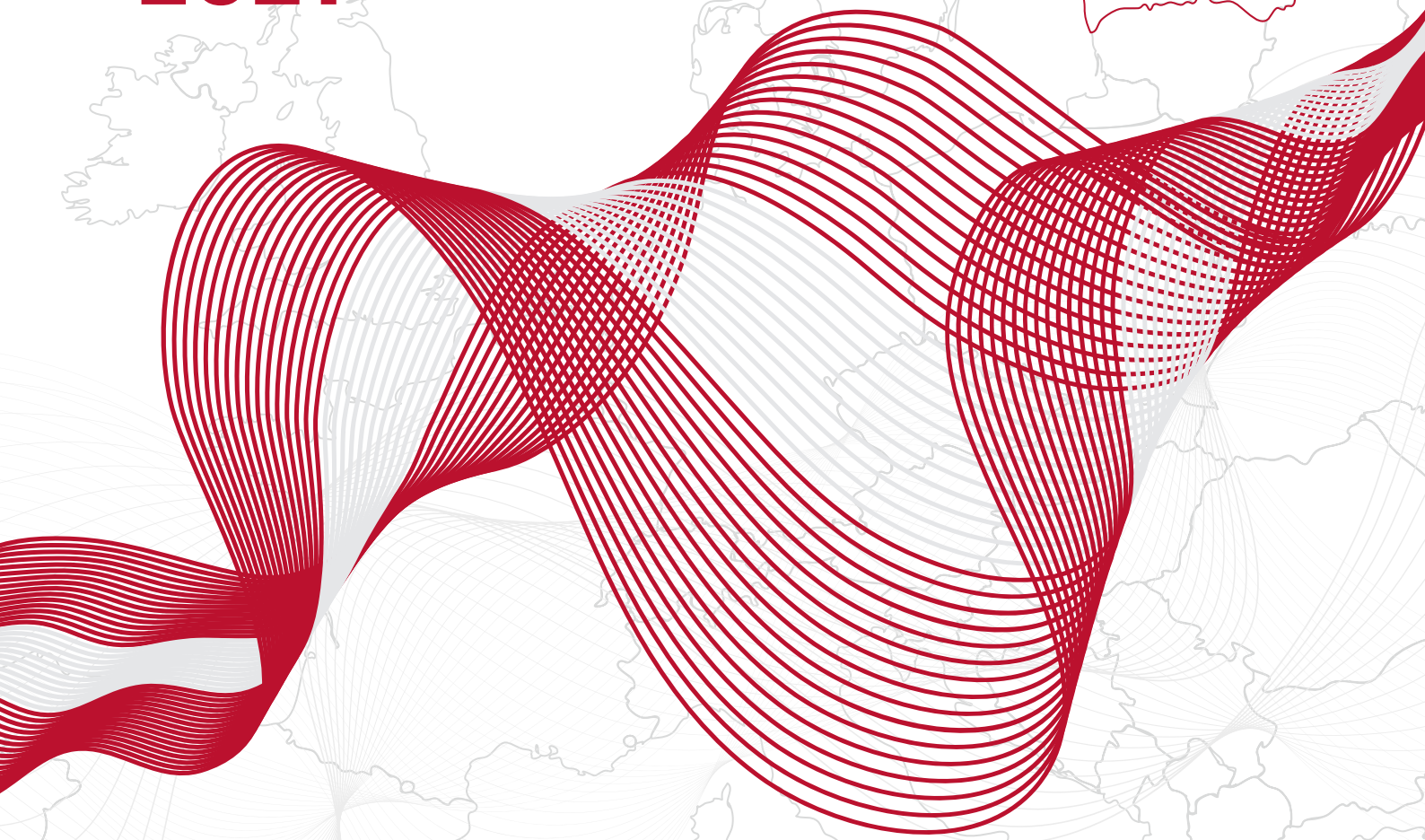


BUSINESS SERVICES SECTOR IN LATVIA 2021



In cooperation with the Investment
and Development Agency of Latvia





Report prepared by the Association of Business Service Leaders in Latvia (ABS L Latvia) in cooperation with the Investment and Development Agency of Latvia, Colliers, Deloitte, ERDA, Fontes and Tilde.



Deloitte.

ERDA
STRATEGIC HR & BRANDING

Fontes.

 LIAA



Interested in cooperating with ABS L?

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€ 29.3 billion

GDP in 2020

LATVIA

1.9 million

Population in 2020

GREEN CHANNEL

twice faster procedures for high priority FDI projects

eID

digital ID for signing documents and remote access to 120+ government services

#1

in the Baltics in innovations (Bloomberg Innovation Index 2021)

#1

in the EU with the largest share of women in management 56% (Eurostat, 2019)

#2

among OECD countries in the International Tax Competitiveness Index (Tax Foundation, 2020)

#4

in the EU in eGovernment Benchmark 2020 (EC, 2020)

FOREWORD



FREDIS BIKOVŠ
Chairperson of the Board,
ABSL Latvia

Dear readers,

Welcome to the 2nd Global Business Services (GBS) sector report in Latvia. While the COVID-19 pandemic that started last year has hit global economies hard, with no exception to Latvia, I am happy to see that the GBS sector has successfully adapted to work and grow within the new environment.

During 2020 ABSL Latvia has become a strong social partner, building a bridge between global businesses, policy makers, and executive bodies. While many parts of the economy struggle due to the COVID-19 pandemic, we see a 7% growth in the GBS sector and the majority of market players expanding their scope of services. Furthermore, a majority of companies have a positive outlook for 2021, planning to increase in scale, service portfolio and geographical coverage.

ABSL Latvia highly values the fact that the Latvian government has acknowledged GBS as a priority sector for Latvia and all the initiatives it's taking to improve the environment for global investors. One of the most recent initiatives is the introduction of the so called "green channel" that will allow

high-priority GBS investors to receive government services, such as the immigration of highly skilled employees to Latvia, much faster than before.

Latvia has great potential for GBS growth in Europe as the market saturation is still lower than in other developed GBS destinations across Europe, and in combination with struggling sectors of the economy, we see an increasing availability of talent. In parallel, ABSL is advocating on behalf of the sector increased government investments in workforce reskilling, improving immigration processes, and other important aspects to make sure GBS companies have a globally competitive talent pool and possibility to grow fast.

On behalf of the ABSL Latvia board, we hope that this report will help to bring awareness, knowledge, and data for your business needs and expansion plans, as well as for potential investors to better understand the diverse GBS sector in Latvia.

I would like to thank all the sector companies and stakeholders that contributed to this report and I trust that you will find it insightful.

ABSL LATVIA – A TRUSTED PARTNER FOR TWO YEARS ALREADY

Although it may seem that the Association of Business Service Leaders in Latvia was only established recently, two wonderful and exciting years have already passed allowing us to celebrate our second anniversary. ABSL Latvia has become a trusted partner for global organisations with business units based in Latvia. All Latvia based BPO, SSC/GBS, IT, and R&D centres can rely on the association's proficiency and passion to improve things in the business

environment and provide a useful knowledge-sharing platform for industry members. Thanks to ABSL Latvia's outstanding strategic partners (Deloitte, ERDA and Colliers International) for staying close and supporting the industry throughout this journey.

2020 was the year when the association clearly defined its goals and main responsibility areas for the first time.

RESPONSIBILITIES OF ABSL LATVIA



Advocacy

Communication with government institutions, OCMA & EU funds



Talents

Collaboration with universities (portfolio of guest lectures)



Awareness

Appearance in public media & participation in public events



Networking

Knowledge sharing events



Information

Releasing annual Business Services report

Behind every individual responsibility there were plenty of actions that took place throughout the year. Not only was 2020 challenging due to the pandemic, but also considering the association had to make its initial steps in developing each responsibility for the first time. By gradually making small improvements and carrying out certain activities, the industry association is able to leave a meaningful impact that serves the business services industry in all of the areas listed above. ABSL Latvia made the decision to keep those five core responsibilities in 2021, strengthening the initiatives that are already bringing definitive value.

In 2020, ABSL Latvia actively raised the question of employee requalification with the support of the Latvian government, outlined the practical and strategic level problems in immigration policies, and stressed the need to think more about the recognition of Riga when it comes to attracting investment. Furthermore, ABSL Latvia organised fourteen knowledge-sharing webinars and in person events, and prepared over nine opinion articles and press releases that were published on dienasbizness.lv, ir.lv, delfi.lv, la.lv, and in printed magazines. Moreover, the association has represented the needs of the industry by participating in twelve

public discussion events – HR Week, discussion festival “Lampa” etc. ABSL is especially proud of building such a strong collaboration with higher education institutions in Latvia by organising industry guest lectures. In 2020, there were more than twenty industry guest lectures held at the Riga Technical University and the RISEBA University of Applied Sciences, and there are plans to significantly expand the list of collaborating universities in the future.

The association is celebrating its 2nd anniversary with fifteen active members and three strategic partners. ABSL Latvia is looking forward to ensuring the GBS community in Latvia is more united than ever and has the strength to stand up for its needs with government officials. Every single business services centre in Latvia is welcome to join the association and contribute in making one of the most powerful business communities in Latvia.

ABSL Latvia Members and Strategic Partners:





BUSINESS SERVICES INDUSTRY IN A NUTSHELL AT THE BEGINNING OF 2021

50 Number of business services centres based in Latvia

15,500 Jobs

7% Average growth in people employed by the sector in 2020 (10% – 2019)

**IT
FINANCE
CUSTOMER
SERVICE**

Most popular business support functions in 2020

44% Headquartered in Scandinavian countries

78% Planning to expand operations in Latvia in 2021

78% Implementing automation & AI solutions, or planning to do it in the near future

52% Providing their services globally; the remaining part serves specific regions or countries

310 Average number of employees per company in 2020 (230 – 2019)



SECTOR CONTRIBUTION TO ECONOMIC GROWTH IN LATVIA

**MORE THAN
195 M
EURO**

Yearly payments into the government budget through payroll taxes

2,000 EURO

Average gross salary

**1,200-1,300
EURO**

Common entry-level salary



HIGHLY SKILLED & MULTILINGUAL TALENTS

52 Higher education institutions

79,000 Students

15,000 Graduates each year

84% Employees of business services centres holding Bachelor's, Master's or Doctor's Degrees; the remaining 15% represent students in their final year of studies. (85% – 2019)

75% Talent employed by BPO, SSC/GBS, IT, and R&D business services centres under the age of 35 (79% – 2019)

8% Employees from foreign countries (7% – 2019)

95% Fluent in at least one foreign language

54% Speak 2+ foreign languages

13% Speak 3+ foreign languages



MARTINS STAKIS
Mayor of Riga

Riga City Council has established the Riga Investment and Tourism Agency, which supports the local investment agency in attracting investors willing to set up operations in Riga. The newly established agency will be a great partner in welcoming investors in the Global Business Services industry and building the appeal of Riga as a city for life and career growth opportunities for high level professionals from third countries.

“In order to achieve a breakthrough in investment attraction, Riga is committed to offering the best service to international businesses in our region. Openness, hospitality, as well as simple and fair rules for investors – these are the main values of the new Investment and Tourism Agency of Riga. As the centre of the region, Riga is an excellent place to invest, thus we are committed to welcoming and giving a helping hand to every investor!”

Martins Stakis (Mayor of Riga)

**CEE BUSINESS SERVICES
AWARDS 2021**



WINNER

Most “Dynamically Developing” City – CEE
Riga

RĪGA

1 OVERVIEW OF THE BUSINESS SERVICES SECTOR IN LATVIA

REPORT CONCEPT AND METHODOLOGY

Twenty-three BPO, SSC/GBS, and ITO centers representing close to half of all business services companies based in Latvia took part in the ABSL survey, allowing the industry association to reveal a comprehensive study about the sector in 2020 and get the latest development perspectives for 2021.

The companies under analysis differ from one another with regard to number of employees, business support functions provided, country of origin, regions served from Latvia, and many other factors. However, these business units from globally represented companies share a list of similarities uniting them under a single sector: Global Business Services (GBS).

Here are the main principles describing the business services sector in Latvia:

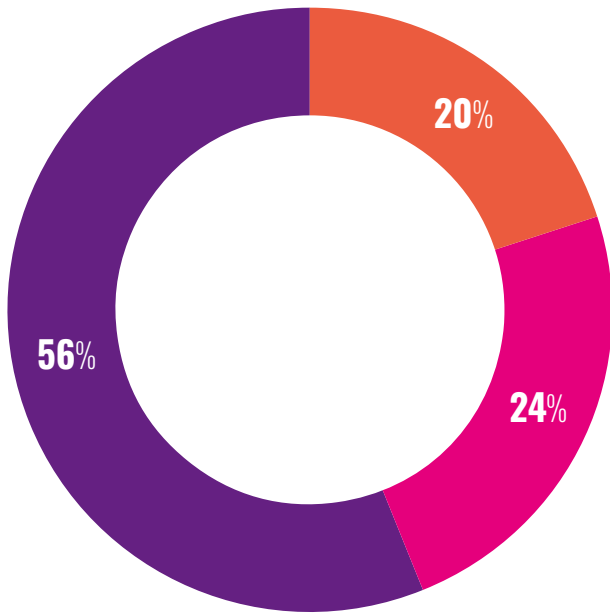
- » The service centre is formed as the separate business unit (delivery centre) of a globally represented organisation in order to provide business support functions to its group's companies or legally unrelated entities.
- » The most frequently served business support functions are IT, finance and accounting, customer service, logistics, procurements, HR, and legal. However, these are only the most popular functions – other specific services may derive from a company's core business, including broadcast services, quality control of chemical products, banking services, etc.
- » At least 50% of turnover should represent the export of business services.
- » More than 50% of company shares should be owned by a foreign entity.

The research features several frequently used terms: Business Process Outsourcing (BPO) refers to a business unit that provides services to a legally unrelated entity, while Shared Service Centre (SSC) represents a company with the main responsibility of supporting a group of companies either regionally or worldwide. ITO companies are those which provide IT solutions and software development services, IT support, and system maintenance services to external customers mainly based outside of Latvia, or those which sell or customise already developed software.

ABSL carried out the research using an online survey tool. The survey included forty-eight questions in different areas such as changes in headcount, skills needed to perform the work, business services provided by industry, future development plans, level of automation and AI, pandemic impact on operations, challenges faced due to remote work, etc. It took approximately ninety minutes for each respondent company to provide all the necessary answers. The association is especially thankful to every single organisation that took a part in the survey – without your involvement, this report wouldn't be possible.

FIGURE 1.1

TYPES OF OPERATING MODELS IN THE LATVIAN BUSINESS SERVICES SECTOR, 2020

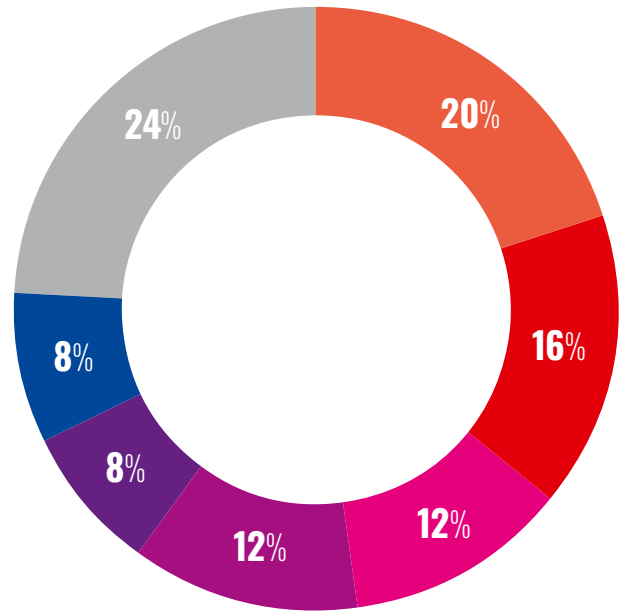


- Commercial provider / outsourcing center
- Hybrid model (both internal and external clients)
- Internal unit / captive center

The types of operating models in the business services sector illustrate a similar situation with data collected in 2019. More than half of the companies participating in the survey are captive centres only providing services to group of companies worldwide, while 24% of responding organisations claim to be associated with a hybrid model, which means that they have their captive units and outsourcing services combined under one legal entity in Latvia. A final significant set of respondents (20%) call themselves pure outsourcing services providers.

FIGURE 1.2

COUNTRIES OF ORIGIN OF BUSINESS SERVICES CENTRES BASED IN LATVIA, 2020



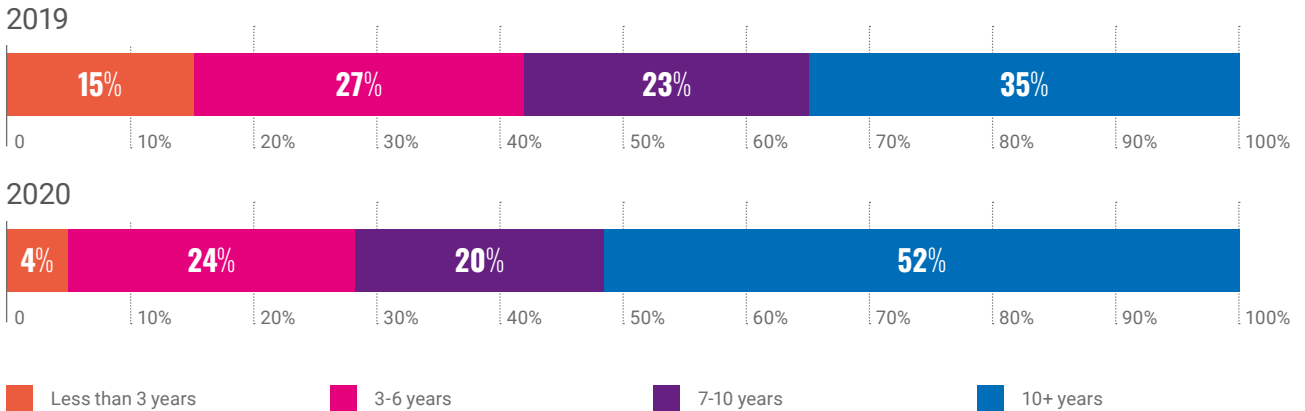
- Sweden
- Norway
- USA
- Germany
- Switzerland
- Finland
- Other

Compared to last year’s data, the pie chart shows slight changes due to a few merger and acquisition cases in the industry. One of the well-known merger cases was EVRY joining Tieto, thus becoming one united company named TietoEVRY within its country of origin – Finland. According to companies under review, 44% of the industry originates from Scandinavian countries. This can be explained by the geographical proximity, similar time zones, frequent direct flights, and cultural similarities. However, if the whole Latvian business services industry had been included, then it is likely that more than half of the sector would claim to originate directly from Scandinavia.

Overview of the business services sector in Latvia

FIGURE 1.3

LENGTH OF TIME THAT BUSINESS SERVICES CENTRES HAVE HAD THEIR OPERATIONS IN LATVIA

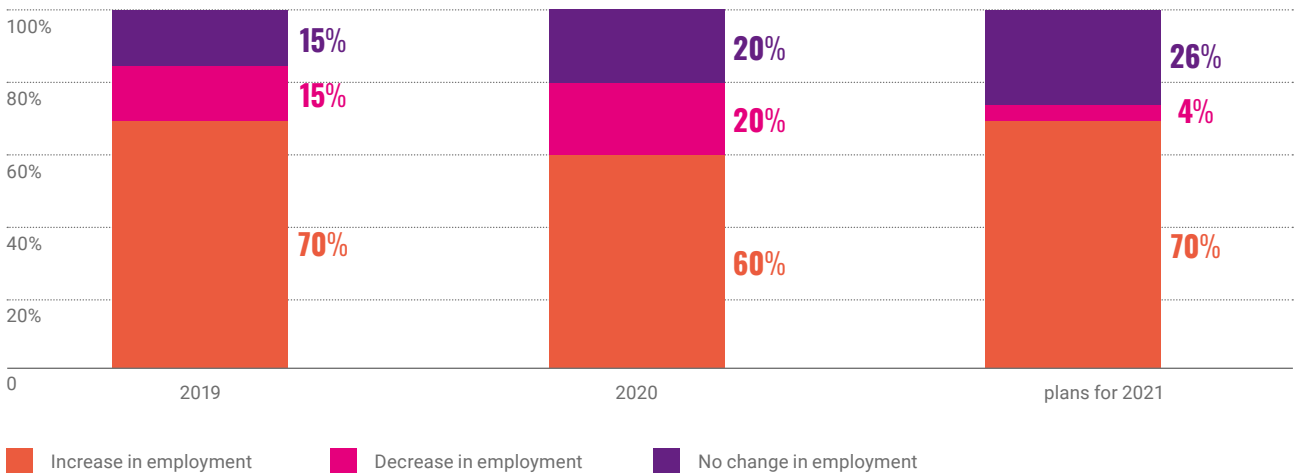


The majority of BPO, SSC/GBS, and IT organisations under review are more than ten years old. The first business centres came into Latvia back in 1994. During last five years new industry members such as Webhelp, CCC Riga Digital Services, and Cognizant have set up their operations in Latvia. 2020 has not just been a challenging year, but also a successful one with industry entrants like Swisscom DevOps Center Latvia, Norwegian Air Resources Latvia, Prime

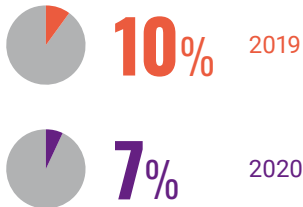
Force, and Q.BEYOND. Nevertheless, the majority of newcomers in 2020 are not represented in this study. The graph above shows that with every year the industry is maturing, growing its functions and responsibilities, and strengthening its role on a global scale. These companies have strong roots in Latvia and they serve as proof that Latvia can offer the right mix of talent and well-developed business environment for industry growth.

