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The role of institutional support mechanisms for global IT outsourcing development

Abstract

The purpose of this article is to develop a deeper understanding of government policy regarding global IT outsourcing. The effects of global outsourcing are subjective to the economy of each country and the intention for which the same was undertaken. The development and the formation of a competitive environment of the global outsourcing market in IT business is taking into account the relevant prerequisites, has certain trends and results. The study of these characteristics allowed to establish the form of functioning of this phenomenon at the global level, to outline the significant advantages and problems of this type of business, which in its turn influenced the regulatory policy of states to transform or stabilise its economy. The article identifies the components and structure of institutional support for IT outsourcing development at different levels of management and regulation starting from local to international. The purpose of the article is to systematize and analyze the state of institutional support for the regulation of global outsourcing of IT business in the international market. Problems and tendencies of influence of institutes, their mechanisms and tools are revealed. Methodical approaches to the assessment of economic efficiency are offered. The possible consequences of their imperfection are described. The directions of improvement for the future are substantiated.

Keywords

Institutional support, IT outsourcing, global IT outsourcing development, mechanism, instruments, levels of government, regulation, government support, prospects

JEL: F2, F6**1 Problem statement**

The rapid development of the global outsourcing process in the IT sector provides the growth of government revenues, improvement of financial and economic condition of outsourcing entities and personnel involved in these activities. Successful development and possible reduction in the scale of development in this area largely depend on effective institutional support for regulation, which includes both administrative influence and assistance from the state. Various models of regulation of global outsourcing in the IT sphere have been formed in the world, the countries that have high international positions in this market have a favourable business

climate for this business. Conversely, if an insufficiently favourable model of legal regulation is used, this business cannot develop independently without positive influence, and, sometimes, under conditions of severe administrative intervention by the state regulator. The purpose of this article is to systematize and analyse the state of institutional support for the regulation of global outsourcing of IT business in the international market. Determine motivation for each institutional form of support and define optimal regulation direction based on outsourcing industry effects. The research will be carried out using the method of comparative analysis, the method of system approach, the method of generalization.

2 Analysis of recent researches and publications

The issue of regulating the global outsourcing of IT business in foreign and domestic scientific literature is considered as the adoption of relevant regulations aimed to support legally its development. Institutional support of information technology outsourcing was studied by many domestic and foreign scientists such as G. Duginets, O. Krupa, Y. Garasymchuk, I. Kotlyarov, B. Anikin, V. Kokhan, V. Shvets, A. Blinder, P. Samuelson. However, today in scientific, economic and legal aspects there is no comprehensive study of the basic principles of the legal framework and institutional impact on the global IT business outsourcing process. There are some researches of such scientists as A. Mattuu, J. Bakhvati, S. Clements, J. Lamont, O. Medova, but their research concerns only local areas of regulation.

3 Research results

Outsourcing is the performance by a third-party organization of certain tasks or certain business processes, usually not relevant to the company's business, but, nevertheless, necessary for the full functioning of the business as a way to optimize business activities by focusing on core business and transfer of non-core functions and corporate roles to external specialized companies.

The main purpose of outsourcing is to focus all resources on the activities that are essential to the organization, and to transfer other supporting or related functions to a narrower industry partner.

It is advisable to consider the main advantages and disadvantages of outsourcing, because all the activities have always both its "pros" and "cons", from wanted as "security" and unwanted "risks".

Assigning the functions of one or more subdivisions of the value chain to external partners has a number of strategic advantages [8]:

- 1) allows to receive products, services of the highest quality and more often, much cheaper;
- 2) improves the company's innovation capabilities through partnerships with world-class suppliers;
- 3) allows business to focus on those operations that are effectively performed by the company, and those that it is desirable to keep under their own control;
- 4) provides an opportunity to redistribute resources that were used to carry out certain activities, or to invest them in the support of the main business;
- 5) creates an opportunity to reduce the support staff and attract highly qualified specialists to carry out core activities;
- 6) contributes to better performance of

important functions by specialized enterprises;

- 7) guarantees the reliability of services provided by the outsourcer, through a combination of specialization and experience, thereby reducing the risks of the enterprise.

However, despite many of these benefits, the company risks losing control of strategically important activities and losing some of its own resources, capabilities and profits. Therefore, we highlight a list of shortcomings that affect the opposite policy of the company in relation to IT outsourcing [2]:

- 1) high probability of losing confidential information, especially if the customer is a large company;
- 2) reduction of efficiency of reception of the information necessary for acceptance of administrative decisions;
- 3) reducing the speed of response and decision-making in force majeure situations;
- 4) the possibility of losing control over certain activities, which in combination with the main type, provided the company with success in the consumer market and brought high profitability;
- 5) the outsourcing company may also go bankrupt, then the customer will be forced to use the services of a new outsourcer, and this will lead to additional costs;
- 6) lack of control over the activities of the enterprise or specialists who provide outsourcing services;
- 7) incomplete legal framework and methodology for regulating the outsourcing market.

