



Will Ukraine-Russia's Political Turmoil Boost the Region's Outsourcing Economics?

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"We're constantly evaluating the risks" of being in Ukraine, says Andrey Akselrod, COO of Smartling.

By Bianca Wright

Following the downing of the Air Malaysia flight and the subsequent military interventions and conflict between pro-Russian separatists and the government in the Ukraine, concerns about the stability of Ukraine and Russia – and indeed the broader Eastern European region – have grown. Despite a cease-fire in September, **some quarters are reporting** the possibility of renewed conflict. The economic toll has also been significant for the Ukraine and Russia and the IT outsourcing sector, one of the growth areas for Eastern Europe, has not escaped. Just how significant has the impact been, though?

Alexei Miller, Managing Director at **DataArt**, a custom software development partner with locations in the U.S and Europe, cautioned that it has always been important, especially during times of political turmoil, regional conflict and asymmetric media coverage, to separate perception from reality. "News coming from Russia and Ukraine does not look good. Yet for those operating tech-focused businesses in the region, the reality is largely business as usual," he said. "The technology services industry has operated for years in a sort of 'parallel universe' – it is not subsidized by the governments – unlike IT providers in India used to be, it invests in core infrastructure on its own and receives a large portion of its revenue from abroad."

He explained that many of the export-focused service providers have little to no exposure to individuals and companies under sanctions, nor are they dependent on medium and long-term financing instruments that have been curbed. "They have been building resilient infrastructure, including backup satellite Internet links and back-up staff, for years. Short of outright travel bans or severing fundamental financial links with the outside world, there is virtually nothing that would impact their day-to-day operations," Miller said.

Perception Versus Reality

Miller said that perception is something different: "What we at DataArt – and I'm sure many other providers – have found in the last few months, is that while a few potential clients have reviewed or slowed down their purchasing decisions, virtually none of the existing clients have walked away or decreased their business with us."

He added: "An old saying has it that people get married for one reason but stay married for another; in the same way clients hire technology service providers from Eastern Europe for one reason – cost, diversification from India, R&D skills – but keep them engaged for others, such as superb customer care, proactive investment in clients' future needs and true innovation through smart engineering. A few percentage points of cost savings are not worth the headline risk, but a true partnership most definitely is. Thus, those vendors which invest in the intangible aspects of their service will continue to thrive

throughout the ongoing turmoil, while those who operate on pure cost or skill bases will likely see clients flee at the first sign of trouble.”

Dr Ulad Radkevitch, VP of Sales and Business Development at **ScienceSoft**, an established IT outsourcing player in neighboring Belarus, said that when the turmoil in Ukraine started in early 2014 they expected an exodus of clients from Ukraine, which has a large IT outsourcing industry. “As far as we can judge from Belarus, this has not happened,” he said. “However, we did sense a brain drain from Ukraine as computer engineers started to send in their CVs in droves. A number of them have relocated to Belarus, although the inflow of CVs has decreased significantly since the cease-fire in early September.”

In late October, **Bloomberg reported** that the sanctions imposed on Russia were resulting in a brain drain. The report stated: “More people emigrated from Russia in the first eight months of 2014 — 203,659 — than in any full year under Vladimir Putin’s rule, according to the Federal Statistics Service.”

Tomas Turkovic, Outsourcing Director at **Soitron**, said: “From our perspective as a business operating across five central and eastern European countries, there is no brain drain.”

Turkovic cited Gartner and AT Kearney, which both report that the Central and Eastern European region is one of the world’s leading outsourcing and offshore centers currently, and “certainly we see that highly qualified people, both nationals and non-nationals, are basing themselves here because of the increase in demand.”

He added: “As an example, we now see a significant number of expats living in Sofia, Bulgaria because of the booming job market and the attractive job offerings for people to use their language skills, including Italian, Spanish, German and Swedish. HP has invested heavily in Bulgaria and is creating loads of work by moving from West Europe and India to Bulgaria.”

Potential Advantages

Radkevitch added that there might be an effect of political instability on the IT industry in Russia right now – though it might also **play into the industry’s hands**: “We already registered some budget-cutting there. However, there should be a powerful counter-trend, too. As the ruble depreciates rapidly, the Russian IT outsourcing firms working for the West will be able to offer more competitive prices.”

Radkevitch went on to say: “Even more importantly, thanks to the revenue in ‘hard’ currencies, the export-oriented IT industry in Russia will become much more attractive for IT talent currently spread across companies serving the local market as well as working for banks, media companies, and so on. This will benefit the IT outsourcing industry in longer run.”

Andrey Akselrod, COO and cofounder of New York-based translation management software firm **Smartling** and a native of Ukraine, said: “We’re constantly evaluating the risks.”

Akselrod explained: “I’ve talked to many outsourcing companies, and all of them are proud to be in Ukraine. Some of their customers asked them to diversify into other countries for risk management. Poland is a typical suspect, especially with their support for an independent Ukraine.”

multiple European countries and have the ability to shift more operations out of Ukraine if necessary. “Overall, given that most of the money comes from outside the country as a payment for the services provided, the outsourcing industry here remains in a very good shape,” he said.

Understanding the Situation

Akselrod said that many people do not realize the fact that Ukraine is the largest European country, after Russia, and that the conflict currently affects a very small part of the country. “The Ukrainian outsourcing industry is very stable and very resilient, even in the midst of political and geopolitical turmoil,” he said. “The conflict helped **Ukraine define itself** as a country that wants to be independent from Russia and its artificial Soviet Union baggage.”

Smartling continues to invest in its offices in Ukraine. “In fact, we opened a new office in Kiev, in addition to our office in Dnepropetrovsk, this July. This is a good indication of our confidence in the future of Ukraine,” Akselrod said.

Akselrod added that although they are still confident in the Ukraine, they have done business continuity planning in the region. "People can work from home if necessary, and we are ready to help our people to move to eastern Ukraine in case of a significant escalation of conflict with Russia," he said.

Belarus, Radkevitch noted, is benefiting from the situation with strong surges in demand for services from E.U. and U.S. for years. "Sometimes we do get questions from customers about the impact of the events in Russia and Ukraine but this does not seem to be a major concern," he said.

Turkovic explained that Slovakia, where the IT outsourcing industry is very strong and growing, currently employs more than 40,000 employees servicing this market. "With vast government and industry investment in education, the brain drain is no longer an issue, especially across IT outsourcing and shared delivery centers," he said.

Turkovic added: "Here, among the biggest employers in IT outsourcing and shared services all the global players have set up, including AT&T, T-Systems, IBM, HP and Dell – in total employing tens of thousands of employees. The shared services center market has been continually growing for the past 10 years, with a 10% growth in the number of employees in 2014."

Could Nearshore Providers Benefit?

Despite this positive view, there have been some who, for whatever reason, have chosen to relocate from Eastern Europe to the Americas or to expand operations into the Americas. Software development firm Luxoft Holding Inc., which was founded in Russia, **expanded its operations to Guadalajara, Mexico** in August this year.

Akselrod noted that some companies are diversifying to other parts of Europe, but not necessarily the Americas. "This is too big of a step for them to make. Regardless of the conflict, some bigger outsourcing companies do set up development and sales operations in the US. Being in the same time zone has a lot of benefits from the effectiveness and communication standpoint," he said.

The conflict and turmoil is not quite the boon for the Americas **that some anticipated** – and there is no clear mass exodus from Eastern Europe at present – but there is potentially a space for savvy players to leverage concern about the region and to benefit their own interests, whether in the rest of Europe or in the Americas. How things might change if new conflict erupts is unclear.