FIGURE 1.4

CHANGES IN HEADCOUNT IN 2019/2020/2021 FACED BY INDUSTRY



Average growth in people employed by the sector in general



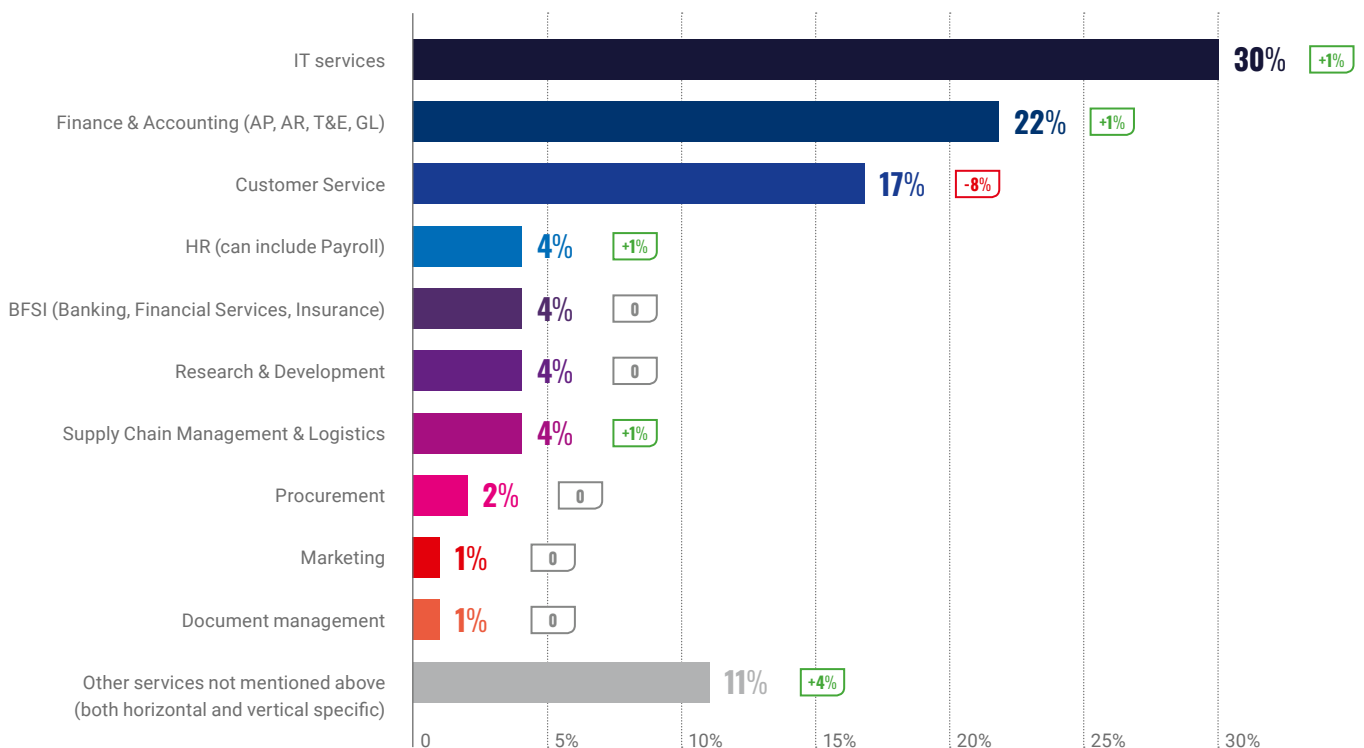
The bar chart illustrates the impact of COVID-19 on people employed by the industry in 2020. Although the average growth of people employed by the industry stays positive at 7% (the forecast was 10% at the beginning of 2020), in reality there were less companies able to increase their levels of employment and a growing part of the industry was forced to decrease employment levels. Nevertheless, the employment plans

for 2021 are showing that industry has coped well with the crises and is on track with its plans for development.

When it comes to the expansion strategy of opening an office elsewhere in Latvia, the collected data shows no significant changes. Companies are still quite cautious about making such decisions and plan to keep their operations mainly in Riga. A promising sign is that Webhelp Latvia recently opened its client service centre in Daugavpils (a city in south-eastern Latvia, located on the banks of the Daugava River), where the company already has 200 employees and plans to significantly increase their headcount in future. Considering the pandemic has promoted working from home, all employees are now well trained to work from elsewhere. This may encourage a growing number of companies to look for talent in other Latvian cities and offer the possibility to work remotely, which therefore minimises the need to open a separate unit in other regions.

FIGURE 1.5

STRUCTURE OF EMPLOYMENT BY BUSINESS FUNCTIONS, 2020



0 -1% +1% The percentages shown separately indicate the changes compared to data collected in 2019

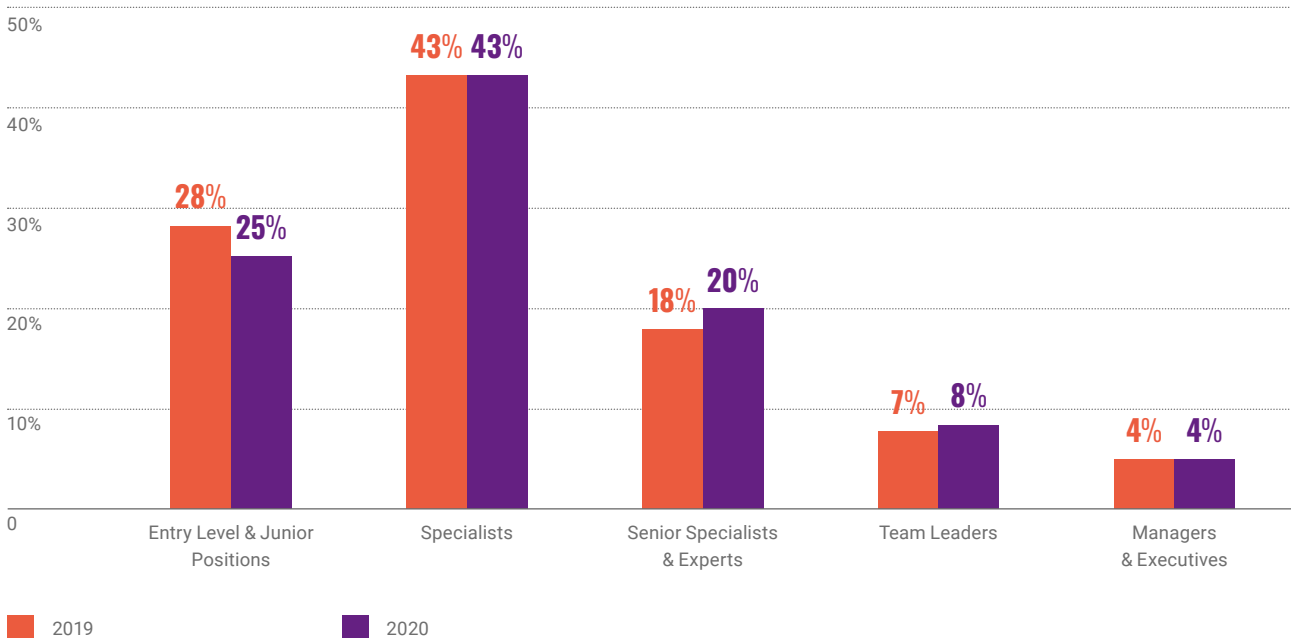
Overview of the business services sector in Latvia

As with last year's results, the top three most popular business functions stay the same – IT, finance and accounting, and customer service. The number of people employed in customer service has dropped significantly, by 8%, since the pandemic has limited overall business activity and thereby directly affected

the number of people needed to serve clients. Another interesting finding is that the number of people employed in other (non-typical) services is growing remarkably. This is a positive sign showing that companies' headquarters are giving additional functions and more responsibilities to business centres based in Latvia.

FIGURE 1.6

EMPLOYMENT STRUCTURE BY CATEGORIES OF POSITION

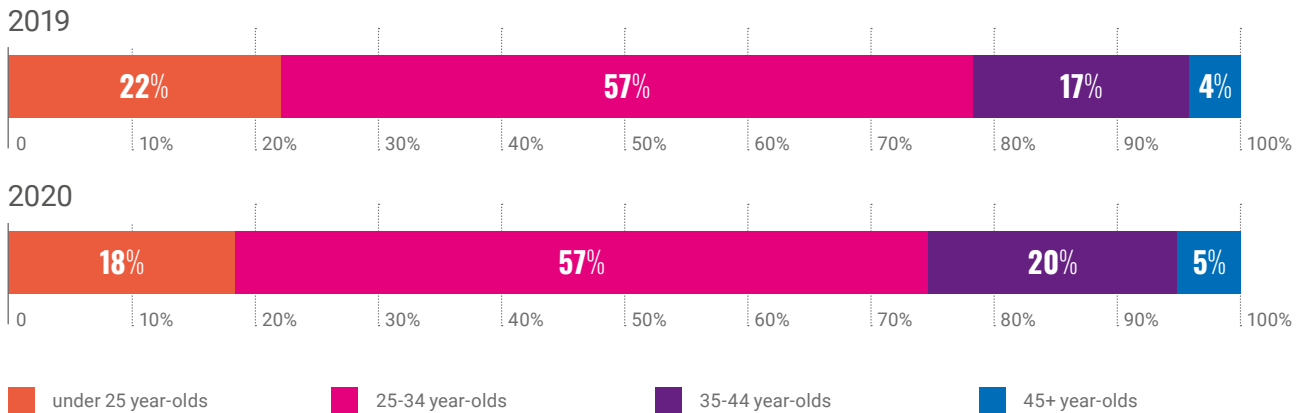


The bar chart illustrates that the industry is starting to employ slightly more senior level specialists compared to juniors. The overall percentage of people employed in junior/entry level positions has decreased by 3%, while at the same time the percentage of people employed in Senior Specialist positions and as Team Leaders has slightly climbed by 3%.

Although the changes are minimal, this may bring positive changes in the future, indicating that BPO, SSC/GBS, and ITO centers as a separate industry in Latvia is becoming more mature, servicing higher value-added tasks and thus recruiting and employing a growing number of senior level professionals.

FIGURE 1.7

STRUCTURE OF EMPLOYMENT IN SECTOR COMPANIES BY AGE GROUP

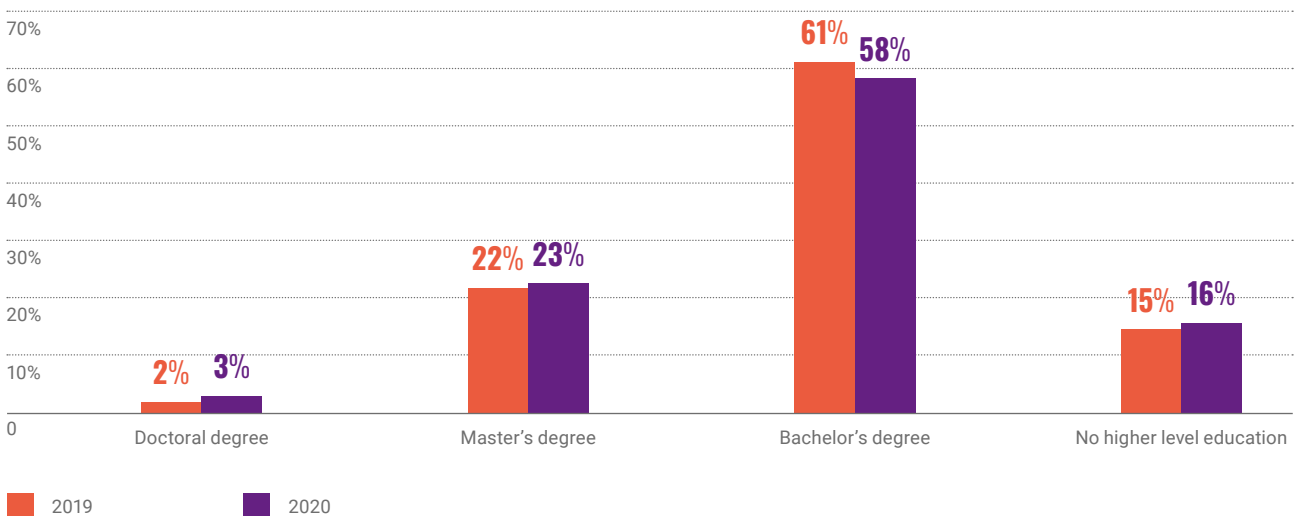


The slight variation in age groups corresponds to the previously observed employment structure by the categories of position. The bar chart illustrates a minor change towards more mature employees who already have years of experience and thus also represent the more senior age groups. The number of people aged under 25 and employed by the industry has declined by 4% in 2020 compared to data collected

in 2019. Moreover, a pool of employees representing age groups 35-44 and 45+, has increased by 4% in total. Nevertheless, the overall data shows that the industry is highly sought after by millennials and there are still challenges to encourage professionals representing the 45+ age group to take the opportunities provided by business centres based in Latvia.

FIGURE 1.8

STRUCTURE OF EMPLOYMENT ACCORDING TO HIGHEST LEVEL OF EDUCATION



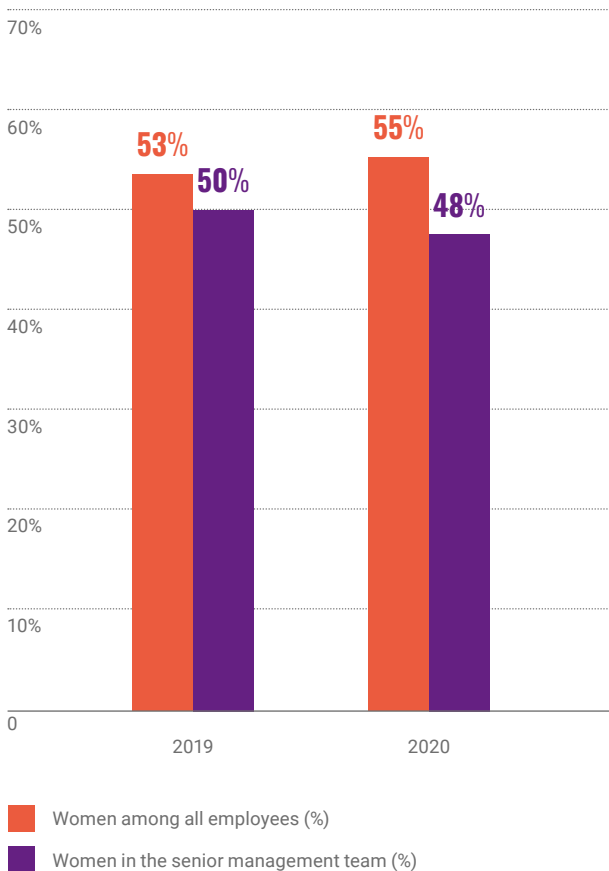
Overview of the business services sector in Latvia

The absolute majority of professionals employed by the sector are holding at least a bachelor's degree, which is considered a "must-have", followed by excellent English language skills and well-developed digital competencies to apply to open

job positions. Nevertheless, there are a few companies in the industry that also recruit final year students, which explains why 15-16% of employees are still without higher education diplomas.

FIGURE 1.9

PROPORTION OF WOMEN IN THE STRUCTURE OF EMPLOYMENT



The question of women in managerial positions has been a hot topic for the last few years across different industries and organisations worldwide. A good balance of men and women can be observed in the Latvian Global Business Services industry. There has been a slight, and at the same time insignificant, change in the balance of men and women employed by the industry in 2020 compared to 2019.

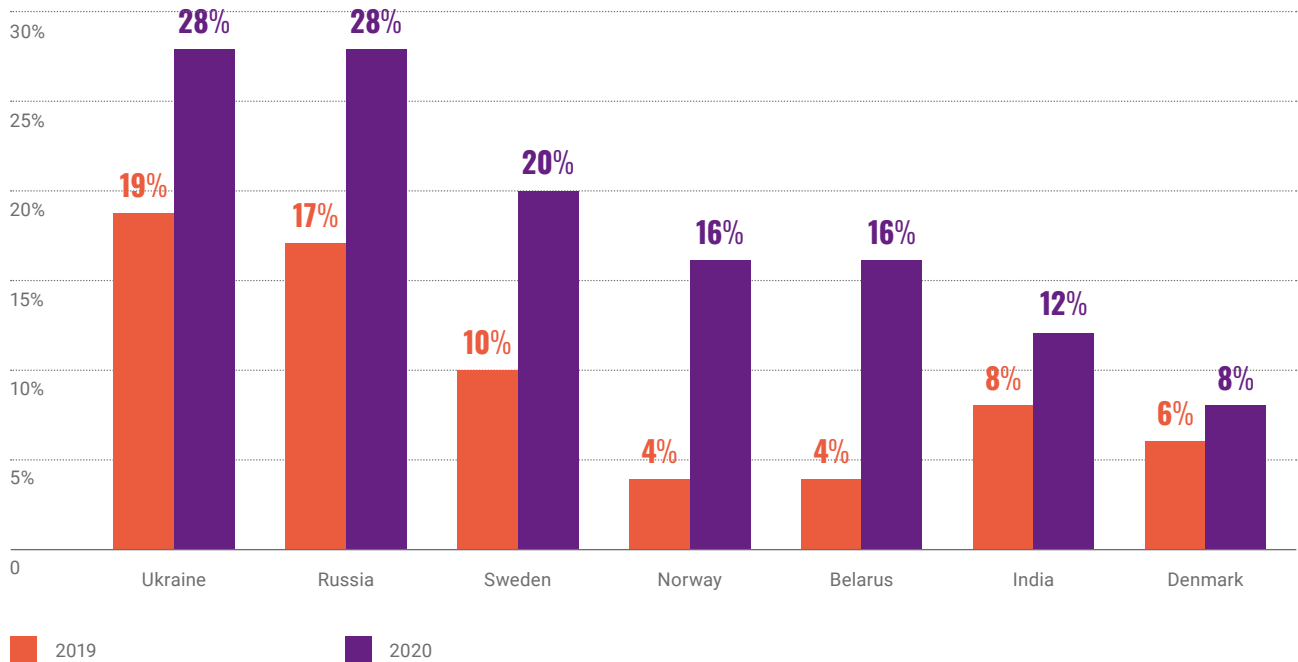
According to Eurostat data only one manager out of three in Europe is a woman and there are even less in senior management positions. In the EU, 18% of senior executive positions are held by women on average, while in Latvia 29% of senior management positions are occupied by women. Latvia has shown excellent results in providing similar rights to reach managerial positions to both men and women. Moreover, the business services industry in Latvia is a leader in this area with close to half of all high level positions represented by women.¹

¹ Eurostat, (2019)

https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/3-06032020-AP-EN.pdf/763901be-81b7-ecd6-534e-8a2b83e82934

FIGURE 1.10

COUNTRIES OF ORIGIN OF FOREIGNERS EMPLOYED BY THE BUSINESS SERVICES INDUSTRY



Proportion of foreigners employed by the business services industry



The top three countries of origin of foreigners employed by the business services industry in Latvia are Ukraine, Russia, and Sweden. Nevertheless, the bar chart shows a sharp growth in foreigners representing almost all countries listed. Considering the political situation in Belarus, it is clear why a growing number of Belarussians are interested in finding opportunities to work and live in Europe.

When it comes to the percentage of foreign employees working for industry organisations in Latvia, there

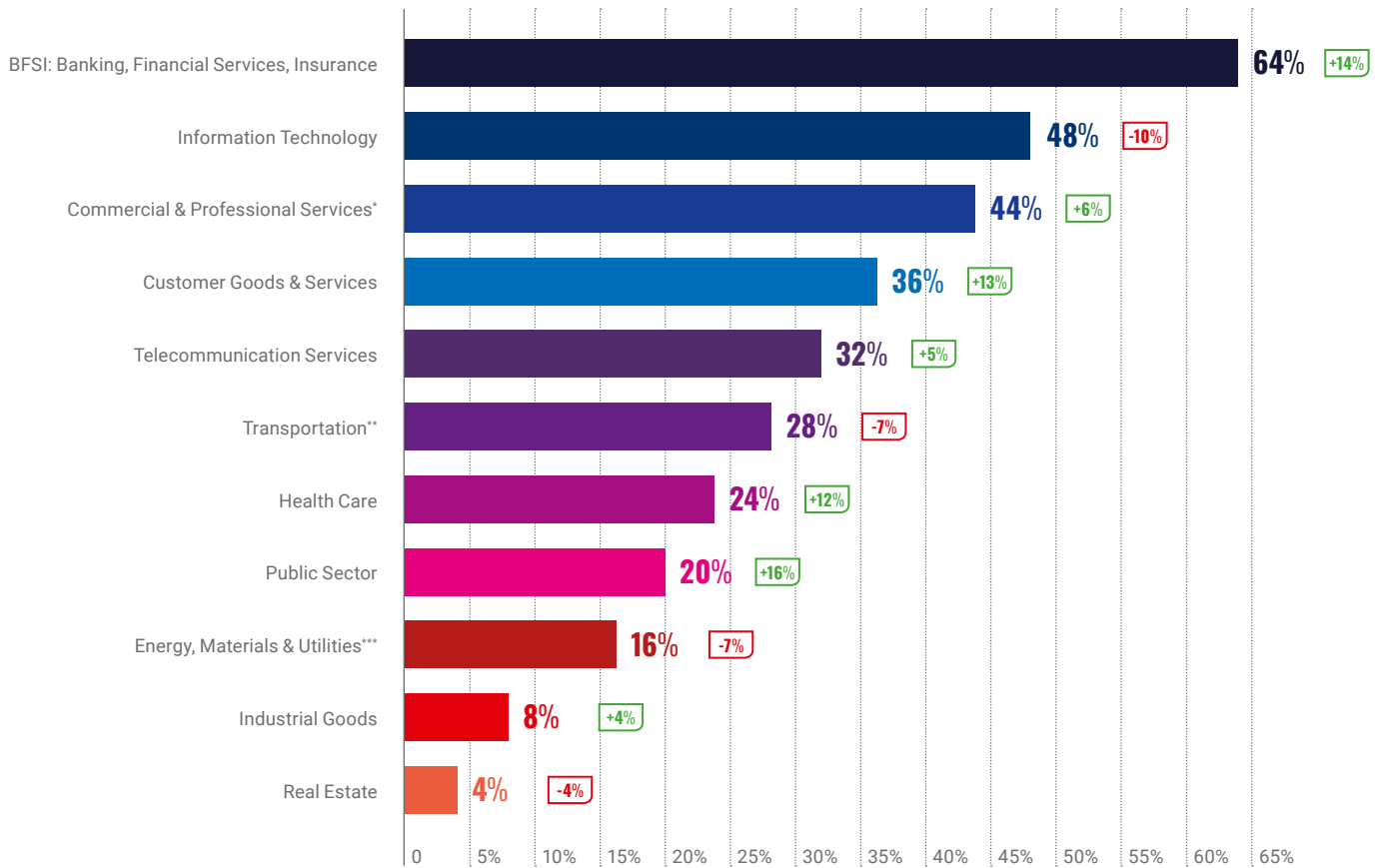
has been a growth of 1%. Nevertheless, there is hope that in future more organisations will start to recruit high-level professionals from other countries since the Investment and Development Agency of Latvia has recently introduced the “green channel” principle which aims to significantly speed-up the process of acquiring work permits and EU Blue Cards for high-level professionals coming from third countries.

Further, ABSL Latvia has ongoing discussions with the local Office of Citizenship and Migration Affairs towards minimising the bureaucratic requirements throughout the process of acquiring EU Blue Cards and work permits.

In addition, the newly established Riga Investment and Tourism Agency under the Riga City Municipality aims to popularise Riga as a promising and suitable location for foreign experts that are interested in building a career in Europe. We hope that the proactive work carried out by the newly launched Riga Investment and Tourism Agency will already bring its first results in attracting more professionals from abroad in 2021.