Based on scientific and analytical researches of the countries who play a huge role in the global IT outsourcing development, we have divided the participants (state level) into two categories, based on their political attitude to outsourcing in the context of organization and integration in international markets [7].

- countries whose business entities delegate non-core tasks, functions in the IT business (USA, EU, Japan, Israel);
- countries whose economic entities take over execution of outsourcing in the IT sector, these are, in particular: India, China, Ukraine, Russia, Poland, etc.

Let's consider the main areas of regulation of global IT business outsourcing in the countries of each of the defined categories.

First, let's analyse the key principles of regulating global IT business outsourcing in the United States. Table 1 presents the scheme of regulation of global IT business outsourcing in the United States, which operates as of December 31, 2019.

The main list of areas of regulation and legal acts which regulate the global outsourcing of IT

TABLE 1 Scheme of global IT outsourcing regulation in the USA, which operates as of 31.12.2019

#	Regulation direction / Legal act	Characteristic
1	General regulation of outsourcing in the country	
1.1	United States Code, North American Industry Classification System (NAICS) 2007	National level of regulation. The North American Industry Classification System (NAICS) 2007 contains a national classifier of US activities, including outsourcing.
1.2	Statistical Recommendations (International Recommendations for Industrial Statistics 2008), ISIC - International Standard Industrial Classification of All Economic Activities Revision 4 United Nations New York 2008	International level of regulation. List of regulations governing the general principles of outsourcing in the state. The International Standard Industrial Classification of All Economic Activities Revision 4 United Nations New York 2008 contains a definition of the nature, legal basis of outsourcing and outsourcing activities in the United States.
2	Government influence on global outsourcing in IT business	
2.1	ISIC - International Standard Industrial Classification of All Economic Activities Revision 4 United Nations New York 2008)	Outsourcing with support function in IT business. Outsourcing with the support function in the IT business involves that the manager manages the main profile process, and a third-party external contractor (including from another country) performs the transferred non-core support functions, including IT services. The contractor belongs to class 6202 (Computer consultancy and computer equipment management activities)
3	Legal Protection of Labour Outsourcing	
3.1	Bill No. S2992 - 2013. Amendments to the General Law of Commercial Companies, Public Finance Law, Obligations, Labour Law and Enforcement Law, approved in connection with the adoption of the "new consumer in New York and labour protection"	The category of "new consumer in New York" refers to the city's businesses that outsource non-core IT responsibilities. The law aims are: 1) preventing personnel outflow (including in the IT sphere) through the reference of local enterprises to purchase services from foreign suppliers, cooperation with which is more profitable than the retention of own staff; 2) the ban on offshore outsourcing due to the threat of unemployment and the need to protect the personal information of American companies abroad. Operates in the USA since 2013, influences reduction of external outsourcing (including in the IT sphere)
3.2	Law A4301-2013 amendments of labour law: public funding prohibition of enterprises that use outsourcing jobs (including IT outsourcing services)	The law aims to protect the economy of Florida, the United States as a whole
4	Promoting cost optimization in the public sector and improving the efficiency of national enterprises	
4.1	Florida Statutes Act, as amended in 2019, Part XIX, Public Business Sector, No. 287.001 Legislative Intent (The 2019 Florida Statutes. Title XIX Public Business Section. 287.001 Legislative intent)	The law aims to ensure that each Florida government agency focuses on its core business, allocates work and services through efficient use of resources, and contracts with private sellers in the sector (including foreign ones) if cooperation with the latter is more profitable than their own. Activity not in the profile direction. The law defines the need to reduce government spending.
4.2	Law 15 USC 01/15/2013 631 ch. 14A "Small Business Assistance", item 631. "Policy Declaration"	The law provides: 1) regular evaluation by the Government and the Senate of the effect of increased outsourcing for small businesses in the United States; 2) assessment of the impact of specific economic policies, including procurement, tax and trade policies, outsourcing and the operation of other international agreements.

Source: completed by the author based on [9, 11, 14, 15]

business in the United States provided above in the schema (which operates as of 31.12.2019) is systematized by:

- 1) the general level of influence on the

development of outsourcing activities in the United States (United States Code, United American Industry Classification System (NAICS 2007)). In particular, it is

determined that at the general legislative level in the United States provides for outsourcing activities, these regulations provide an interpretation of the outsourcing process, and provide a justification for its application.

