remain the top university city in the area, and keep the same number of students, if not more. Accommodation seems to be a rather big issue for students, so by finding a way to increase the available housing for students at affordable costs, we can boost the number of attracted students. This in turn, would reduce the immediate pressure on salaries (W1).
- Create industrial/office parks via public-private partnerships to increase the office stock on the market. (W3, T1) – same as the previous option, addressing the real estate situation becomes somehow important and while is less the task of a public entity, the public-private partnership can offer a good solution. This would minimize the risk of companies being attracted in other cities (see Oradea), which already did these steps.

The evaluation of the options is presented in Table 10. For each item of impact, a score from 1 (minimal impact) to the total number of options, 4 in this case is given. The same score cannot be given to two options.

Table 10: Strategic options evaluation

		Option A		Option B		Option C		Option D	
		Position Cluj as the city to be and live in, a place equally attractive for citizens and visitors which can settle here.		Work with local and international unversities to start specializations which are in demand on the market.		Strenghten Cluj brand as a city to study and live in by increasing the available housing for students at affordable costs.		Create industrial/office parks via public-private partnerships to increase the office stock on the market.	
Weight		AS	TAS	AS	TAS	AS	TAS	AS	TAS
Resources for companies									
Overall availability of talent	30%	4	1.2	2	0.6	3	0.9	1	0.3
Quality of skills in the market	15%	3	0.45	4	0.6	2	0.3	1	0.15
Cost of doing business in Cluj	10%	2	0.2	1	0.1	3	0.3	4	0.4
Total	55%		1.85		1.3		1.5		0.85
Impact on the city									
More investments in Cluj	20%	2	0.4	3	0.6	1	0.2	4	0.8
Ability to gain higer wages	25%	3	0.75	4	1	2	0.5	1	0.25
Total	45%		1.15		1.6		0.7		1.05
Aggregate TAS			3.0		2.9		2.2		1.9

6. Applicability and future development

While the scoring is subjective and certain adjustments can be made, the top priorities for a public administration willing to support this part of the city profile are around the talent pool enhancement – Options A and B have the highest score, of 3 and 2.9 respectively. From the companies’ point of view, while Option A is still the top, Option C might be more attractive, this is an additional reason for a balancing with the public interest.

Considering the subsections – benefits for companies or benefit for the city – interestingly enough, the two options bring the highest benefits for the city too. This is rather intuitive also, because increasing the key strength and diminishing the key weaknesses would attract more investments, either from the existing companies expanding in Cluj or from new entrants in the market. More competition would then also increase the salaries in the market, while having new specialization would mean the ability to attract higher-value services/processes.

For a development of the present QSPM, companies or public entities looking to apply the QSPM approach for determining the outsourcing strategies can also consult ‘Using QSPM and WASPAS methods for determining outsourcing strategies’ (Lashgari *et al.*, 2014).

While the realities in other cities or areas may differ, following the assessment in this paper would allow to build a similar structured and quantifiable way to assess the strategic options for development and the author hopes it can contribute to more cities in Romania actively working toward the retention and development of key economic sectors.

As difficult it is to scrutinize the future, we know the city had the ability to reinvent itself. The city has a life of its own, because as William Shakespeare said it in *The Tragedy of Coriolanus*, 'What is the city but the people?'. And, if the recent history is an indication, the people are more and more service oriented and ready to continue the development.

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Annex

Questions related to Cluj in the survey

Question	Answers(s)																												
Q1. Based on your experience, in the due diligence process, was the existence of local universities a qualifying factor for the cities you have considered? (Select one option)	<input type="radio"/> Yes <input type="radio"/> No																												
Q2. Based on your experience, in the due diligence process, was the existence of a national/an international airport a qualifying factor for the cities you have considered? (Select one option)	<input type="radio"/> Yes <input type="radio"/> No																												
Q3. Based on your experience, how would you rate the key factors to be considered when selecting a new location for a site/center? Please assign amounts between 0 and 100, total should be 100.	<table style="width: 100%; border-collapse: collapse;"> <tr><td>Availability of foreign languages skills in the talent pool</td><td style="text-align: right;">_____</td></tr> <tr><td>Experienced individuals in the market on the desired processes</td><td style="text-align: right;">_____</td></tr> <tr><td>Potential for cost optimization/lower salary cost base</td><td style="text-align: right;">_____</td></tr> <tr><td>IT & communications infrastructure</td><td style="text-align: right;">_____</td></tr> <tr><td>Accessibility of the city (airport, roads)</td><td style="text-align: right;">_____</td></tr> <tr><td>Real estate availability & quality</td><td style="text-align: right;">_____</td></tr> <tr><td>Business climate and competition</td><td style="text-align: right;">_____</td></tr> <tr><td>City development plans and overall quality of life</td><td style="text-align: right;">_____</td></tr> <tr><td>Other</td><td style="text-align: right;">_____</td></tr> <tr><td>Total</td><td style="text-align: right;">100</td></tr> </table>	Availability of foreign languages skills in the talent pool	_____	Experienced individuals in the market on the desired processes	_____	Potential for cost optimization/lower salary cost base	_____	IT & communications infrastructure	_____	Accessibility of the city (airport, roads)	_____	Real estate availability & quality	_____	Business climate and competition	_____	City development plans and overall quality of life	_____	Other	_____	Total	100								
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City development plans and overall quality of life	_____																												
Other	_____																												
Total	100																												
Q4. Based on your experience, which of the following potential risk factors were considered and assessed?	*(a) Labor law risk (general regulations, hiring & firing, unions involvement) *(b) Financial risk including exchange rate risk *(c) Risk of changing the ease of doing business *(d) Natural disaster risks *(e) Geopolitical risks																												
Q5. Are there other factors, including risk factors, you've considered when conducting the due diligence?	[Free text]																												
Q6. Compared with the initial assumptions, how did the following factors turn out in Cluj-Napoca?	<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 70%;"></th> <th style="width: 10%;">Less than expected</th> <th style="width: 10%;">As expected</th> <th style="width: 10%;">More/better than expected</th> </tr> </thead> <tbody> <tr> <td>*(a) Availability of foreign languages skills in the talent pool (Select one option)</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>*(b) Experienced individuals in the market on the desired processes (Select one option)</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>*(c) Potential for cost optimization/lower salary cost base (Select one option)</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>*(d) Real estate availability & quality (Select one option)</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>*(e) Business climate and competition (Select one option)</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>*(f) City development plans and overall quality of life (Select one option)</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </tbody> </table>		Less than expected	As expected	More/better than expected	*(a) Availability of foreign languages skills in the talent pool (Select one option)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	*(b) Experienced individuals in the market on the desired processes (Select one option)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	*(c) Potential for cost optimization/lower salary cost base (Select one option)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	*(d) Real estate availability & quality (Select one option)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	*(e) Business climate and competition (Select one option)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	*(f) City development plans and overall quality of life (Select one option)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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*(f) City development plans and overall quality of life (Select one option)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>																										
Q7. What were/are the key opportunities for your operation in Cluj-Napoca?	[Free text]																												
Q8. What were/are the key threats for your operation in Cluj-Napoca?	[Free text]																												