FIGURE 1.11

BUSINESS SECTORS THAT BPO, SSC/GBS, ITO CENTERS SERVICE FROM LATVIA, 2020



* i.e. Business Support Services, HR Services, Legal Services, Research & Consulting Services

** i.e. Airlines, Logistics

*** i.e. Oil & Gas, Chemicals, Paper & Forest Products, Metals & Mining

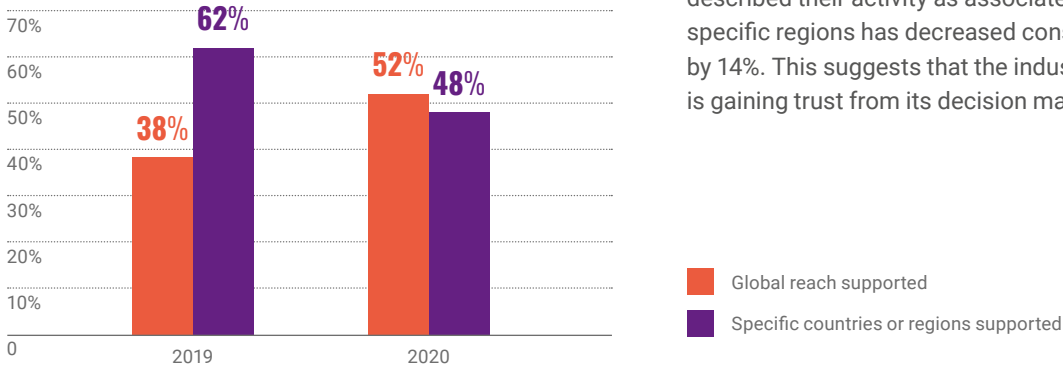
0 -1% +1% The percentages shown separately indicate the changes compared to data collected in 2019

It is surprising that compared to last year's data, within the top three most serviced sectors by industry organisations, *Banking and Insurance Related Services* have become the most serviced industry. This can be explained by the fact that there are several

shared banking service centres, and a list of ITOs and BPOs, that are actively working with banking sector. The bar chart also illustrates other interesting changes, but those may be explained by the impact the pandemic has had on client portfolios.

FIGURE 1.12

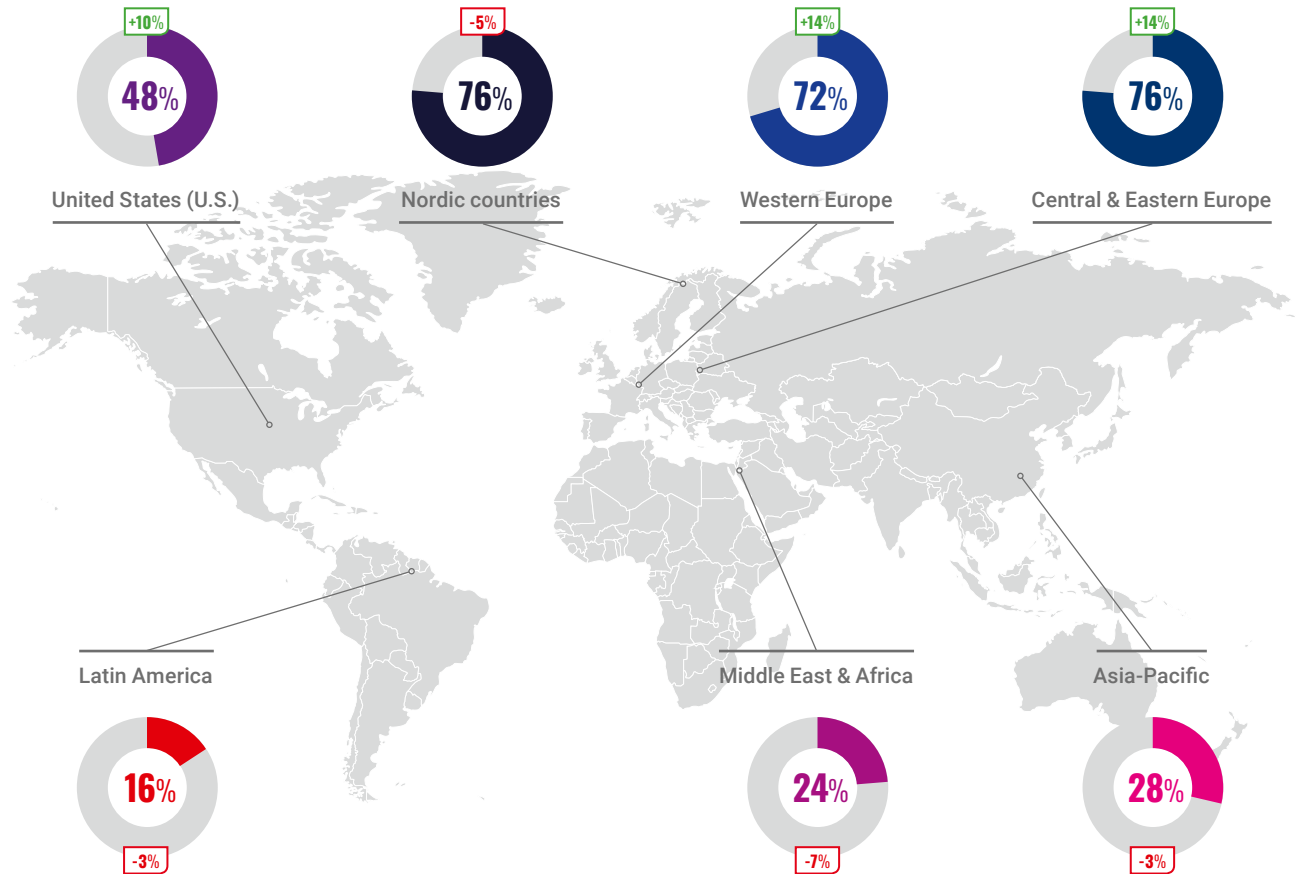
GEOGRAPHICAL PROFILE OF THE ACTIVITY OF BUSINESS SERVICES CENTRES BASED IN LATVIA



An increasing number of companies under review have been successful in convincing their headquarters to take on new regions and geographic areas, thus increasing the global reach of organisations in Latvia. Also, the number of organisations that described their activity as associated with servicing specific regions has decreased considerably, by 14%. This suggests that the industry in Latvia is gaining trust from its decision makers.

FIGURE 1.13

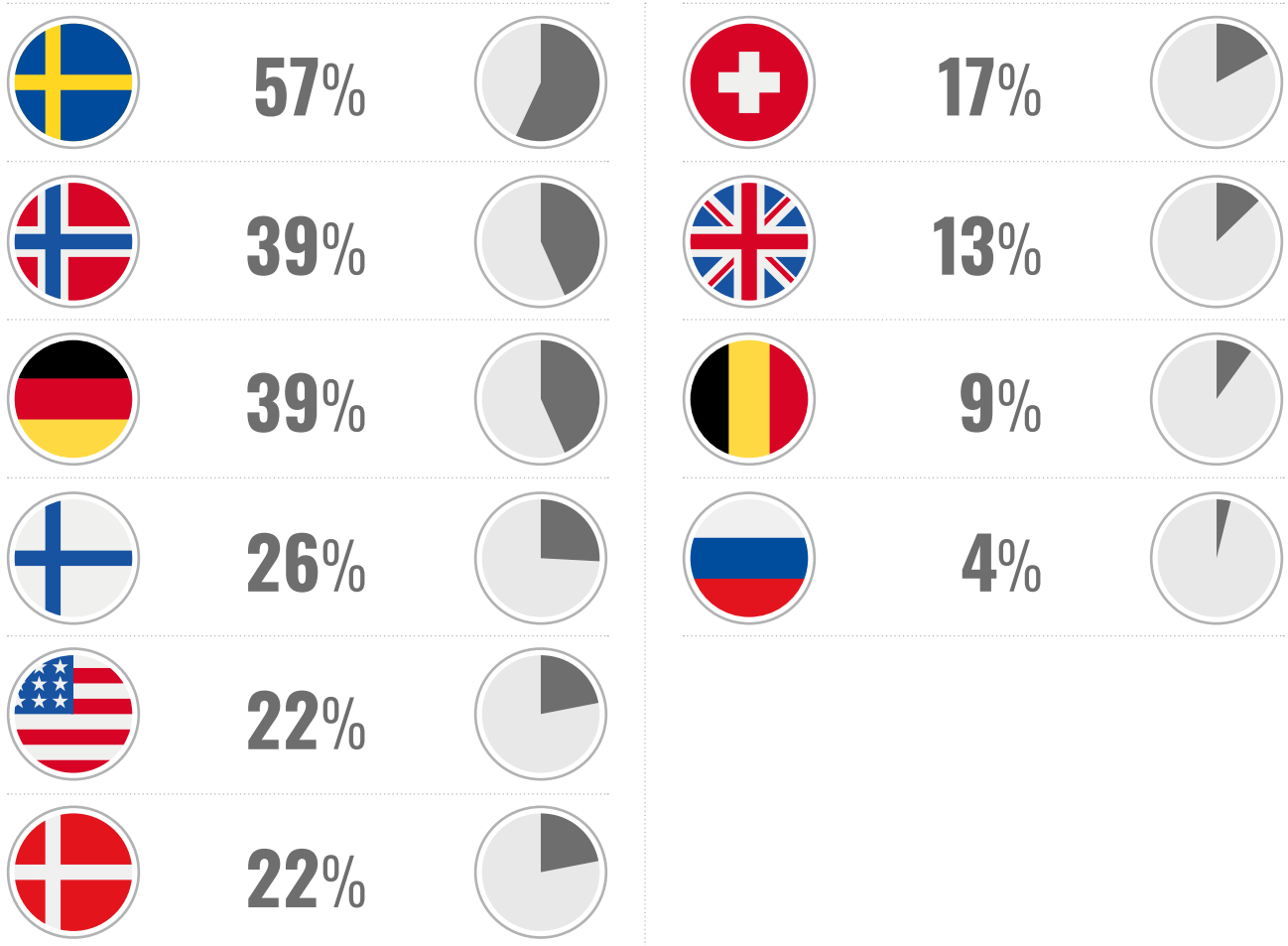
GEOGRAPHICAL RANGE OF BUSINESS SERVICES PROVIDED FROM LATVIA, 2020



0 -1% +1% The percentages shown separately indicate the changes compared to data collected in 2019

FIGURE 1.14

THE MOST POPULAR COUNTRIES SERVICED BY THE BUSINESS SERVICES INDUSTRY FROM LATVIA

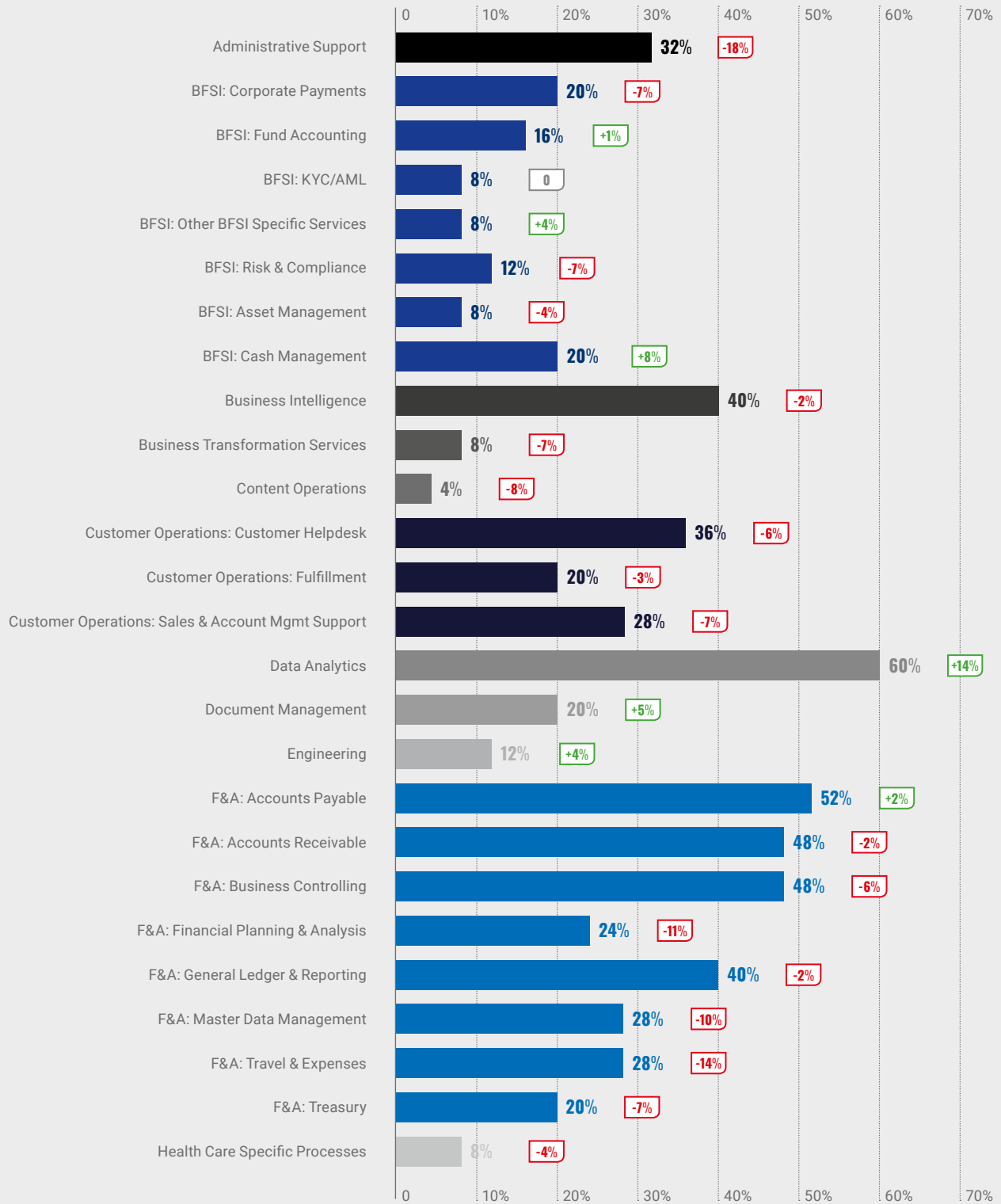


Even though there are certain changes in the structure of the most serviced geographical regions, the top three most frequently serviced areas by the industry have stayed the same – Nordic countries, Central & Eastern Europe, and Western Europe. Compared to the situation in 2019, there has been a significant rise in companies that are working with Europe as well as the USA. The less serviced territories in 2020 have become the exotic

regions such as Asia-Pacific, Middle East & Africa, and Latin America. The study shows that the industry is getting the majority of its responsibilities in Europe and the United States, and has less presence in other parts of the world. According to the data collected, the top three countries serviced by the industry from Latvia are Sweden, Norway, and Germany.

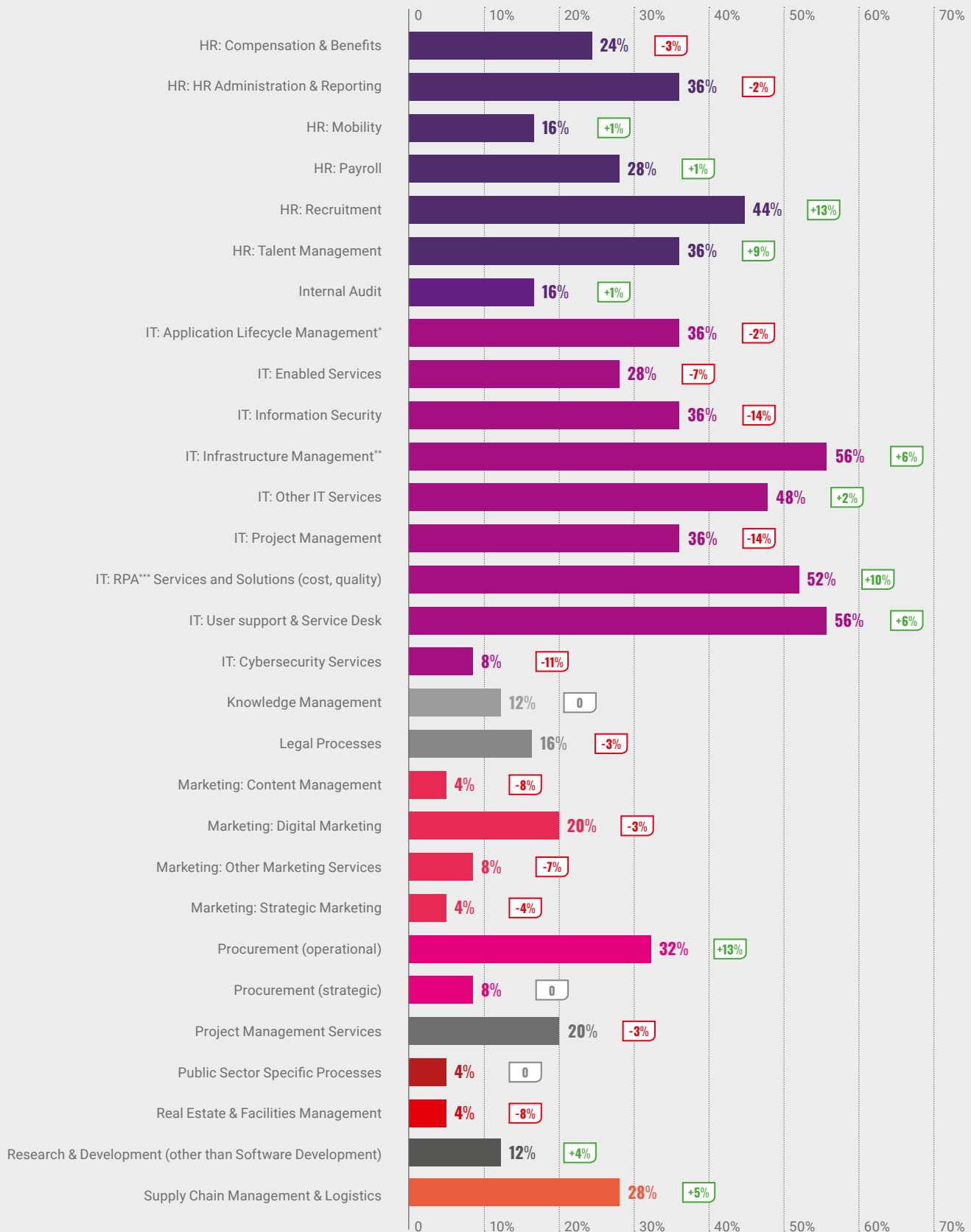
FIGURE 1.15

PROFESSIONAL BUSINESS SERVICES PROVIDED BY INDUSTRY COMPANIES UNDER ANALYSIS, 2020



0 -1% +1% The percentages shown separately indicate the changes compared to data collected in 2019

Overview of the business services sector in Latvia



* incl. Software Development

** incl. Cloud Services

*** Robotic Process Automation



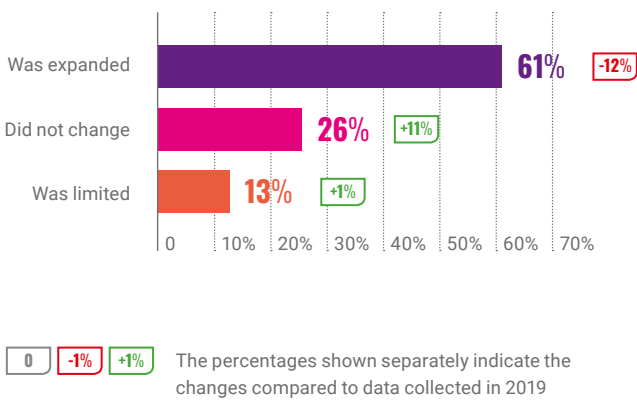
The percentages shown separately indicate the changes compared to data collected in 2019

There are a number of new business functions that have been launched in several business centres in 2020 alone: Data Analytics (14% growth), Procurement – operational (13% growth), HR Recruitment (10% growth), IT: Robotic Process Automation (RPA) Services and Solutions (10% growth), HR Talent Management (10% growth).

Conversely, there are also several business functions that have been limited in 2020 – Administrative Support (18% decrease), IT Project Management (14% decrease), surprisingly also IT Information security (14% decrease), F&A Travel Expenses (14% decrease), F&A Financial Planning / Analysis (11% decrease).

FIGURE 1.16

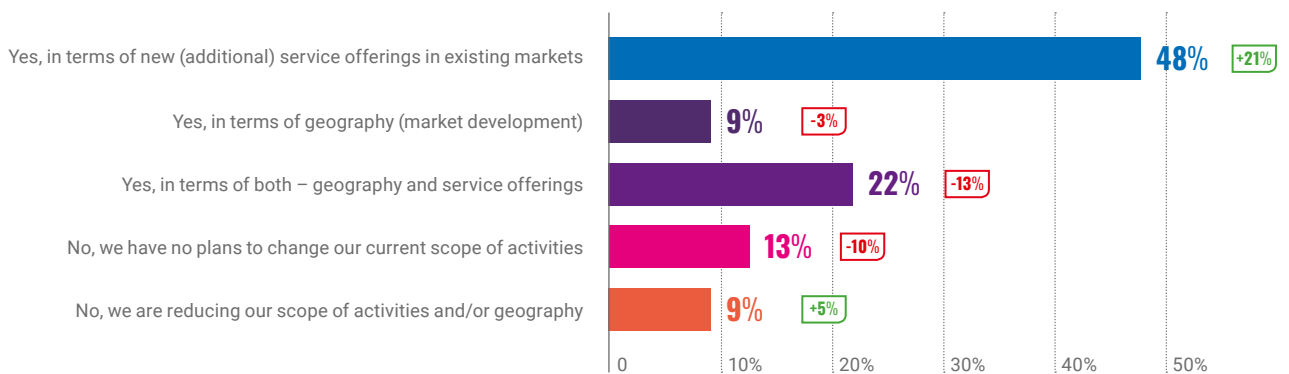
THE CHANGES IN SCOPE OF SERVICES PROVIDED BY ORGANISATIONS, 2020



In spite of the fact that 2020 was an extraordinarily challenging year, bringing a number of cost reduction requirements and possible limitation of services, the business services industry in Latvia has managed to stay in a relatively stable position. It is clear that the number of organisations that were expanding their operations in 2020 had slowed down compared to the situation in 2019, but nevertheless, the industry remained strong and capable to keep the previously developed operations and geographic regions that they had before the pandemic. Surprisingly, the number of organisations that had to limit their operations in Latvia has only grown by 1% in 2020.