- 2) government influence on global outsourcing in IT business (International Standard Industrial Classification of International Economic Activities Revision 4 United Nations New York 2008). It is determined that IT outsourcing, as well as outsourcing in general, is a type of economic activity legally permitted in the United States, at the state regulatory level there is an understanding of the nature and directions of its development, the need for its operation by national businesses, government structures of different levels, etc.;
- 3) labour relations in the field of outsourcing (Bill No. S2992 - 2013). The General Business Law, Public Finance, Obligations, Labour Law, and Enforcement Law Act, approved in connection with the New York Consumer Admission and Occupational Safety Act; Law A4301-2013 on the change of labour law in view of the prohibition of public funding of enterprises that use outsourcing jobs (including through the transfer of certain IT services for outsourcing)). The general direction of state regulation of labour law on outsourcing activities in the United States regarding the transfer of non-core powers of execution to foreign entities is, in our opinion, more restrictive, such that it does not approve of priority in favour of external contractors over national ones.
- 4) promoting the optimization of public sector

spending and improving the efficiency of national enterprises, etc. (Florida Statutes, as amended in 2019, Part XIX, Public Business Sector, § 287.001, Legislative Intent, The 2019 Florida Statutes. Title XIX Public Business Section 287.001 Legislative intent, Law 15 USC 01/15/2013 631 Chapter 14A "Assistance to Small Business", § 631. "Policy Declaration"). This direction does not preclude the transfer of certain non-core powers to outsource (including in the IT sphere), but the legislation emphasizes the need to participate only in effective, profitable agreements.

The presented author's systematization allows to identify the state of state regulation of global IT business outsourcing in the USA as a deterrent with elements of stimulating the transfer of certain non-core powers in this area to small businesses (to create a favourable business climate, support small businesses in terms of cheaper services from external suppliers and concentration on own profile activity, etc.), state establishments (for economy of the government expenses for financing of tasks, functions non-core for these establishments).

Secondly, we shall study the main conditions and features of the global IT business regulation outsourcing in the EU. In Table 2 the authors provided a scheme of regulation of global outsourcing of IT business in the EU, which operates as of 31st December, 2019.

Within the framework of the presented scheme it is determined that the regulation of this direction takes place in the EU at two levels, in particular, according to: the general direction of outsourcing regulation in the EU countries (supranational level); on the direction of the impact on global outsourcing in IT business by public authorities of EU member states. In accordance with the

TABLE 2 Scheme of global IT outsourcing regulation in the USA, which operates as of 31.12.2019

#	Direction of regulation / legal act Characteristics	Direction of regulation / legal act Characteristics
1	General regulation of outsourcing in EU countries	
1.1	The Committee of European Banking Supervisors guidelines (CEBS).	Regulated outsourcing relationships at the level of credit institutions in the EU until the expansion of customer entities to a wider range of participants.
1.2	Guidelines for outsourcing arrangements EBA / GL / 2019/02, approved by the European Banking Authority (EBA) from 25.02.2019	<p>List of guidelines and provisions aimed at:</p> <p>1) regulation of outsourcing relationships between institutions, establishments of the EU financial sector and service providers (including IT services);</p> <p>2) establishing requirements for the design of outsourcing relationships between the participants of the partnership.</p> <p>It is determined that the provisions of these recommendations apply to the operation of investment companies, credit sector companies, payment business structures, companies that are issuers and operators of electronic money in the EU, which are focused on the transfer of non-core powers (including IT)) to foreign participants.</p> <p>The list of key provisions of the recommendations (detailed principles) that must be implemented by companies-customers from the EU in the process of transfer of non-core responsibilities, including important IT functions, tasks) presented, in particular:</p>

		1) rules for evaluating all transactions of a technological nature in terms of the possibility of classifying it as outsourcing; 2) establishing critical threats that may arise in case of non-compliance with the deadlines of outsourcers or service quality. Critical threats mean the possibility of obtaining negative and threatening results of the development of customer companies operating in strategic areas that fall under state regulation (security and defence, information, financial and credit, other strategically important sectors of state development).
2	Impact on global outsourcing in IT business by public authorities of EU member states	
2.1	National regulations in the tax, financial and credit, information, labour law domains	Regulation of this area at the national level of EU member states

Source: completed by the authors based on materials [1, 2, 6, 11]

provisions of the legal framework, it is established that EU member states use a liberal system of influencing outsourcing partnerships with elements of administrative regulation to control the conclusion of contractual relations, selection of contractors (especially if they are located outside the EU) (including in the field of global outsourcing in IT business). It is established that the EU legislation does not prohibit outsourcing interaction with foreign implementing partners, but these outsourcing participants (including IT companies from Ukraine) have appropriate requirements, provided for the use of standard audits of the history of the activity, the status of the previous partnership, assessment of a certain list of parameters.