FIGURE 1.17

PLANS TO EXPAND THE SCOPE OF ACTIVITIES OVER THE NEXT 12 MONTHS*



* data provided in the beginning of 2021

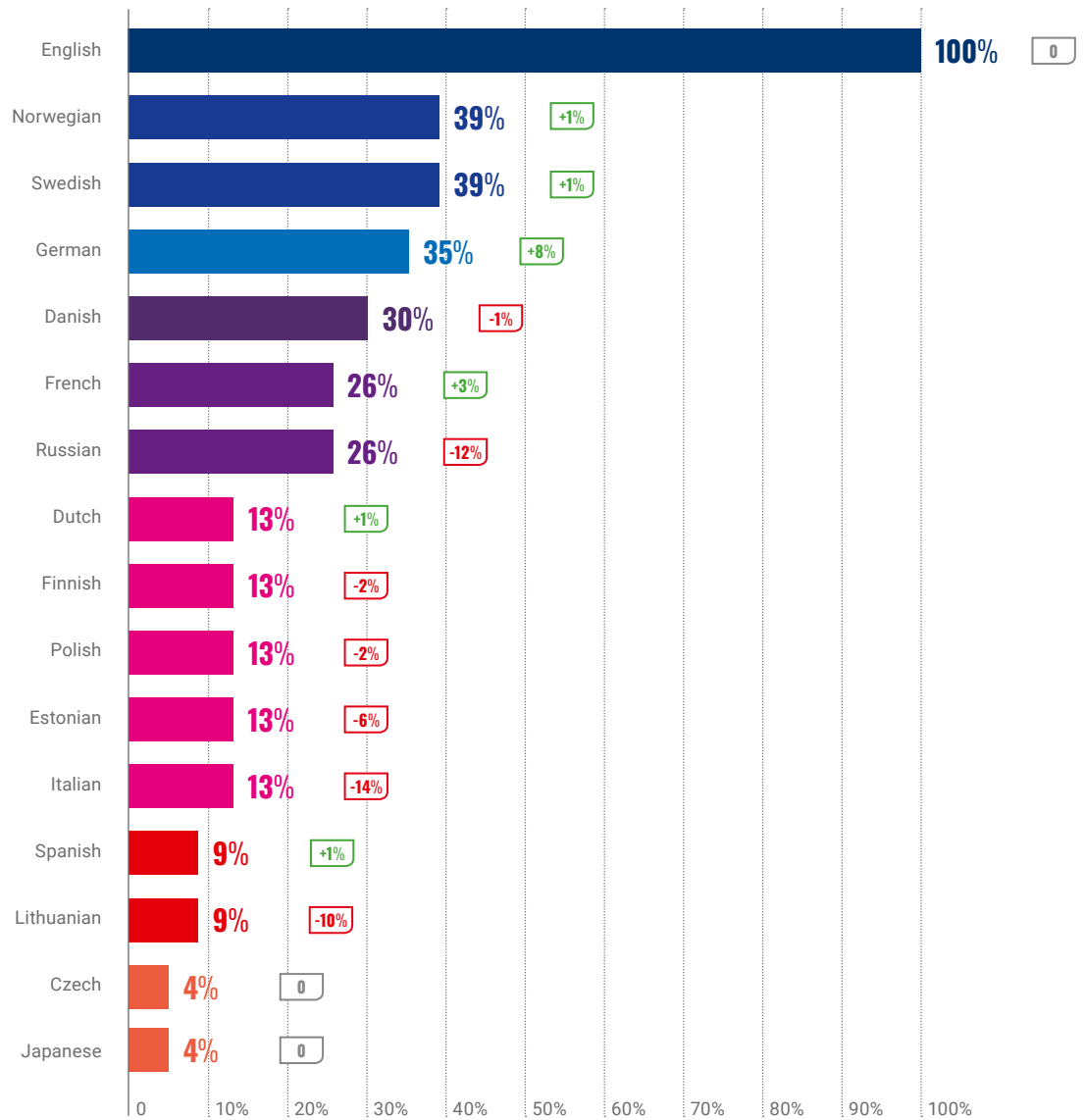
The percentages shown separately indicate the changes compared to data collected in the beginning of 2020

Almost 80% of organisations under review are planning to expand their operations in 2021, either by taking on new services, or serving new geographic regions, or both. Despite the economic impact of the crisis

all over the world, organisations are more likely to have a positive outlook regarding the opportunity to expand their operations in Latvia compared to data collected last year, shortly before the pandemic hit the country.

FIGURE 1.18

FOREIGN LANGUAGES USED BY THE INDUSTRY TO SERVE CUSTOMERS, 2020



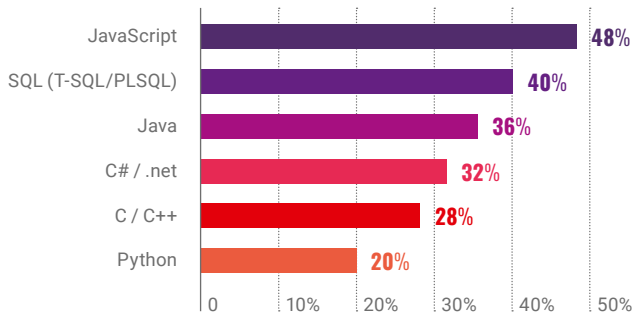
0 -1% +1% The percentages shown separately indicate the changes compared to data collected in 2019

In the industry, English language skills are not considered to be a competitive advantage when applying for one or another position, it's considered "a must have". According to the data collected from the organisations under review, English language is 100% required for all employees. Even if the person doesn't need to work or communicate with customers, all internal information is also held in English.

Scandinavian languages have always been highly sought after by many business centres based in Latvia. This comes as a result of the fact that approximately half of the industry originates from Sweden, Norway, Finland, or Denmark, where a significant part of their core business activities also take place. ABSL Latvia continues to offer support by providing access to the European Regional Development Funding program, which covers up to 70% of Scandinavian language training costs.

FIGURE 1.19

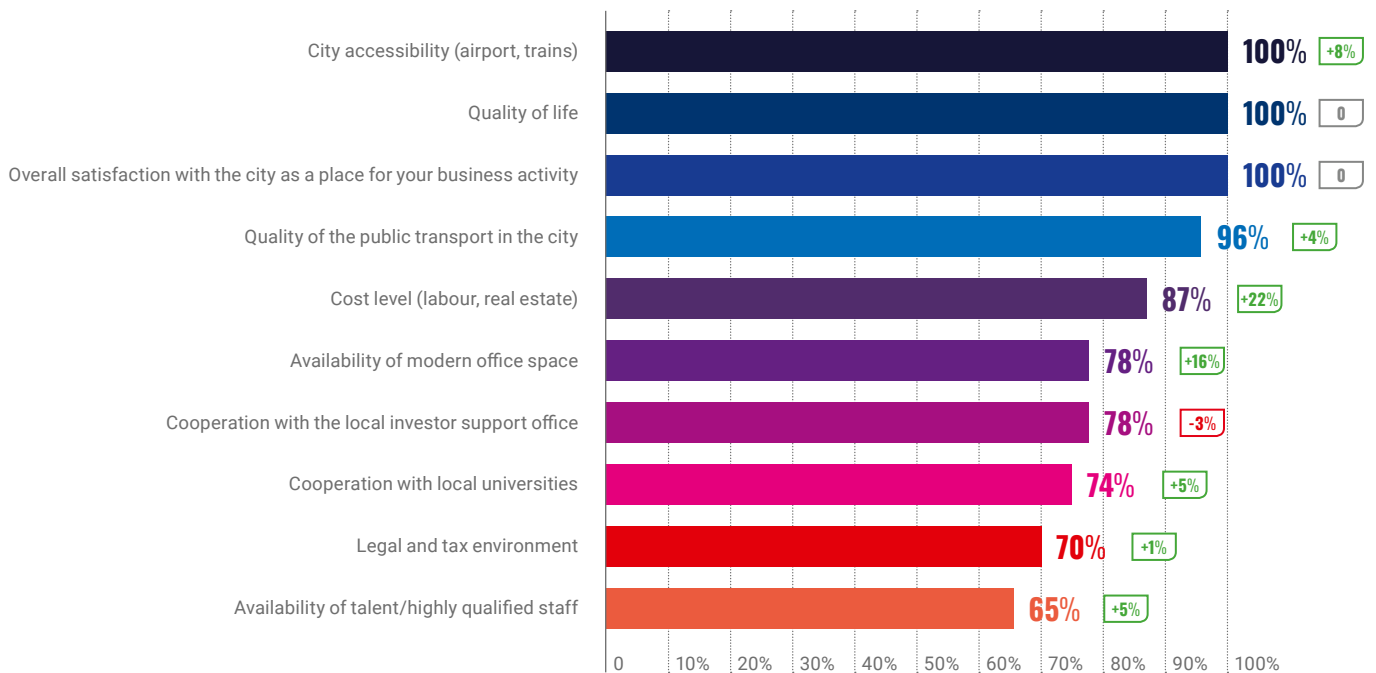
PROGRAMMING LANGUAGES USED BY IT-RELATED BUSINESS SERVICES CENTRES, 2020



JavaScript, SQL, Java, C# / .net, C / C++, and Python are the most popular programming languages required for employees working with IT projects. Compared to last year's data, the percentages of most frequently used programming language required by employers are decreasing. This is mainly due to new programming languages coming in and organisations gradually shifting to those they find most efficient for their needs. Other frequently used programming languages are PowerShell, React.js, VBA, DAX, Node.js, ABAP, etc.

FIGURE 1.20

OVERALL SATISFACTION WITH CERTAIN FACTORS IN RIGA, 2020



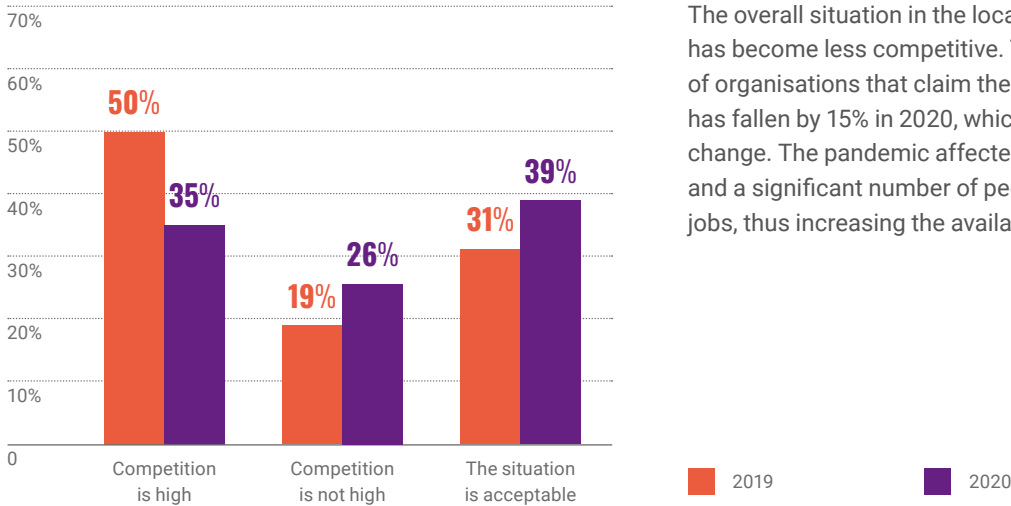
0 -1% +1% The percentages shown separately indicate the changes compared to data collected in 2019

The overall satisfaction with Riga, and Latvia as a country, for business activity has risen in 2020. In almost all listed factors, industry representatives are reporting the same, or even higher, overall satisfaction levels compared to situation in 2019. Satisfaction has climbed significantly in the areas of cost level (by 22%) and availability of modern office space

in Riga (by 16%). Interestingly, companies are also reporting higher satisfaction levels in the availability of talent. This may be explained by the impact of the pandemic on other industries that were subsequently forced to terminate employment contracts and thus supplementing the overall available talent pool in Latvia.

FIGURE 1.21

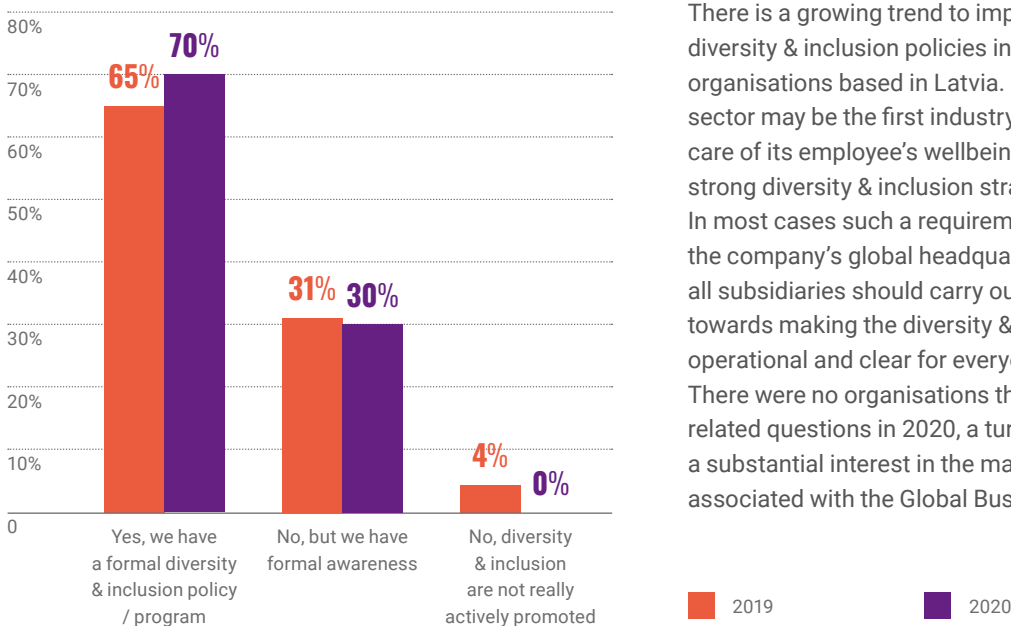
THE INTENSITY OF COMPETITION BETWEEN BPO, SSC/GBS, AND IT CENTRES ON THE LOCAL LABOUR MARKET



The overall situation in the local labour market has become less competitive. The number of organisations that claim the competition is high has fallen by 15% in 2020, which is a remarkable change. The pandemic affected many industries and a significant number of people left their jobs, thus increasing the available talent.

FIGURE 1.22

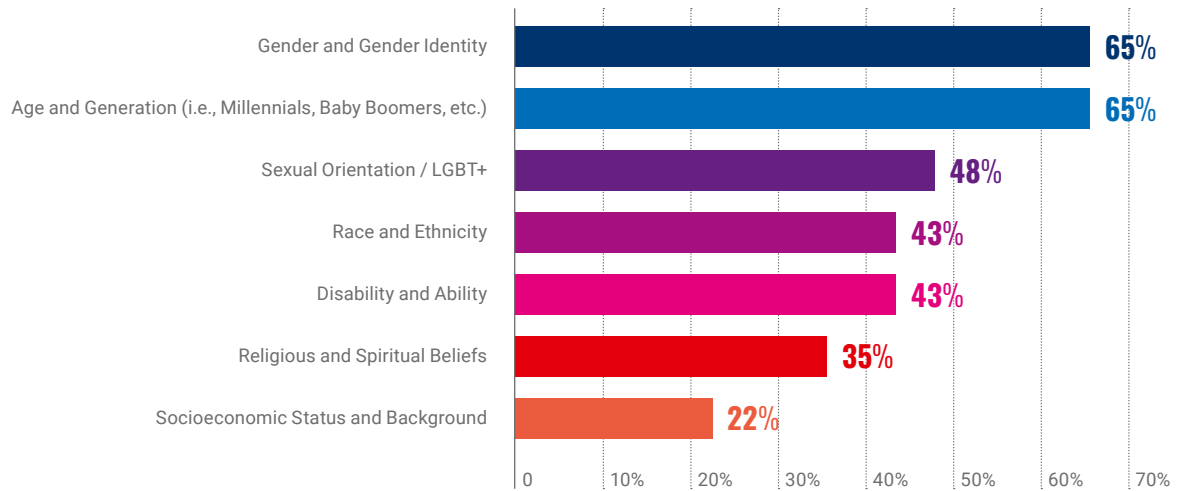
THE IMPORTANCE OF DIVERSITY & INCLUSION POLICIES ACROSS THE INDUSTRY IN LATVIA



There is a growing trend to implement strong diversity & inclusion policies in BPO, SSC/GBS, and IT organisations based in Latvia. The business services sector may be the first industry in Latvia that takes care of its employee's wellbeing by implementing strong diversity & inclusion strategies to such degree. In most cases such a requirement comes from the company's global headquarters, claiming that all subsidiaries should carry out certain activities towards making the diversity & inclusion programs operational and clear for everyone in the organisation. There were no organisations that failed to cover diversity related questions in 2020, a turning point that indicates a substantial interest in the matter across all companies associated with the Global Business Services industry.

FIGURE 1.23

THE MAIN FOCUS AREAS OF DIVERSITY & INCLUSION POLICIES/PROGRAMS IMPLEMENTED BY INDUSTRY ORGANISATIONS IN 2020

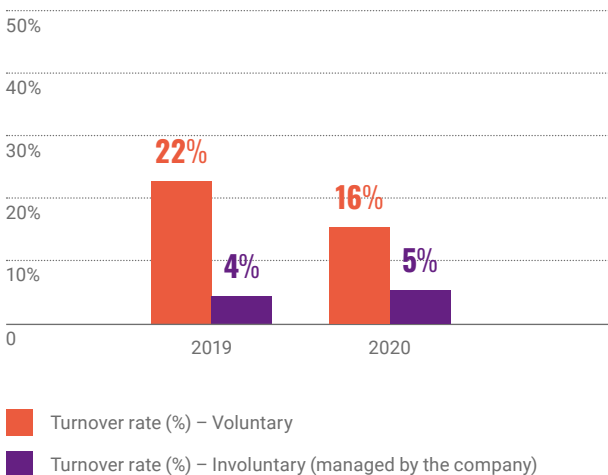


The majority of the companies under analysis are claiming Age and Gender identity as the most important issues they cover in diversity & inclusion

However, other areas are also becoming increasingly important such as: sexual orientation, disability and ability, race and ethnicity.

FIGURE 1.24

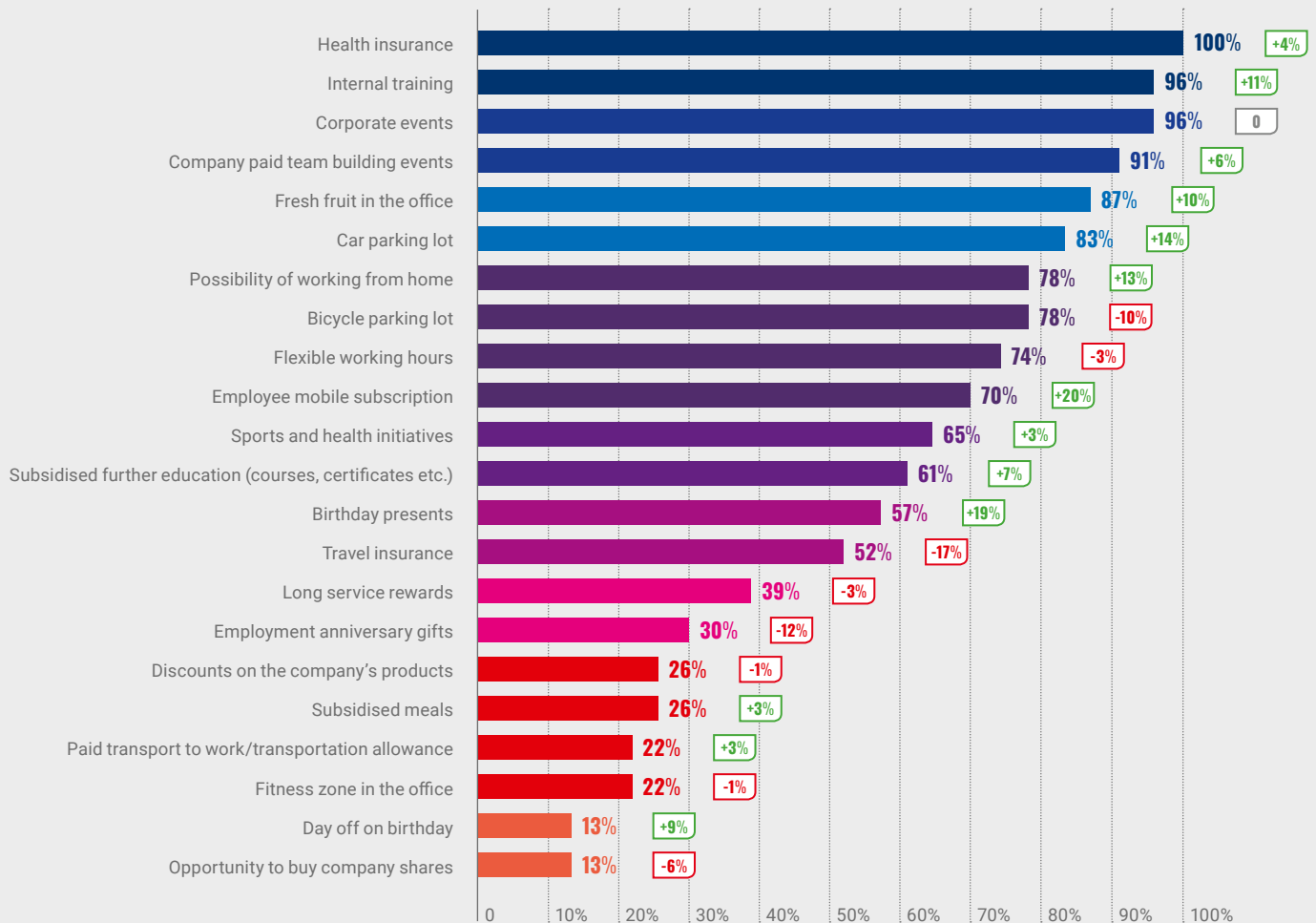
EMPLOYEE TURNOVER RATES IN THE BUSINESS SERVICES INDUSTRY



Although the pandemic turned out to be the main reason why many industries in Latvia needed to terminate their employees, it hasn't been the case in BPO, SSC/GBS, and IT centres since the percentage of involuntary turnover increased by 1%. Meanwhile, the average voluntary employee turnover in the industry has dropped by 6%, which is likely to be the lowest industry employee turnover rate during the last few years. This can be explained by the fact that during the pandemic employees became more cautious and tried to minimise the risk of becoming unemployed for a long period of time.

FIGURE 1.25

NON-WAGE BENEFITS PROVIDED BY ORGANISATIONS TO THEIR OPERATIONAL STAFF, 2020



0 -1% +1% The percentages shown separately indicate the changes compared to data collected in 2019

In addition to benefits listed in the bar chart above, psychological consultations (provided by 61% of all organisations under review) became much more frequently provided to employees in 2020 compared to 2019. Remote working and the need to be isolated for weeks and months has left employees negatively affected, causing depressions, decreased motivation and productivity levels. Therefore, such a benefit has turned out to be crucial during this period.

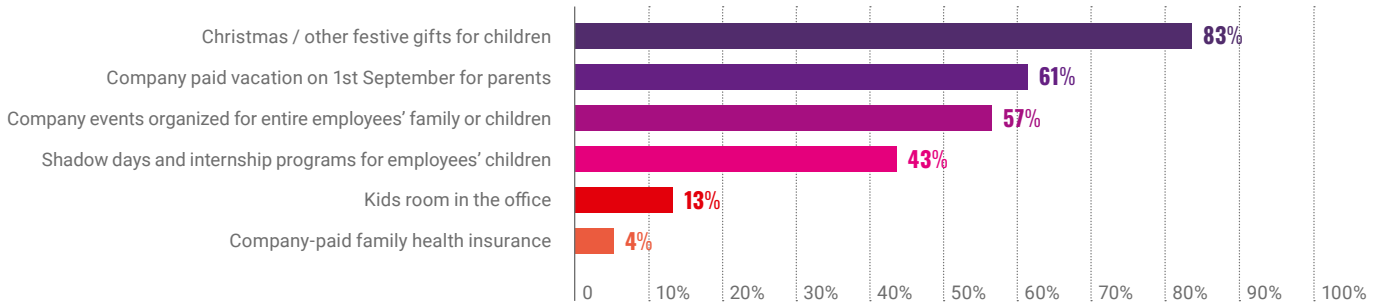
Interestingly, the number of companies providing internal training to their employees has risen by 11%. This comes despite the need to reduce costs and save all possible financial resources in a year of facing a global crisis.

The possibility to work from home has also become more popular or, in other words, organisations were forced to adapt to new ways of working. Nevertheless, as with before the pandemic, 65% of companies provided remote work opportunities to their employees. However, it has likely never been to such extent as was experienced in 2020 when people were working five days per week from home instead of the one day per week or two days per month considered normal practice before the pandemic.

Finally, there has been a significant drop in organisations offering travel insurance since this benefit was no longer needed during the global lockdown.

FIGURE 1.26

NON-WAGE BENEFITS THAT ORGANISATIONS PROVIDE TO THEIR EMPLOYEES AS A FAMILY-FRIENDLY INDUSTRY, 2020

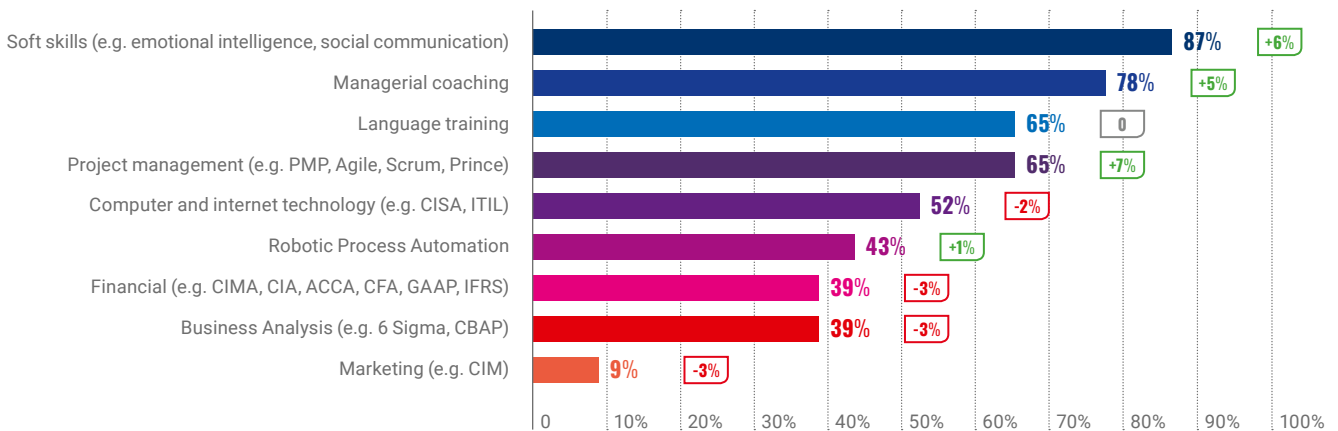


The majority of people employed by the industry are millennials (25-40 years old) and are therefore a group in the reproductive period of their lives, likely to begin families and have kids. For this reason, the industry should be family-oriented and provide certain benefits to children and families. According to data collected via the survey, the majority, or more than 80%, of responding companies are organising Christmas and other festive gifts for children. More

than half of the companies under review are providing company paid vacation on 1st September for parents with school-age children. In addition, organisations are making efforts to set up events for entire families rather than just their employees. Other benefits that companies mentioned as family-friendly perks included: summer pop-up kindergarten, open office days for family members (adults), new-born gifts, and wedding gifts.

FIGURE 1.27

TYPES OF PROFESSIONAL TRAINING PROVIDED TO EMPLOYEES, 2020



0 -1% +1% The percentages shown separately indicate the changes compared to data collected in 2019

Personnel training and professional qualifications are not only a hot topic in organisations representing the industry, but all across the country since there were many government level discussions regarding future jobs, skills needed for people to stay competitive in labour markets, and automation directly impacting certain professions. Undoubtedly, Global Business Services as a separate industry is one of those in Latvia which systematically trains its employees and has been doing so during the pandemic as well. The top three most popular areas of training remain unchanged: soft skills, managerial coaching, project management and also language training programmes.

With the help of ABSL Latvia, all industry members have an opportunity to educate their employees with the financial support from the EU Structural Funds. Many organisations have already used the support provided and a number of others are still in the phase of deciding which external training could benefit their employees most. As the bar chart shows, there are no significant changes in the structure of the most commonly chosen training areas by industry. There are many people who joined the industry as juniors and with time were promoted to senior positions, while still lacking the skills to manage teams. As a result, managerial coaching programmes stay relatively popular in 2020.

FIGURE 1.28

AVERAGE GROSS SALARY (EURO) IN MOST POPULAR BUSINESS SUPPORT FUNCTIONS, 2020

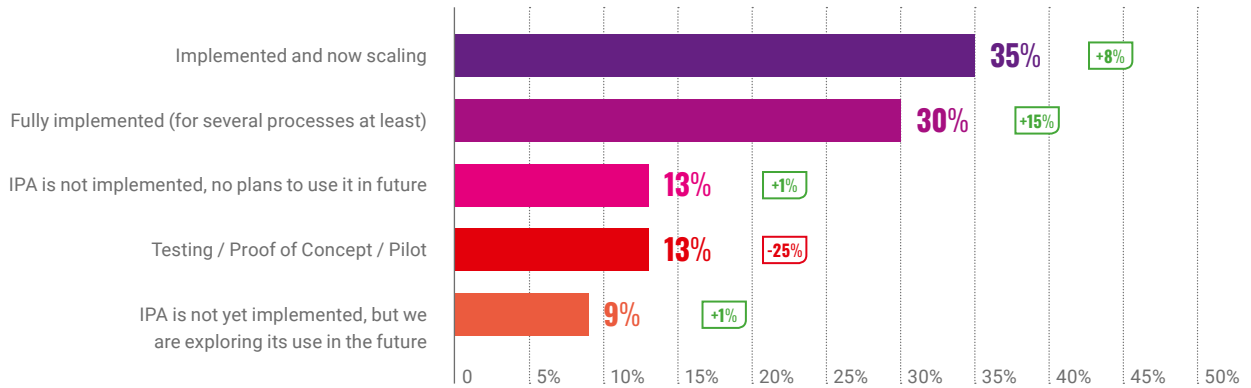


Although it has been officially required by local law to indicate salary ranges in all job advertisements in Latvia since 2018, it can still be valuable to assess average salary levels in the business services industry. The average salaries across different business support functions and seniority levels listed above are based on data provided by 23 BPO, GBS/SSC and ITO centers participating in the survey at the beginning of 2021. Please note that information about salary levels may differ based on the list of companies participating in similar surveys, besides other research companies still have slightly different understanding on which companies are belonging to GBS industry. Based on findings of the survey carried out by ABSL Latvia,

the average salary in the industry at the beginning of 2021 is 2000 Euro before taxes. An interesting phenomenon can be observed when comparing customer service and finance function from a salary level perspective. From the point of view of average salary level, the paid remuneration for Customer Service professionals, at all levels, is actually higher than for Finance professionals, which challenges the general statistical data in the country that the best paid positions are in IT and Finance related professions. It can partly be explained by the fact that Customer Service professionals in the business services industry are required to be skilled in a minimum of one Scandinavian or other foreign language, rather than just English.

FIGURE 1.29

OVERVIEW OF INTELLIGENT PROCESS AUTOMATION PROGRESS, 2020



0 -1% +1% The percentages shown separately indicate the changes compared to data collected in 2019

Intelligent Process Automation (IPA) is the future of many industries, but there are few where it has become a reality sooner than the rest of the market. Undoubtedly, Global Business Services is one of those industries, where IPA has already been a hot topic for several years. There have been challenges, disappointments, and potentially wasted time, but this is all a part of learning how to efficiently implement IPA solutions and transform

the business operations from routine and manual tasks towards higher value-added responsibilities. The bar chart above illustrates that a growing number of organisations implemented IPA in 2020, while less companies under analysis claimed to still be in the RPA solution testing and proof of concept phase. Once again, this reminds us that the need for IPA is here and is no longer something new, it's becoming integral and the new normal.

FIGURE 1.30

DEGREE OF AUTOMATION AND ROBOTIZATION OF PROCESSES

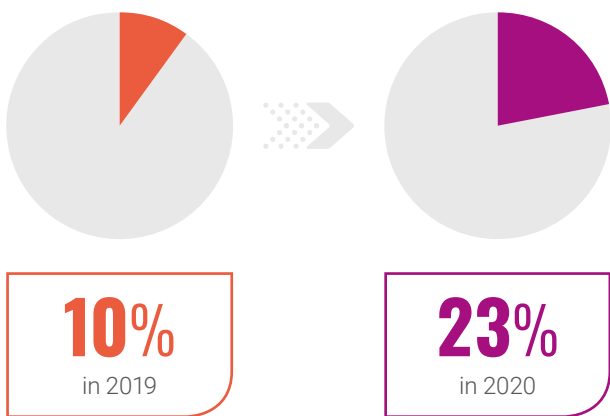
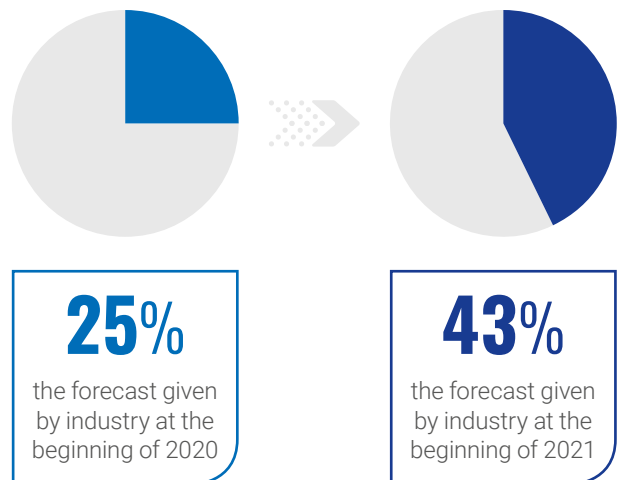


FIGURE 1.31

DEGREE OF AUTOMATION AND ROBOTIZATION OF PROCESSES IN GBS ORGANISATIONS OVER THE NEXT THREE YEARS



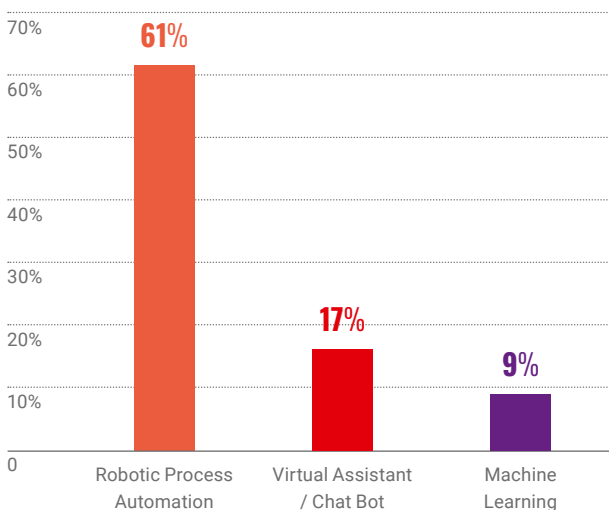
Overview of the business services sector in Latvia

It is interesting to note the speed at which the automation and robotization of processes develops and strengthens its need and role across all of the business services industry in Latvia. Although organisations at the beginning of 2020 were saying the degree of process automation in next three years

could reach around 25%, the latest data collected shows that the industry has managed to achieve this automation level in the space of one year instead of three, and plans for future process automation have become significantly more ambitious.

FIGURE 1.32

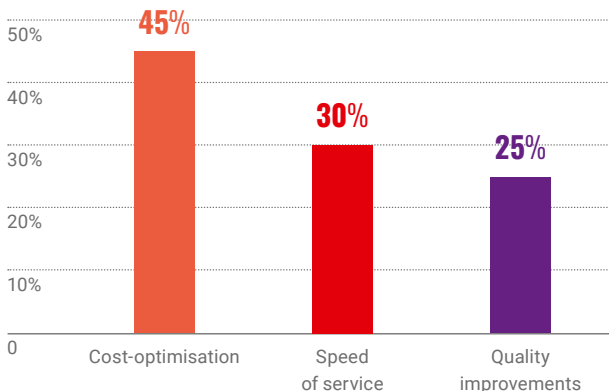
DIFFERENT KINDS OF IPA SOLUTIONS UTILISED IN GLOBAL BUSINESS CENTRES IN 2020



Robotic Process Automation is the most popular solution for Global Business Service centres based in Latvia. However, there is also a certain amount of experience with virtual assistants and machine learning as opportunities for intelligent process automation. Automation allows shared service centers to evolve into centres of excellence. There are organizations that have launched their own robotics departments responsible for implementing automation of processes across group companies globally. Nearly every department has processes that are automated and are being handled by a robot in companies representing the industry. There are organizations that have launched more than 50 robots per year, automating workload equivalent to more 50 FTEs.

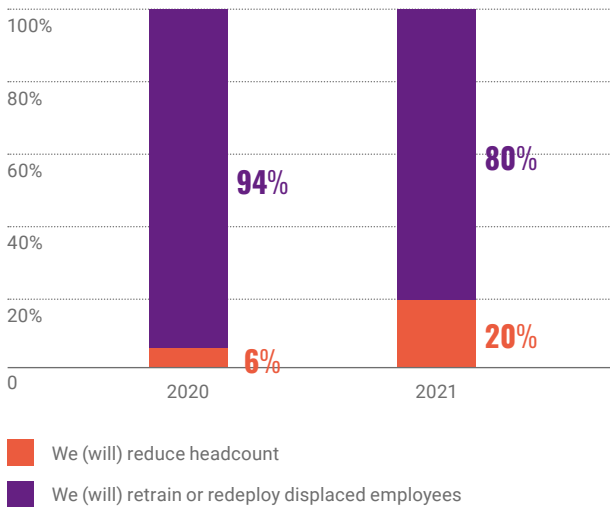
FIGURE 1.33

KEY REASONS FOR IMPLEMENTING IPA SOLUTIONS IN THE BUSINESS SERVICES INDUSTRY IN 2020



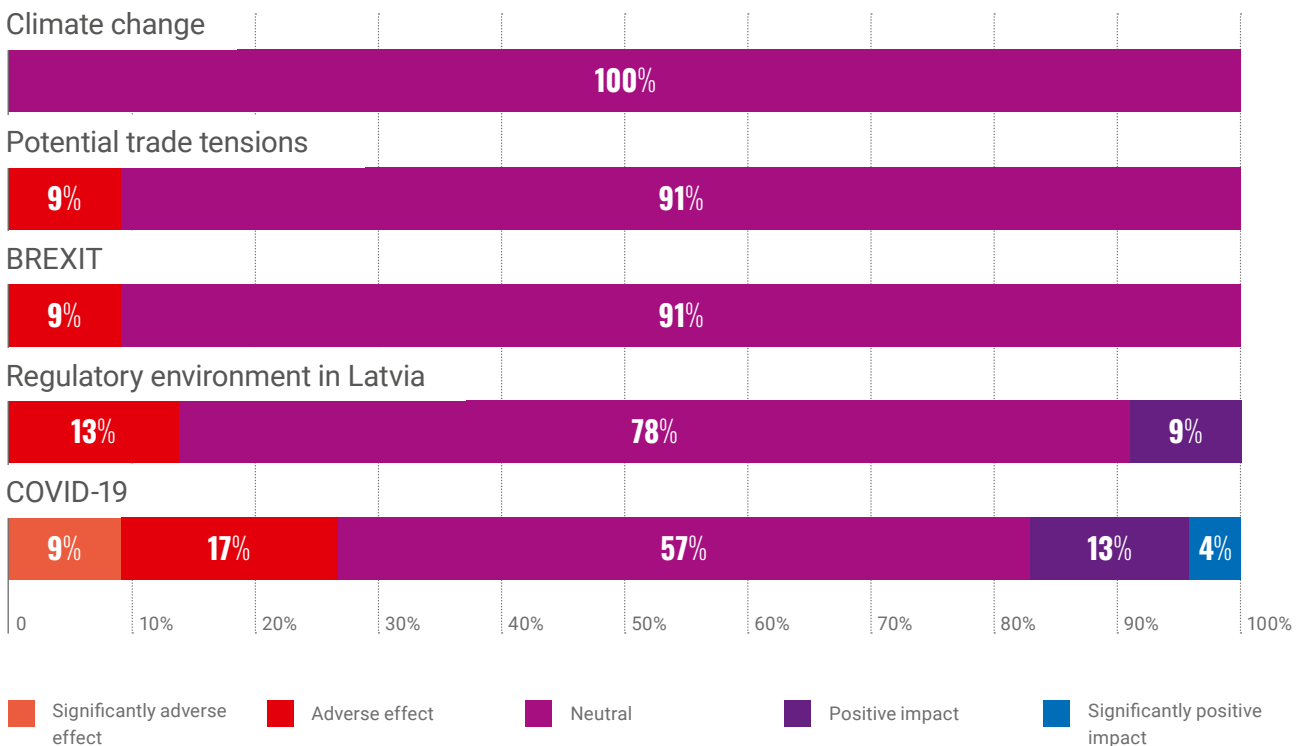
Although there have been many discussions suggesting that the industry is not primarily concerned with cost efficiency, the survey data shows that cost reduction is still a game-changer for many organisations when deciding on whether to implement different kinds of IPA solutions. IPA might be the answer to minimising costs and becoming more efficient at everything a company does. Additionally, speed of service and quality improvements are also important aspects to the implementation of IPA.

FIGURE 1.34
EMPLOYMENT PLANS REGARDING THE IMPLEMENTATION OF IPA



At the beginning of 2021, around 20% (compared to 6% last year) of organisations under analysis are saying that they will reduce their headcount as a result of implementing IPA solutions. However, this shouldn't be considered a threat to the industry since it regularly struggles to acquire the right talent. With evolving role of IPA, growing number of organizations will free up their resources and capacity to take over additional high value added business support functions thus requiring talent with more advanced skills and competences. Government initiatives carried out to raise the qualification of working population are crucial to make that transition happen. IPA solutions are worth it as they can take away the routine, low value-added tasks and free people up to take care of the more advanced duties.

FIGURE 1.35
FACTORS AFFECTING THE INDUSTRY'S ACTIVITY IN LATVIA IN 2020



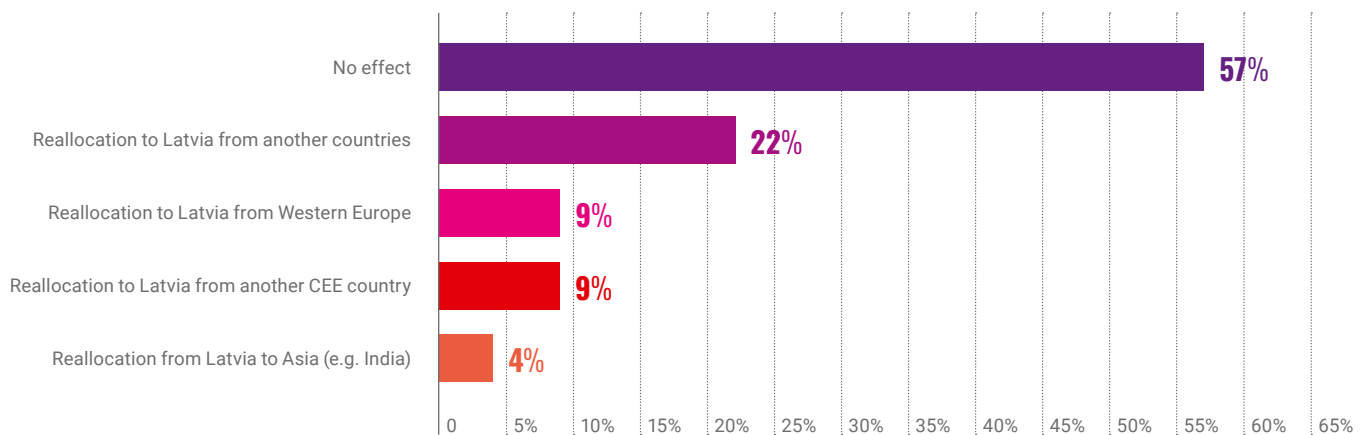
Overview of the business services sector in Latvia

There are no external factors that particularly affect the operational activity of business services companies based in Latvia. There is a certain negative impact from the regulatory environment in Latvia as well as COVID-19 which has limited

many businesses around the world. However, COVID-19 has also had a positive impact, allowing companies to take on new geographic regions and business support functions, or reach new clients.