Thirdly, we shall study the main conditions and features of the regulation of global outsourcing of IT business in China (one of the leading countries in the field of non-core powers in the IT sector, whose entities cooperate with the EU, USA, etc.). The table # 3 shows the scheme of regulation of global IT business outsourcing in China, which operates from 31.12.2019.

The scientific novelty of the presented scheme is that for the first time a systematization of aspects of state regulation of global IT business outsourcing in China is proposed, which takes into account the main areas, including the application of regulatory influence to stimulate outsourcing activities of executives (including IT) who deliver orders placed by foreign companies and perform tax incentives in the field of information technology in China. The study showed that China uses a stimulating model of influence on the development of global IT business outsourcing, which provides assistance to improve the functioning of national actors in the industry and is a prerequisite for increasing tax revenues in the country's budget and revenue growth for companies in this area. It's worth mentioning that the chosen policy of state regulation of global IT business outsourcing in China has created successful preconditions for the

effective functioning of this area in the country [4]. It should be noted that the described state regulatory policy in this area corresponds to the main focus of Chinese IT businesses on international integration to fulfil the transferred non-core obligations of customers (residents of other countries, mainly the EU, USA, etc.).

It should be noted that the further international integration of Chinese IT outsourcing entities took place because of measures taken to simplify business activity in this area (largely due to tax incentives) but a possible decline in the future may be associated with the implementation of strict protectionist measures by countries whose subjects transfer non-core powers to external outsourcing (developed EU countries, the United States, etc.).

4 Conclusion

A study of the basic legal framework of state regulation of global IT outsourcing in the United States, EU countries, China was conducted. Based on the study of scientific approaches, the provisions of the legislation schemes for regulating the global outsourcing of IT business, used in these countries were formulated. Models of regulation of this process in these countries are established, in particular, it is determined that: the United States applies a restraining policy on the participation of foreign performers with elements to encourage the transfer of certain non-core powers in this area EU member states apply a liberal system of influencing outsourcing partnerships with elements of administrative regulation to control the conclusion of contractual relations, the choice of contractors; China is implementing a stimulating model of influence on the development of global IT business outsourcing, which includes assistance in improving the functioning of national actors in the industry and is a prerequisite for increasing tax revenues in the country's budget, increasing revenues in this area.

TABLE 3 Regulation scheme of global outsourcing of IT business in China, which operates as of 31st December, 2019

#	Direction of regulation / legal act Characteristics	Direction of regulation / legal act Characteristics
1	<p>Direction of categorization of the IT outsourcing industry with the traditional division by foreign direct investment (FDI) and development promotion.</p> <p>Regulatory and legal source: Provisions of the State Council on the Encouragement of Foreign Investment from October 1, 1986</p>	<p>Within the framework of Provisions of the State Council on the Encouragement of Foreign Investment from October 1, 1986, 4 categories of industries for foreign investors have been established, in particular: industries whose activities are encouraged by the state; industries whose activities are permitted by the state; industries whose activities are limited by the state; industries whose activities are prohibited by the state. In accordance with the norms of the specified normative-legal act, IT outsourcing is included in the structure of branches, the activity of subjects of which is encouraged by the state.</p> <p>In accordance with the norms of this legal document, a standard form of incentive is defined, which is used for FDI in IT outsourcing. It provides:</p> <ol style="list-style-type: none"> 1) exemption of national entities-executors of foreign orders from payment of tariffs for imported equipment. The argument for this incentive is: promoting the development of enterprises that form China's tax revenues; allow national IT companies provide foreign customers with a high level of service. 2) application of tax incentives; 3) simplification of the procedure for registration of enterprises (since March 1, 2016), including for enterprises operating in the global IT outsourcing market)
2	<p>Direction of stimulation of the sphere of information technologies in China. Chinese tax law.</p>	<p>Application of significant tax benefits for the activities of enterprises operating in the field of IT technologies (including for outsourcers who accept foreign service orders) is provided, in particular:</p> <ol style="list-style-type: none"> 1) application of a reduced (zero) VAT rate (for certain types of services in the IT sector). Measure to stimulate entrepreneurial activity in this area; 2) application of a preferential (reduced) income tax rate of 15% compared to the general rate in the country at 25%. Event to promote activities in the IT business; 3) application of exemptions from customs duties accrual and payments to the state budget of China on import of innovative machinery and equipment. <p>Promoting the innovative development of national IT companies in China.</p>

Source: completed by the authors based on materials [4, 6, 9]

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