FIGURE 1.36

THE IMPACT THAT COVID-19 HAS LEFT ON COMPANIES' ACTIVITIES IN LATVIA AS A LOCATION FOR GLOBAL BUSINESS SERVICES

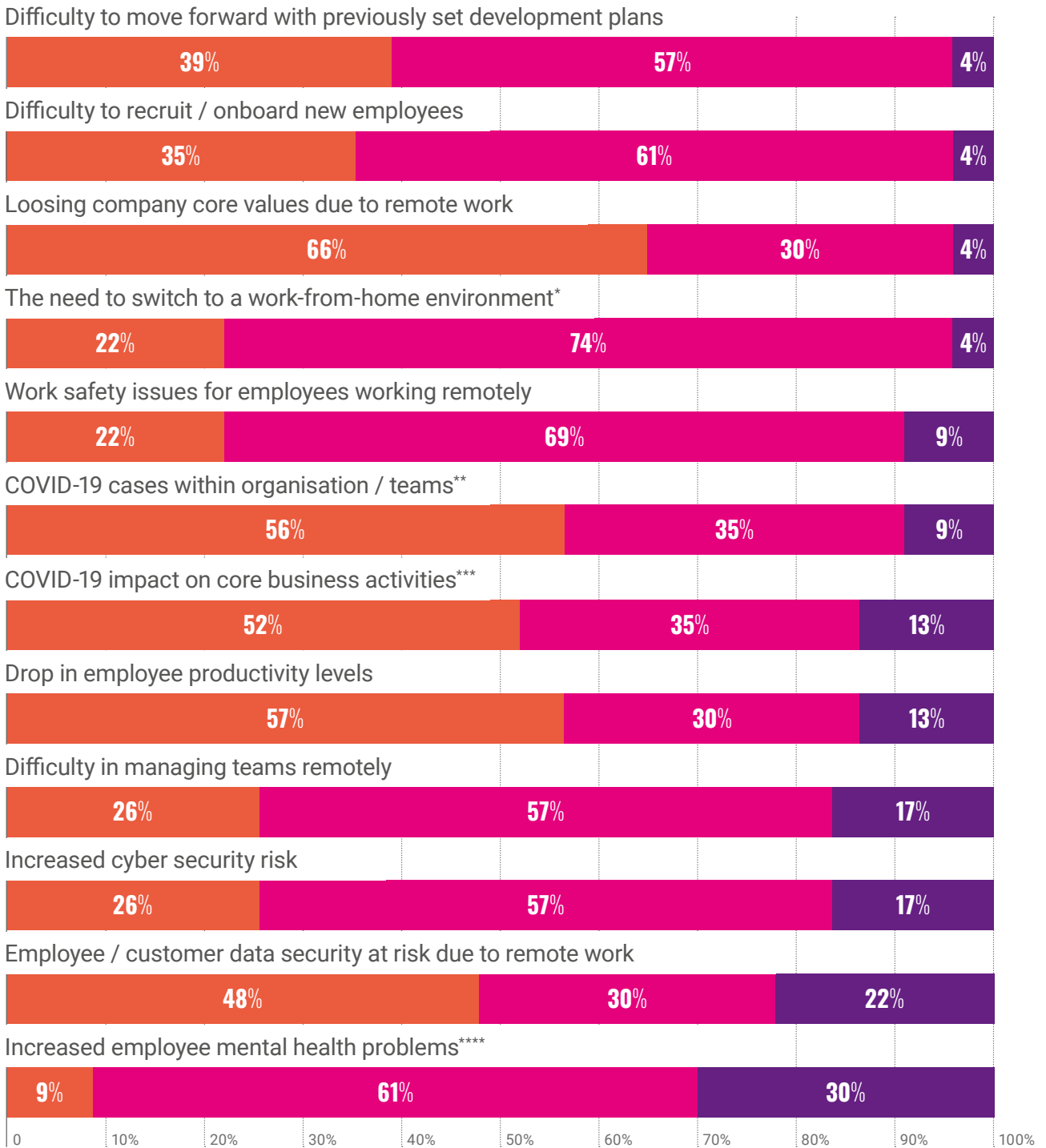


The majority of responding organisations claim COVID-19 has had no effect on their business activity in Latvia. However, there are also promising findings that suggest there are a list of organisations that have found certain benefits or business expansion opportunities

due to COVID-19. Therefore, the business services centres based in Latvia will come out of the crisis with new clients, new geographic regions to serve, and responsibility for new business support functions.

FIGURE 1.37

FACTORS (CAUSED BY COVID-19) AFFECTING BUSINESS OPERATIONS IN LATVIA

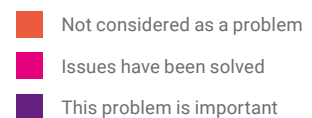


* granting equipment, access etc.

** difficulty to ensure business continuity in several processes

*** thus significantly decreasing workloads in operational centre

**** isolation, depression, lack of motivation etc.



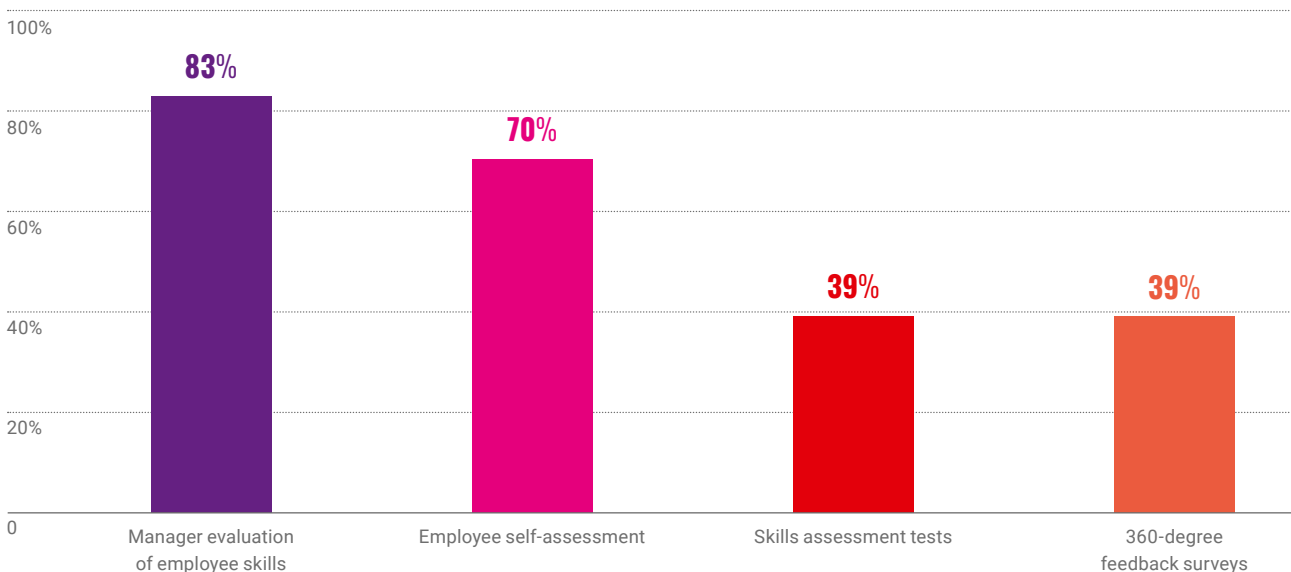
Overview of the business services sector in Latvia

The findings show that the industry has successfully solved the problems caused by the crisis and adapted to the need to work remotely for long periods of time, although there are still certain factors that continue to have a significant impact on overall business operations. One of the most negatively affecting factors is the mental health of employees. Around 30% of responding organisations highlighted the importance of this problem and claim to have issues in attempting to tackle it efficiently. Although an increasing number of companies are ensuring psychological consulta-

tions for their employees, it doesn't mean that this option is being actively used by those who need it most. Latvian society still needs to learn about the importance of mental health and how to keep it in order, what the first symptoms that something is wrong, and when professional help is required. Other factors that are still causing headaches for the management of industry organisations are employee and customer data security issues while working from home, increased cyber security risks, and difficulty in efficiently managing teams while working remotely.

FIGURE 1.38

APPROACHES USED BY THE INDUSTRY TO ASSESS EMPLOYEE SKILLS AND COMPETENCIES, 2020



Most organisations use more than one single tool to completely evaluate employee performance, missing skills, competencies, and abilities that should be improved in future. The industry actively involves team managers to get the necessary

information. Quite frequently employee self-assessment forms are used to allow the individual to evaluate his or her own personal performance and indicate the skills they should be trained in.

FIGURE 1.39

APPROXIMATE % OF EMPLOYEES WORKING REMOTELY AT LEAST FOUR DAYS PER WEEK AT THE BEGINNING OF 2021

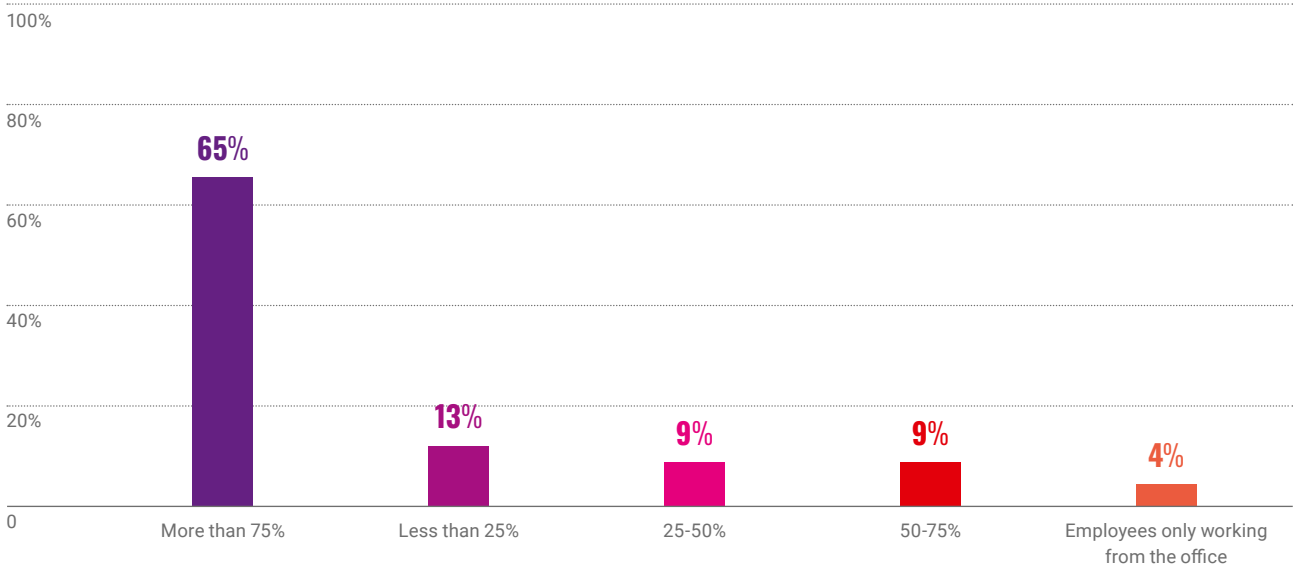


FIGURE 1.40

THE PERIOD OF TIME AFTER WHICH ORGANISATIONS PLAN TO RETURN THEIR EMPLOYEES TO OFFICES WITH AT LEAST 70-80% OCCUPANCY (ANSWERS COLLECTED AT THE BEGINNING OF 2021)

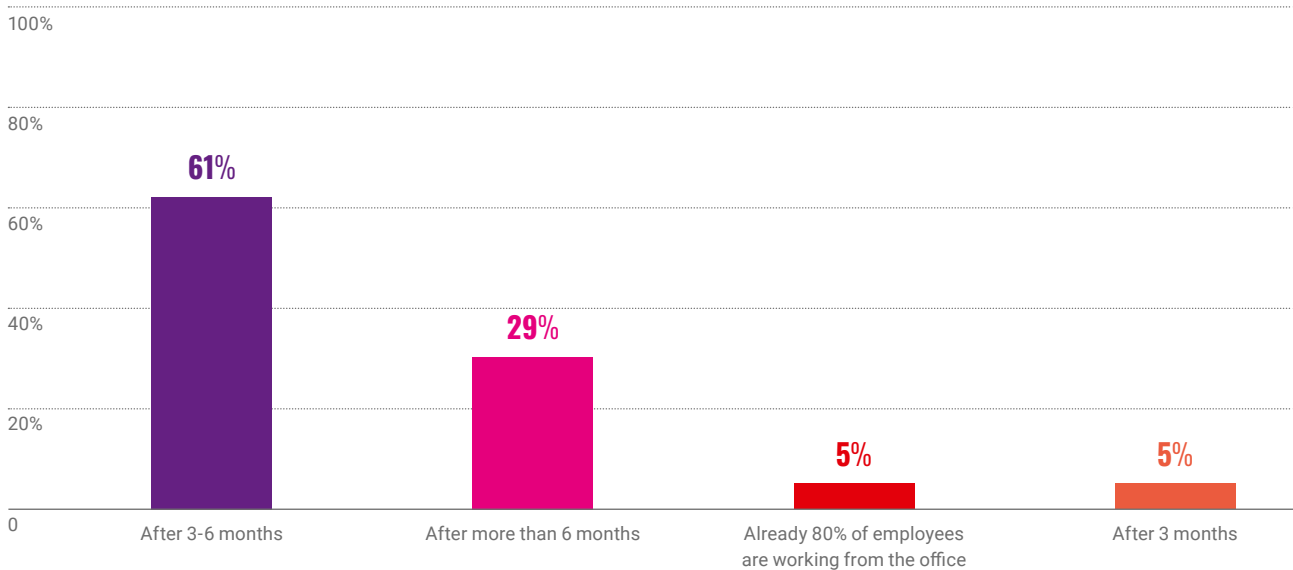
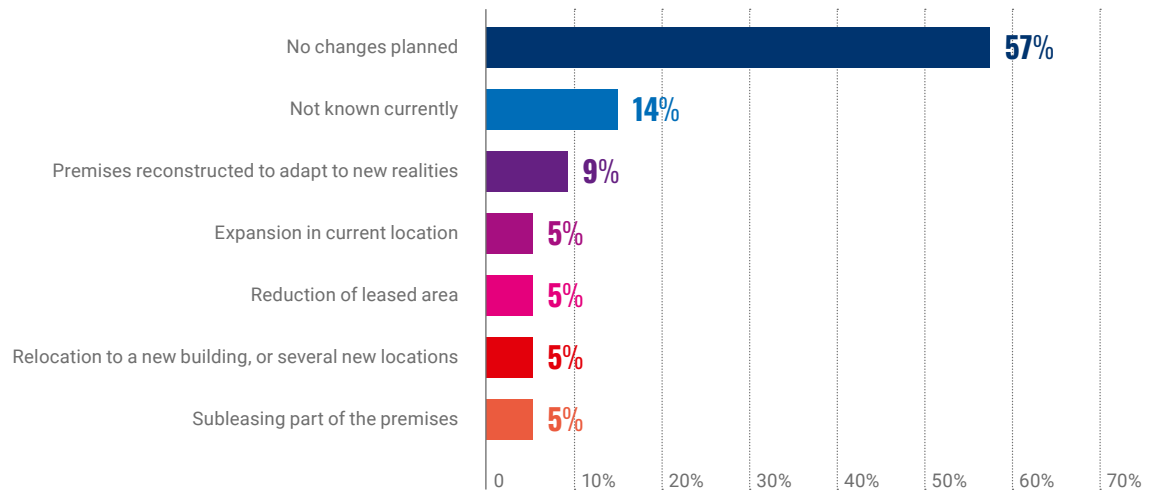


FIGURE 1.41

INDUSTRY PLANS TOWARDS CHANGES IN CURRENTLY LEASED/OWNED OFFICE PREMISES FOR 2021



Remote working has become the new normal. Nevertheless, it comes with a number of negative aspects that the industry still has difficulty dealing with. Although currently the majority of the industry is working remotely, according to data collected at the beginning of 2021, around 61% of the industry are planning to return their employees back to offices within 6 months, while another 29% of respondents are planning to welcome employees back at some time in summer.

In regard to the rising popularity of remote work, there is an open question on how it will impact leased office premises in 2021. According to data collected, the majority of the industry, or close to 60%, are planning no changes in currently leased or owned office space, while 14% of responding companies are still unclear about their future plans. Only 5% of companies under review are planning to sublet parts of their premises or reduce the currently leased area.



2 PAY AND BENEFITS CHANGE

Compensation is an important topic to what pay attention due to fact it may take up to 60% of total operational costs. Finding a balanced compensation strategy is the key to sustainability and business development.

Market Survey sample is based on global business service centers that provide and support various services of organizations on an international scale. Compensation data is collected for service areas such as IT, accounting and finance, customer service, logistics and procurement, etc.

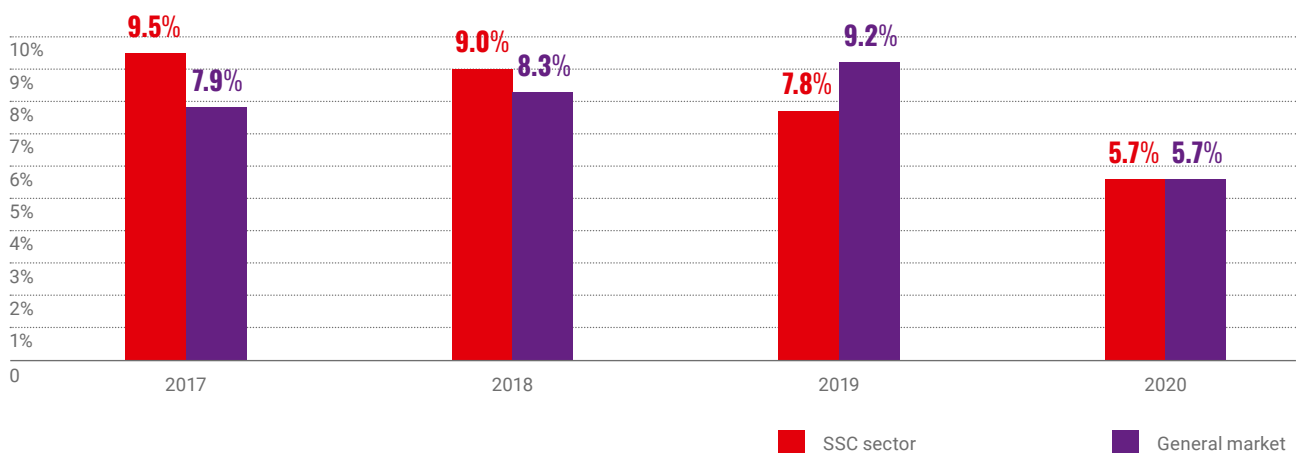
COMPENSATION STRATEGIES AND TRENDS

+5.7%

is the average total compensation (monthly base salary and variable part) change of monthly base salary for employees whose position did not change during previous 12 months in 2019/2020. SSC sector compensation is slightly higher than general market, and foreign language skills is an important factor influencing the level of compensation of specialists. Figure 2.1 shows comparison with General market and trends by years.

FIGURE 2.1

AVERAGE CHANGE IN ANNUAL TOTAL CASH IN IN GENERAL MARKET AND SSC SECTOR IN LATVIA



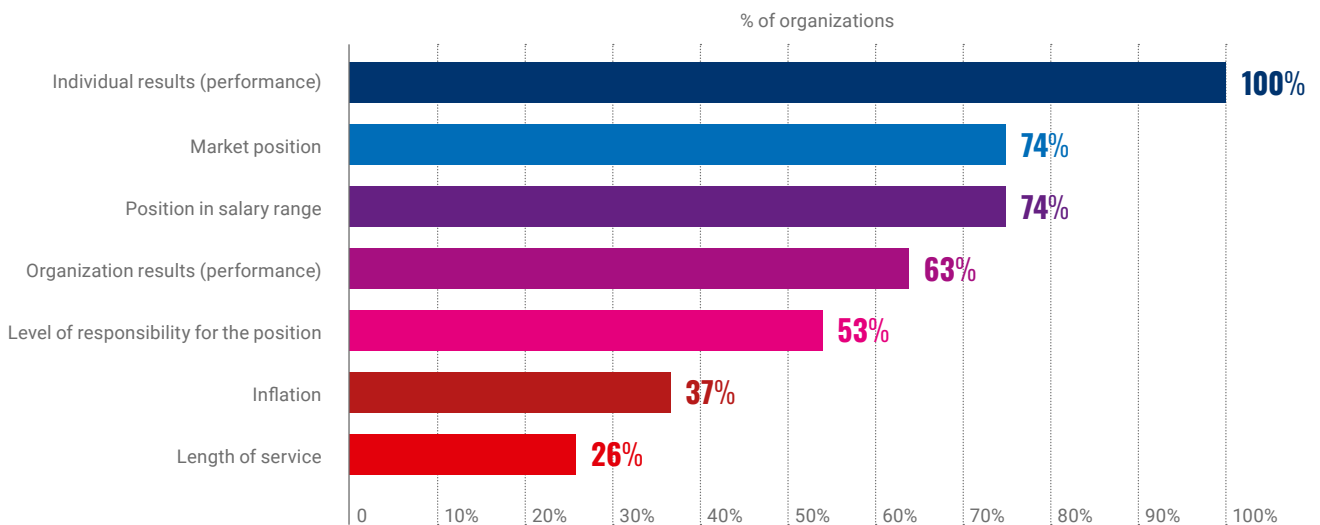
100%

of organizations offer short term incentives (variable incentives) and 24% of organizations offer sales incentives to at least one employee group, while

6% offer profit sharing. There are about 9% less part of companies who offer short term incentives to employees. Individual results and compensation comparison internally and externally are main factors impacting compensation change. Figure 2.2 shows factors having impact on Compensation change.

FIGURE 2.2

FACTORS HAVING IMPACT ON COMPENSATION CHANGE IN SSC SECTOR ORGANIZATIONS IN LATVIA



60%

of organizations increased the number of employees in 2019 (on average by 13%), 35% of organizations decreased the number of employees (on average by - 5%), meanwhile, in 5% of organizations the number

of employees remained the same. In 2021, half of organizations plan to maintain the same number of employees, and other half plan to increase the number of employees. This is significantly higher indicator compared to general market.

BENEFITS PACKAGE

970 EUR

is an average budget for benefits per employee in SSC sector. A typical benefits package in SSC that does not change over years is: Health insurance, Mobile phone bill coverage, development (training), conferences, Christmas presents.

Interesting facts about **Health insurance**:

- » **Latvia is one of rear countries, where sports activities are included in Health insurance typical package.** This fact might confuse those who do not see sports activities cost coverage as a separate benefit. During COVID-19 pandemic almost all Health insurance companies are offering also online training coverage or even subscriptions to most popular sports activity tracking apps (like Strava).
- » **426.86 EUR** per year is an amount that employer can cover for employee insurance not paying extra taxes. For mid-sized and large companies this amount is enough to get very attractive coverage.

BALTIC COMPENSATION AND TAX IMPACT ON TOTAL COST COMPARISON

Cost of living in Baltic states difference variate within 12% in average. Net Salary levels for most of positions correlate to cost of living levels, in average. But that might be confusing when reading salary data in job ads or market compensation surveys due to different tax rates and payments from gross salary and on top of gross salary.

For compensation around 2000 EUR gross, net amount is almost the same when calculating from total employer cost – in Latvia 61%, Estonia – 59% and Lithuania – 58%.

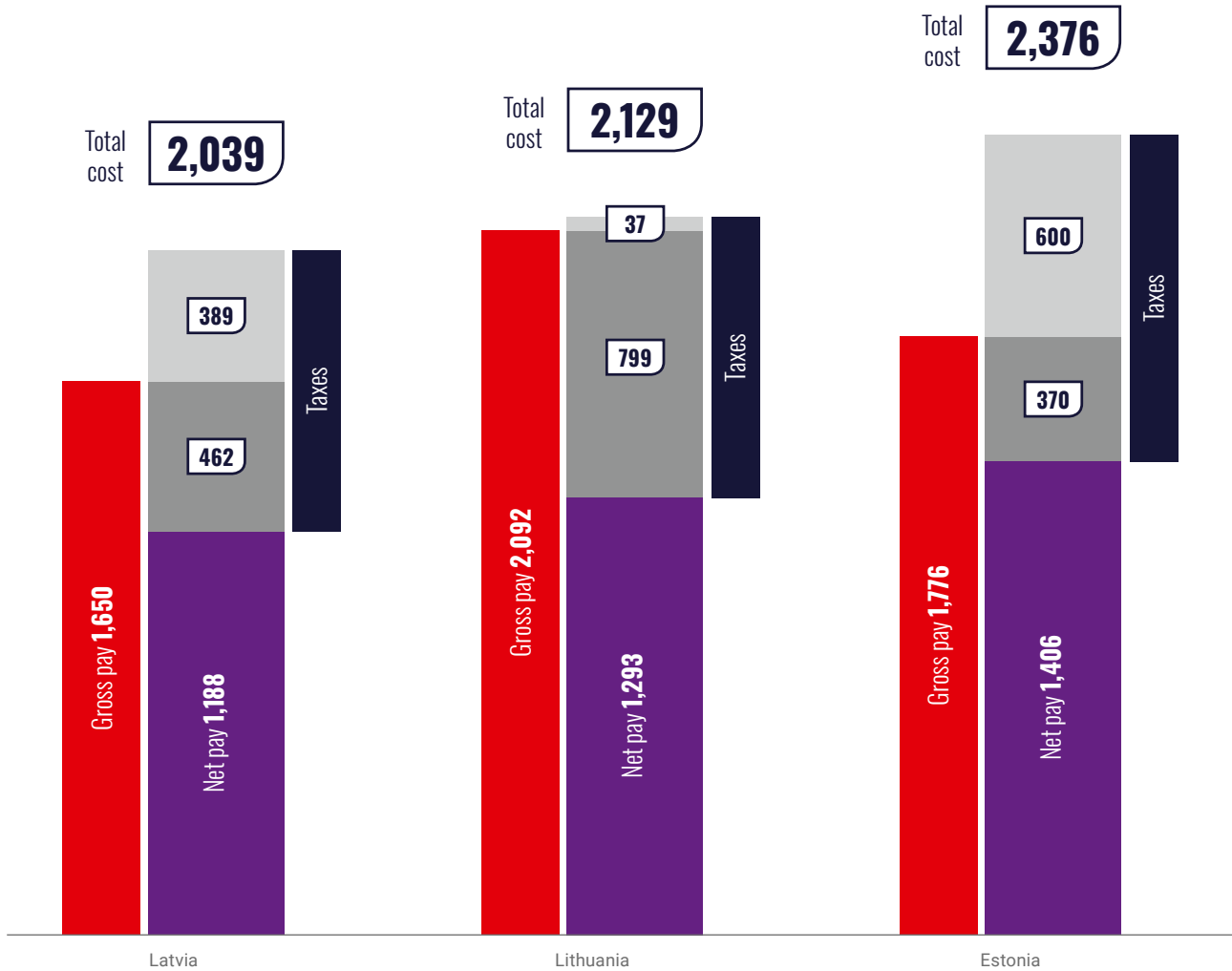
When organizations need to budget total cost and be competitive in market, there should be considered several factors.

- » For the same position compensation level in Net amount can be different in Baltics;
- » Should be considered region where organization is operating;
- » If employee has children or other dependents, taxes will apply in different levels;
- » For different salary levels tax rates can change;
- » Gross pay in Lithuania can look significantly higher compared to Latvia and Estonia due to low employer payments on top of gross pay and high employee tax deductions from gross pay;

As a comparison in Figure 2.3 is compared same position in SSC centers in Baltic states – median of Senior customer service representative.

FIGURE 2.3

GROSS AND NET PAY DIFFERENCE AND TAX IMPACT ON TOTAL COST. COMPARISON BETWEEN BALTIC STATES. POSITION: SENIOR CUSTOMER SERVICE REPRESENTATIVE AND SIMILAR POSITIONS IN SAME LEVEL¹



¹ Data from Compensation survey lead by Fontes / Baltic salary survey 2020 in Latvia, Lithuania and Estonia. Taxes can differ based on family status, Pension Fund investments and other local Tax specifics.

3 OFFICE MARKET

OVERVIEW

During the recent years, growing office development activity has been observed. In 2019, over 65 thousand sqm of new office space was delivered to Riga office stock. By the end of 2020, over 46 thousand sqm of office GLA were delivered to Riga office stock, making 2020 an active year as well.

The main additions to Riga office stock in 2020 were Z-Towers (25,000 sqm) and Origo One business center (11,600 sqm), both projects are class A.

Most of the developments in the recent years have taken place in the main business areas, and the same tendencies appear also in the development pipeline of the upcoming years.

In 2020 total office stock reached 778,000 sqm and the total GLA will likely exceed 784,000 sqm in 2021.

In line with completed developments, multiple Baltic and international developers have purchased development land plots in perspective locations. Currently, many of the projects have already reached earlier or later planning stages and many might move to construction phase in 2021 and 2022.

The future development volumes might help to solve stock aging, as majority of Riga office has been constructed 10-15 years ago and do not meet modern standards

SILENT 2021 AND PROMISING PIPELINE

The office market in 2019 experienced the largest stock increase in the last 10 years, while in 2020 development volumes have slowed and no notable completions are planned during this year.

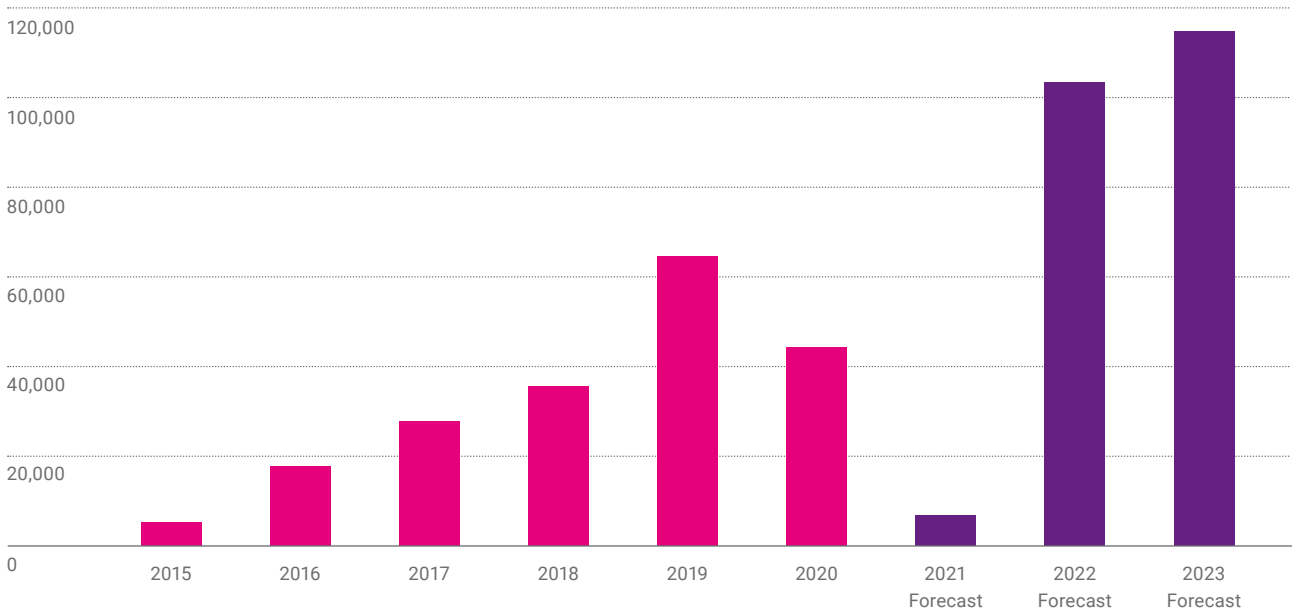
Even though the start of development of several projects was postponed during the first wave of COVID-19, the majority of developers were already cautious beforehand for reasons not related to the pandemic. During 2021, only approximately GLA 6000 sqm of new office space might supplement professional Riga office stock.

Although the overall situation with COVID-19 has not changed, we see that construction works have started in Riga in two notable Class A office projects, Verde and Novira Plaza, which will complement the Skanstes and Center districts with more than 40,000 sqm of office space. The project developer – investment fund “Lords LB Special Fund V” – has started active work on the construction of a new business and commercial quarter in Ķīpsala by dismantling of old buildings. At the beginning of 2021, similar works have been commenced in the city center, where the Swedish real estate company Eastnine has begun to dismantle the old buildings in the Kimmel quarter, as it is also planned to develop a new business quarter here.

Currently, there are more than ten projects in active planning in Riga with total leasable area exceeding 250,000 sqm. The rather ambitious

plans of the developers indicate that we are adapting to the new reality of the world.

FIGURE 3.1
DEVELOPMENT VOLUME, SQM



DEMAND FOR OFFICE SPACE

Even considering COVID-19 caused situation in 2020, the total number of leased premises in Riga reached approximately 35,000 sqm. During previous years, a maximum one new company entered Riga market per year, although 2020 was marked by three new entrants – Norwegian Air Resources SSC, The Soul Publishing and Swisscom. Thus, as the supply increased, the ability to attract new companies and the number of leased premises during the pandemic remained at the level of 2019.

In mid-2020, the amount of vacant space in Class A and B offices reached its highest level since 2010. Of course, the pandemic and its consequences

had their impact. Some companies and their employees continued to work fully from home, and as the speed of business activity has declined, they wanted to consider the amount of office space required. At the end of the year, however, the amount of vacant space decreased slightly at the expense of the new entrants already mentioned above, as well as local companies that expanded significantly, e.g. ‘Evolution’.

COVID-19 outbreak has had some negative impact on rent rates; however, the asking rent rate ranges remain unchanged and are expected to remain stable also during 2021.

Altogether we can summarize that this is favourable time for tenants to enter the Riga office market. Strong

pipeline with new projects, the current sufficient supply of vacant premises, stable rent rates, new green and progressively thinking city council etc. are main factors of optimistic sentiment of Riga office space.

COVID-19 AND WORKSPACE

Pandemic has forced companies to re-evaluate their plans on office space, whether it is remote work, new hygienic rules, reduction of area or sometimes even expansions. Since specific approaches fluctuate among various companies, from no remote work and distancing to remote work for at least another 3 or more months, it is not clear what will be the future approach & people mentality regarding remote work, digitalization & distancing. Latest survey results indicates that from business service companies located in Riga, more than 60% are planning their return to offices for at least 70-80% occupancy during next 3-6 months. In addition, survey shows that 60% of these companies are not planning any changes to currently used office space in 2021, however notable part are still monitoring the situation prior any decisions, while around 10% are now ready to adapt premises to new realities.

Major problems companies are facing due to remote work are lack of work & life balance, collaborating issues, clarity of employee priorities, faster involvement of new employees in working processes and collective, as well as introduction and preservation of company values etc. Although, we see clear advantages of working from office, Colliers International survey with more than 5000 respondents in 25 countries and various business segments showed that working from home did not change productivity and 8 out of 10 people would like to work 1 day a week or more from home after COVID-19. Survey also indicated that younger respondents would like to work slightly more from the office compared to older generations.

In general, we see that the way we used offices is transformed and most likely will not be the same. Thus, remote work is for staying and balance between it and office hours will strongly depend on employer plans. However, the majority of companies have expressed their will to return to offices with sufficient occupancy.

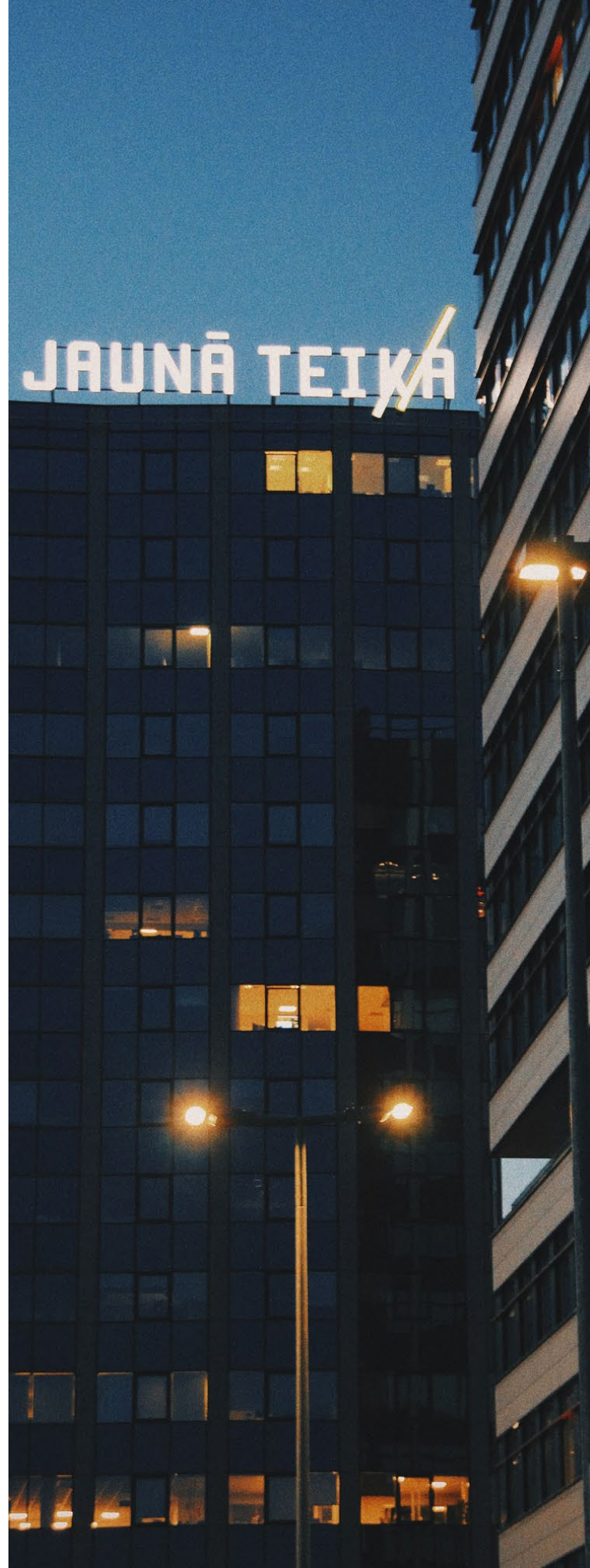
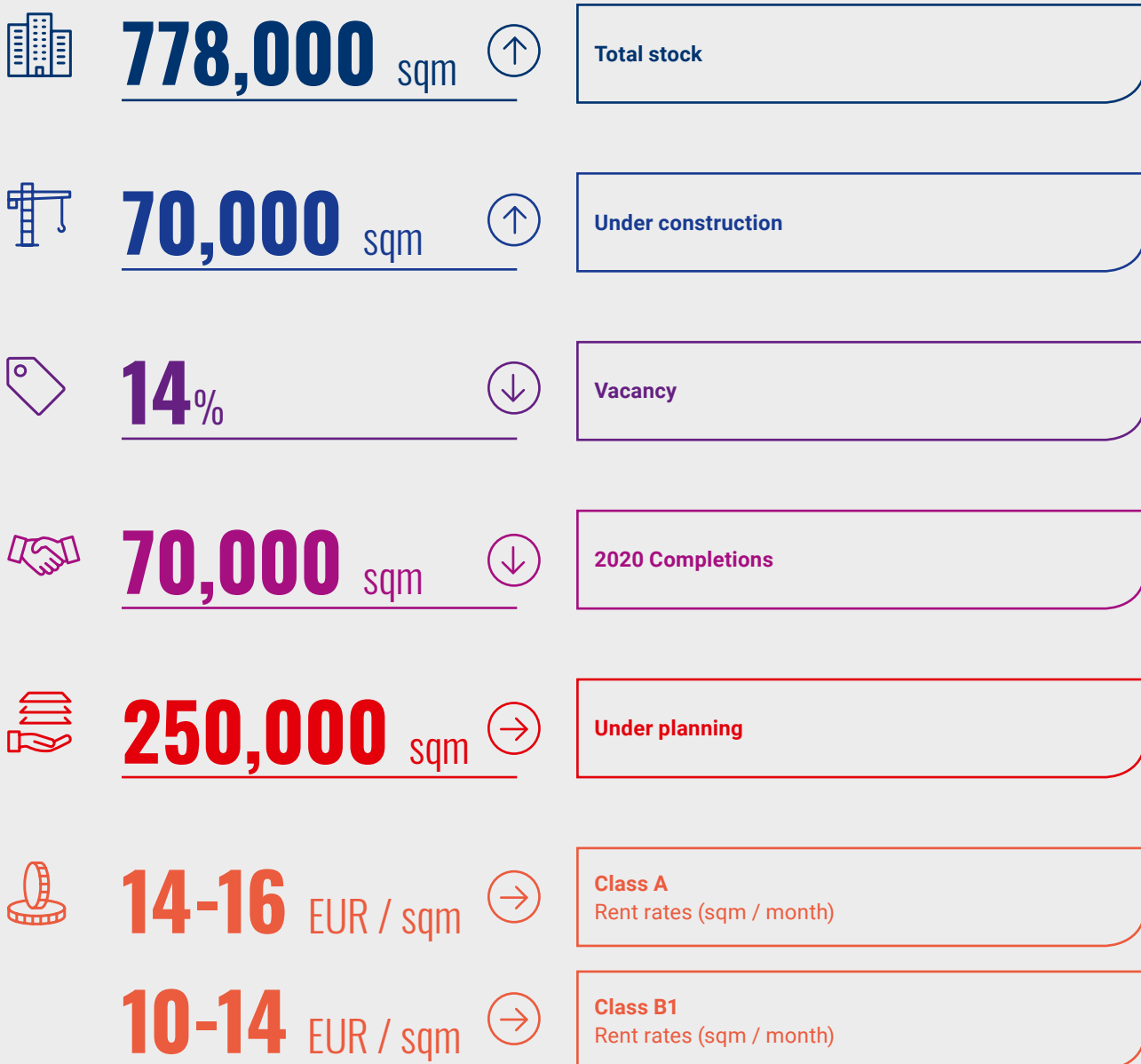


FIGURE 3.2

RIGA OFFICE MARKET IN NUMBERS



4 EMPLOYEE UPSKILLING & RESKILLING EFFORTS



ZANE ČULKSTĒNA
Founder of ERDA

Upskilling and reskilling efforts will decide the company's future. The company's ability to transform and sustain its workforce in light of machines overtaking repetitive tasks depends on how well the asset of human capital will be prepared – upskilled and reskilled – for tasks that machines cannot overtake.

Taking into account

[1] the variety of tasks to which it applies (information and data processing, looking for job-related information, performing complex and technical activities, etc.) and [2] the scope of the workforce to which it applies (50% of the workforce will have to be reskilled by 2025), the question of employee skill set available in the company is of greatest strategic value.

SKILLS IN LATVIA

» **The main strength of the Latvian workforce – multilingualism.** As rated by Eurostat & OECD, Latvian students exiting primary and secondary education systems are well-prepared with the basic skill set for further education. However, according to the results of Eurobarometer research, the main strength of the Latvian workforce is multilingualism.

Latvia ranks second among European states with 95% of residents fluent in some foreign language, while 54% can speak at least two foreign languages.

- » **Room for improvement in the portfolio of digital skills.** While Latvia stands out with well-developed digital infrastructure (98% of the population has access to the 4G network), an important challenge for policymakers in Latvia is the development of digital skills for the society. Funding of at least EUR 40m has been allocated from the government and EU funds for the digital skills' development to increase productivity, as well as to improve the ability to lead innovation. Businesses in Latvia have the voice and opportunity to shape the development of the society's digital skillset through participation in associations and workgroups established by ministries having a stand in the state's employment policy.
- » **Employers in Latvia do start to think strategically about skill development.** The latest experience of ERDA shows that employers in Latvia do start to recognize the value of planning for future skills'

needs and taking action upon the development of those already now. More employers acknowledge the need to map the existing skills and identify the skill gaps in a structured way to align the employees' abilities with future business needs.

EMPLOYEE DEVELOPMENT IN THE GBS SECTOR IN LATVIA

- » **Employee training efforts overall are low in Latvia, but exporting companies, including the GBS sector, stand out with a much more mature position.**

According to Latvian Employers Confederation & Ministry of Education and Science (2019), only 36% of all Latvian companies have separate funds allocated for employee training. If focusing only on exporting companies, 94% of companies provide some kind of training to their teams, indicating a more sustainable and strategic view towards their employee development efforts compared to the average in Latvia¹.

- » **Latvian export companies treat basic digital skills & English as hygiene factors; the main focus is on the development of soft skills.** While there are some concerns about the level of digital skills in the local job market, the talent pool is large enough for now – the GBS sector in Latvia and other exporting companies treat the digital skills (as well as knowledge of English) as hygiene factors and only candidates with these skills are hired. With the basics covered, skills trained most often for the employees of GBSCs are social skills (teamwork, collaboration, presentation) in 68% of companies and people management skills (leadership, coaching, EI, motivation), in 61% of companies. Skill groups of growing importance among exporters include Cognitive skills (critical thinking, problem-solving, research, and data analytics), as well as project management skills.
- » **Room for improvement in the variety of employee development methods, which mainly reaches up to formal training at the moment.** All the exporters' survey participants indicate training, both internal and external, as the most popular

development method, while other more holistic approaches are often ignored.

ACTION POINTS

- » **Developing a skills inventory for better-informed workforce planning and decision-making.** As highlighted by the COVID-19 pandemic, business needs can change unexpectedly and rapidly. The company's readiness to adapt is of crucial importance to ensure business continuity. Developing a skills' inventory with the professional expertise, attributes, and abilities of the employees and regularly updating the inventory provides a view of the skills and gaps present in the organization at any point in time. Such insights are of great benefit for making well-informed and strategic decisions in times of disruption, as well as near-term and long-term business planning.
- » **Learning culture in the company – the key to remaining competitive in the fast-changing business environment.** Development of a learning culture in the company by cultivating a growth mindset and employing a mix of learning methods (mentoring, co-coaching, cross-functional job experience, project work, etc.) is the way to get employees accustomed and receptive to change. That will help the company to remain competitive and agile under any circumstances, improve the company's performance in the long run through continuous development of employee skills and adaptiveness towards new behaviors, tasks, and technologies.
- » **Make use of government support.** The Latvian government & EU institutions have established several programs which are designed to help companies upskill the workforce in line with the needs of future jobs. EUR 40 million in the next EU funding period is allocated to target the needs of digital skills development and leadership of digital innovation in Latvia. Languages, programming, project management, and other fields are supported in a program developed by ABSL Latvia & Investment and Development Agency of Latvia.

¹ ERDA, Stockholm School of Economics in Riga (2020). "Approach to employee development of Latvian export companies".

5 TRENDS IN SITE SELECTION 2021



RUDITE PUTNINA

Senior Manager, Tax
Deloitte Latvia



OLAF BABINET

Director, Global Location Strategy,
Deloitte Consulting GmbH



SHYLA SUDHIR

Senior Manager,
Deloitte LLP

The journey from 'functional' business service centres to 'user experience' is a well-recognised passage for many companies as they develop and refine their service offer. Cities have also evolved, offering different conditions to business services over time. One of the key considerations for location decision makers is to evaluate cities that are in sync with operational requirements.

There are still a significant number of companies considering the centralisation of their functional business services centre, as their global footprint grows. Automation of some of these functions has changed the landscape for the delivery of high volume and non-complex transactions and for many companies this has led to further outsourcing or moving captive centres to even lower cost locations. These low cost locations could be Tier 2 and Tier 3 cities

in Europe but will frequently be based in Asia-Pac / India. More functional centres originally based in Europe have been automated and off-shored as these European locations move up the value chain. Existing business service centres, having proved their capability, have expanded into more complex activities.

The increasing need for specialist skills and industry experience has played an increasing role in location decisions. The drivers behind the need to access experienced and highly skilled labour pools can vary from changes in the regulatory environment (e.g. Brexit), to skill shortages in existing company locations. This has led to a resurgence of some well-established cities where companies have the ability to relocate staff as well as accessing a strong local pool of talent.

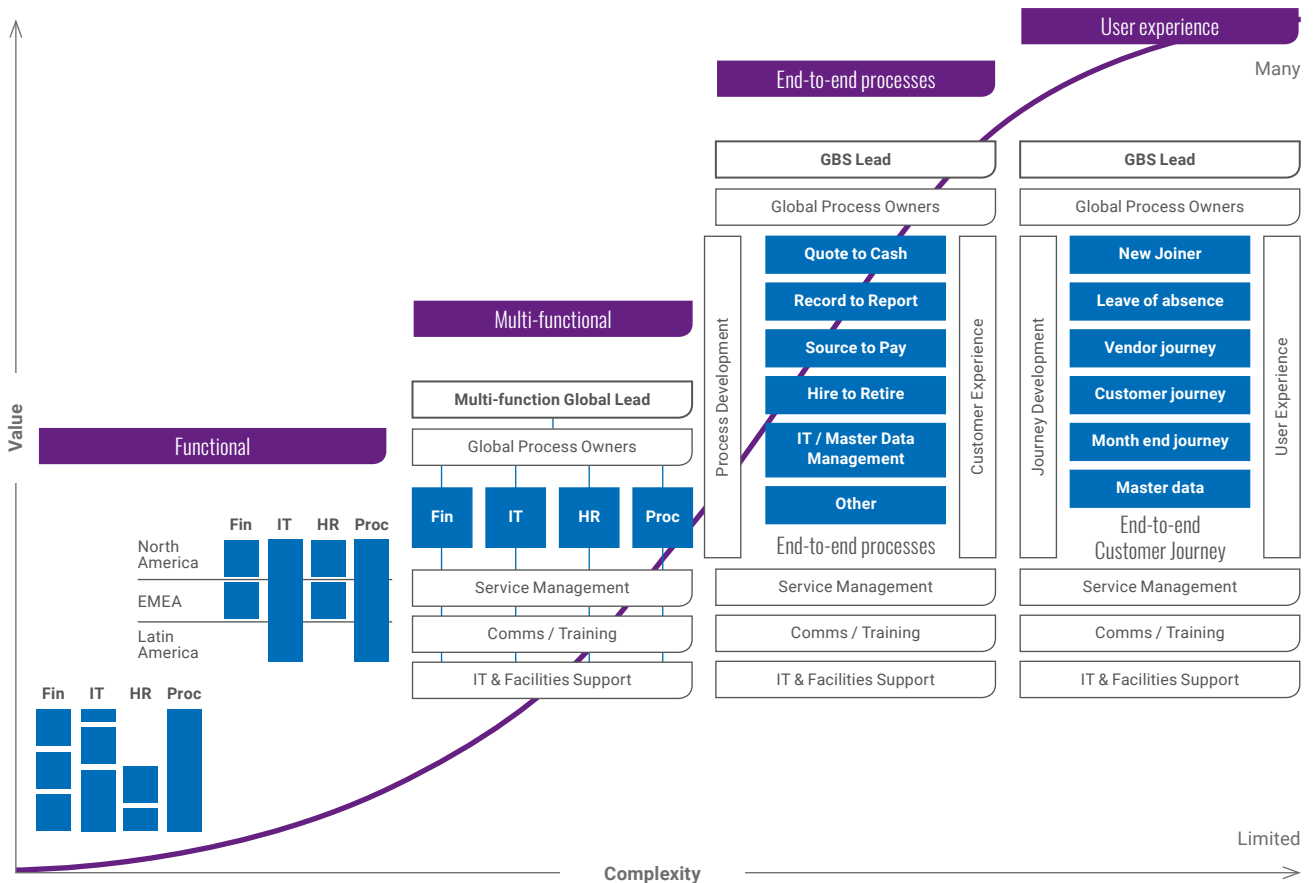
One area of skills shortage, which should be highlighted, is the ever-increasing need of information technology skills. The demand for digital and technology skills cuts across multiple sectors and skill levels can vary from fresh graduates to those with PhDs and 10+ years of experience. This shortage is global and companies often look at locations that have the ability to attract talent internationally in addition to having a large local supply and strong future pipeline of tech talent.

The uncertainties over the last year, be it the pandemic or more local issues such as Brexit, has meant companies have needed to react quickly and adapt their business delivery model. For many, the current pandemic has accelerated the digital transformation journey and shifted views on remote working patterns while reducing the need for permanent office space

and business travel. Other have had to reconsider their need for regional / local presence and changing the mix of staff in order to remain agile.

With many countries now in the process of building a road map to recovery, companies now have the chance to take a more considered approach to the global footprint. When considering location, the search area has become larger as the impact of agile working / new commuting patterns emerge and traditional city boundaries expand. A location's resilience to change, whether that be in terms of the flexibility of labour regulation, business and residential infrastructure requirements or the ability to adapt to changing skill requirements, are likely to play a larger role in the decision making process moving forward.

FIGURE 5.1
BUSINESS SERVICES "ECOSYSTEMS"



6 AI-POWERED LANGUAGE TECHNOLOGIES



RUBÉN MARTÍNEZ

Client Relationship Manager, Tilde

Multilingual communication (involving more than one language) forms the basis of every Business Services Centre operations; however, the language barrier often hinders growth and development. With recent AI advances, language technology solutions such as machine translation and virtual assistants have rapidly become a huge asset to businesses striving to become more effective and efficient while keeping the costs low.

COST OF SKILLED HUMAN RESOURCES & THEIR AVAILABILITY

To cater to customers from multiple markets, employees with respective language skills are required. However, it is often difficult and expensive for recruiters to find multilingual employees who can provide high-quality customer support in several languages. Usually, it takes much longer than expected to fill these positions, demands a lot of time and financial resources, and puts extra pressure on teams that have to cover for the missing employees.

Companies that strive to keep the cost of human resources at bay have chosen to take advantage of machine translation products to simplify translation processes and ensure seamless communication between individuals speaking various languages. This means that by enabling machine translation solutions, a company can employ dedicated customer support specialists even in cases when they do not speak the language of their customers. However, this is only one of the many benefits of machine translation technologies.

ENSURING MULTILINGUAL COMMUNICATION WITH MACHINE TRANSLATION

Ensuring smooth and instant multilingual communication on daily basis is another critical challenge for any business. For example, receiving a complex helpdesk inquiry in Spanish, when the employee does not speak the language well enough, can be a problem. However, this problem can be easily solved if you have advanced language solutions! Machine translation is a next-gen technology that provides instant



and fluent translations. It can be easily and securely connected to any platform, workflow, website, email, or helpdesk which allows people to instantly communicate in multilingual environment and access information in their native language. Thus, you do not have to worry about the language barrier slowing down your employees or businesses ever again.

DATA SECURITY AND CONFIDENTIALITY

Unfortunately, many companies still rely on free online translation services for their business needs. As every business centre deals with confidential information on a daily basis, using free online tools for translation needs may result in considerable damage to the company – disclosure of sensitive information and even financial loss. Providing employees with a secure cloud-based or on-premise translation platform will not only boost internal multilingual collaboration but also protect your data.

EASING THE BURDEN ON YOUR STAFF

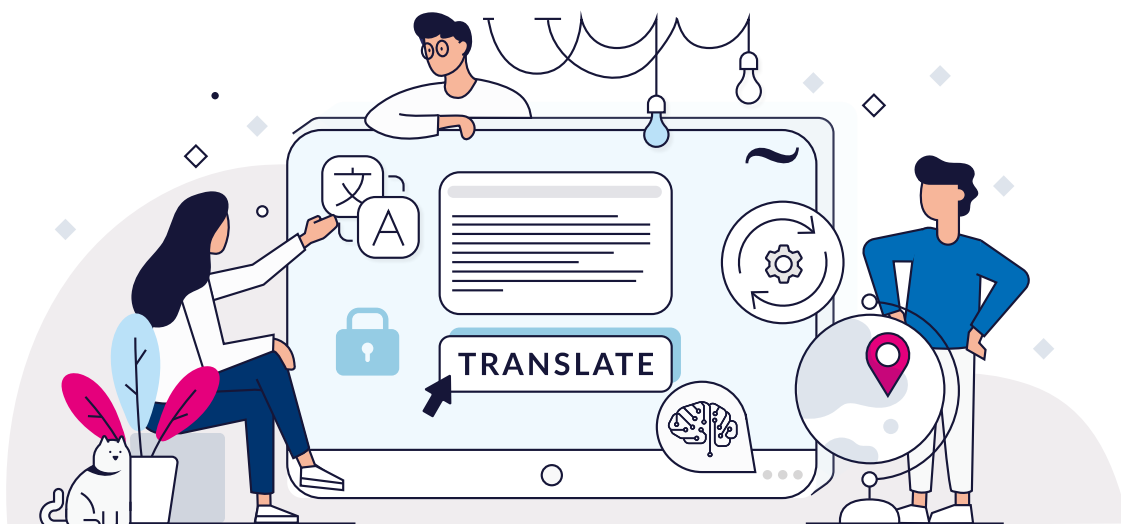
Virtual assistant is another powerful tool to ensure that your employees perform at the highest level possible. This technology can significantly ease the work of customer support services by answering up to 80% of questions and helping to save close to 30% of customer support expenses. Virtual assistants can take care of frequently asked questions allowing your customer support staff to focus on more complicated

and qualitative requests. Besides, technology advances allow to employ multilingual chatbots that can understand and communicate in multiple languages to let businesses serve many more customers, as well as improve their participation and satisfaction rates.

REACH NEW LEVELS OF SUCCESS WITH LANGUAGE TECHNOLOGY

AI-powered language technologies have become a remarkable resource to help business centres deliver a truly global customer experience, optimize human resource planning, and cooperate seamlessly across borders. Tilde, a language technology and localization services provider, offers all tools that any BSC may need to effectively run its business in today's multilingual world. A secure translation platform, instant translations in your helpdesk system, and virtual assistants are just some of the language technologies that can take your business to the next level. Moreover, Tilde's technologies can be seamlessly integrated into all current platforms and solutions (products, websites, CAT tools, etc.) and collaboration tools (email, intranet, helpdesk, etc.).

Tilde's excellence in AI-driven language technologies has been recognised internationally as Tilde has won the World Machine Translation competition (WMT) for three consecutive years. Tilde is a trusted technologies partner for individual, corporate, and government customers in the entire world.



INTERVIEW WITH THE MANAGER OF LOCAL INVESTMENT ATTRACTION OFFICE



KASPARS ROŽKALNS

Director,
Investment and Development Agency of Latvia

The Investment and Development Agency of Latvia has proved its dedication to achieving goals and building the foundation for the next wave of technological transition.

The Agency has deliberately led the organizational transformation and initiated new incentives for expanding investments starting from 2020.

We were also delighted with our results of 2020 by attracting more than 250 million euro investments that will create nearly 3000 new well-paid jobs in the following years. We have an ambitious goal for 2021-2023 by attracting foreign investment worth 480 million euros and creating 4500 new jobs. This will be achieved by improving the existing business environment and developing a support toolkit that will facilitate the sustainable growth of companies and the continuous upskilling of society.

Starting from March 2021, we have launched a fast-track procedure or "green channel" for priority investment projects. The priority is Smart sectors, including ICT and Business services. A vast scope of administrative procedures (e.g. construction permits, migration procedures, environmental impact assessment, and others) will be twice faster if the investment project meets the fast-track criteria.

Another important initiative in cooperation with the Ministry of Economics is the additional funding and relaunch of employee training and learning program. Companies will be able to apply for the co-financing of training, knowledge transfer, and implementation

of best practices in organizations in Latvia. Nearly 8 million euros will be available for all companies in Latvia to cover various costs, including the implementation of automation and robotization, training and travel costs and even employee salary coverage during the training. Nowadays, technology is already standing at the core of the business service industry, which implies a surging demand for digital skills and qualified ICT specialists.

Finally, human capital development and upskilling is an essential part of the economic growth of the country. Latvia is on the mission to create a platform for the transition and become an innovative country with rising labour productivity and increasing output with high value-added. Our strategy of developing Smart ecosystems between the public institutions, industries and academia will deliver fruitful results in the upcoming years. Top universities of Latvia are already collaborating with the industry leaders and contribute to talent development and R&D projects. Eventually, Smart ecosystems will shape study programmes to meet the demand of the market.

On behalf of the Investment and Development Agency of Latvia, I would like to express my gratitude to the ABSL Latvia team for the determination and contribution in representing the business service industry sector. Latvia has untapped potential for further business expansion, and we will continue to embrace the advantages of our country to deliver a quick economic rebound, investment growth and creation of workplaces.



Riga – Emerging GBS City



#3 largest North-European City



50 global business centers
with 15 500 employees



Highly qualified workforce
at reasonable costs



Trilingual talent | English, Latvian, Russian



Fast-track for ICT and GBS projects



Employee training
co-financing | up to 200 K € per project

Contact us:

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INTERVIEWS WITH LOCAL MANAGERS AND HQ OFFICES HAVING BUSINESS SERVICES UNITS IN LATVIA



ALED REES

SVP / President Global Business Services & EMEA Region
Based in Schaffhausen, Switzerland



What are the development plans for Cabot regionally/ globally and what role does the service center based in Latvia play to reach those goals?

As a leading global specialty chemicals and performance materials company, we are committed to advancing our customers' businesses in the transportation, infrastructure, environment, and consumer industries. Cabot Latvia, as a Global Business Services (GBS) Delivery Center, plays a crucial role in ensuring the best possible customer experience each and every day. Cabot recently underwent a major transformation project related to the GBS organization to build scale, optimize effectiveness, and improve efficiency, while maintaining high-level performance and service. The project also resulted in significantly expanded operations in Riga by creating new workplaces and expanding geographical scope. Diverse multi-functional teams managed the complex, multi-faceted project while continuing to deliver high service quality, remaining focused on the customer, attaining, and retaining key talent capabilities. The ultimate success of this project provides the foundation to continue to expand also beyond GBS operations, to broader global and regional roles in various functions leveraging the local talent and providing additional development and growth opportunities.

What do you appreciate the most about Cabot Latvia as a group company based in Latvia?

Cabot Latvia built credibility and proved to be trusted partner for company stakeholders and customers. We have built first-rate operations in Latvia and have been able to benefit from a highly engaged workforce of energetic, intelligent, and highly skilled professionals that consistently deliver excellence. Our team in Latvia are ambassadors of Cabot's culture and values. We foster an inclusive culture where high performing teams are united by values, inspired by its people and driven by purpose. This empowers everyone to innovate, experiment and drive a continuous improvement mindset in all aspects of our ways of working.

How do you value the business environment in Latvia for companies like Cabot Latvia?

The depth and calibre of talent is what sets Latvia apart including digitally savvy, multiple language capabilities, and advanced education to name just few. Over the past few years, we have seen that the business service sector in Latvia has been highly promoted and become increasingly desirable. We are proud to be one of the founding members of ABSL Latvia which has played a leading role in driving GBS sector development in Latvia. The Association has achieved a lot in creating awareness of the sector, advocacy of sector needs, talent availability and development, networking among sector companies and providing industry insights, to support improvement of the business environment.

How has COVID-19 affected the overall Cabot business around the globe and especially the Service Center based in Latvia? Are there any planned changes as a result of the pandemic?

The COVID-19 pandemic brought significant challenges for all industries globally, but also significant learnings. The safety, health and security of our employees has always been our first priority. Though it put a tremendous amount of pressure on the organization, it also gave us a real opportunity to learn and reflect on how we conduct our work and work better together. Our team showcased tremendous agility and resilience,

responding quickly to these significant challenges, and evolving our practices and ways of working to best protect the health and safety of our people as well as our company. Cabot Latvia was fully transferring to remote operations and we effectively adapted our processes and practices to ensure we continue to provide high service levels to our customers. Over the past year we have realized that we can effectively work remotely, however, we also recognize the importance of human interaction to maintain connection, team spirit and feeling of belonging. It is clear that we will adapt our ways of working after the pandemic subsides to allow for more flexibility in our daily operations.



Interviews with local managers and HQ offices having business services units in Latvia



SINTIJA MORICA

Site Manager,
Solvay Business Services Latvia



What are the development plans for Solvay regionally/ globally and what role does the service center based in Latvia play to reach those goals?

Looking forward into 2021 and beyond, Solvay will accelerate transformation. Dedicated project has been launched and aims at shaping the functional activities to make Solvay win together as one Group, with more effective and efficient business support activities.

Solvay Business Services Latvia as a part of business support functions is taking a role in the project aiming to structurally optimise business processes towards end to end service delivery to our customers. We continue our continuous improvement (CI) journey towards global alignment of service offerings, automation of activities, implementing smart solutions for our customer communication.

What do you appreciate the most about Solvay Business Services Latvia as a group company based in Latvia?

Being part of the Solvay group, Solvay Business Services Latvia played an important role in various large Worldwide projects like ERP system implementation or several automation projects. Our talents from Latvia are recognised and further build their careers in Solvay entities in Europe and the United States. I appreciate working together in one team with people with high working standards, customer focus and positive mindset.

How do you value the business environment in Latvia for companies like Solvay Business Services Latvia?

Last year Solvay Business Services Latvia celebrated its 10 years anniversary. Decision to set up a service center in Latvia was made considering talented and smart people in Latvia, language skills, good IT infrastructure, accessibility from/to Riga as a hub. During this period many new service centers entered into the market or were created, which in my opinion is the sign of a solid business environment. Working together in ABSL allows us to strengthen and develop the industry of business services as a recognised contributor to the economy.

How has COVID-19 affected the overall Solvay business around the globe and especially the Service Center based in Latvia? Are there any planned changes as a result of the pandemic?

Solvay maintain their commitment to protecting the health of employees and communities, the safety and security of workplaces and to continue serving our customers especially in critical areas needed in light of the COVID-19 pandemic. During the pandemic period all Solvay business services were transformed to the remote working environment. As a result of this, Solvay Way of Working project has been launched aiming to transform office work which entails flexibility to choose combination of office work with home office after a pandemic situation will end.



RADKA PERÁČKOVÁ

Head of Service Desk operations,
Tieto Czech s.r.o., Ostrava, Czech Republic



STEFAN KREBS

Head of Finance Operations,
Tieto Germany GmbH, Regensburg, Germany



What are the development plans for TietoEVRY globally and what role does the business unit based in Latvia play to reach those goals?

TietoEVRY creates digital advantage for businesses and society. We are a leading digital services and software company with local presence and global capabilities. Our Nordic values and heritage steer our success.

TietoEVRY employs around 24 000 experts globally, and more than 1000 employees in Latvia. The company serves thousands of enterprise and public sector customers in more than 90 countries. TietoEVRY's annual turnover is approximately EUR 3 billion and its shares are listed on the NASDAQ in Helsinki and Stockholm as well as on the Oslo Børs.

In year 2019 Tieto and EVRY joined forces – in the merge of two leading Nordic digital services companies, Shared Services Center in Riga is playing a significant strategic role in achieving accelerated synergies of the combined TietoEVRY. Riga SSC consists of Finance Operations and Service Desk and has more than 400 employees.

During 2020 both companies started also a merge of the offices in Riga to achieve TietoEVRY's global facility strategy – one city, one site. Merging offices in Riga will be finished till the end of Q2 2021, our local office in Riga is located in Jaunā Teika, and in a first relocation wave we welcomed 60 former EVRY SSC team members, our xEVRY Service Desk colleagues will be relocated with second wave during Q1, 2021. Merging offices allows us to reduce office space by 25% therefore supporting our sustainability goals as well.

TietoEVRY office concept foresees that our way of working is activity based as a form of flexible working: the workplace is best fitted for special activities such as focused working, making phone calls, group work, meetings, and filing.

Stefan:

The former Tieto GSSC was established in 2005 and is one of the first shared service centres in Latvia. After 15 years of gradual and consistent development, we are proud to have 26 colleagues in Finance Center providing financial accounting, operative accounting, controlling and analysis, data analytics, finance process development, partnering services, and master data maintenance for TietoEVRY companies in 20 countries. We have accomplished a significant level of centralization during this time while developing harmonized, efficient, automated financial processes. Teams in Riga have been a great driving force and a reliable partner during these times.

We are continuously seeking opportunities and using our capabilities to transform from transactional roles to value-added and expertise roles for greater impact, stakeholder satisfaction and personal growth and learning.

Within the TietoEVRY integration process, we are also opened to expanding our services to support business organization in their operations.

Interviews with local managers and HQ offices having business services units in Latvia

Radka:

Our target state for Cloud & Infra organization is to sell and deliver any service to any customer with a unified customer experience; have common processes and ways of working for Cloud & Infra with tools that support us and automation as a driving factor in design.

But not only automated solutions drive our customers' experience – it is the service desk organization which acts as a SPOC (single point of contact) between business and external customers and is a lead contributor to our end user's experience and satisfaction. Through service structured Service Desk organization, we're able to assign tickets to agents with the right skill set, identify areas for improvements within the services, share the knowledge as well as provide tailored trainings to employees, leading to high FCR (First call resolution). Our focus on high FCR is answering growing customer demand on having majority of queries solved within single contact and shortest possible time.

What do you appreciate the most about TietoEVRY as a group company based in Latvia? How do you value the business environment in Latvia for companies like TietoEVRY?

Stefan:

Initially, Riga was chosen because of its good location (close to headquarter in Finland, same time zone), developed air infrastructure, and similar culture sharing among Nordics and Latvia. Nowadays, TietoEVRY has become a global company with a high matrix organization crossing many countries. We are proud that we can provide both learning and professional growth opportunities to our employees. Currently, more than 60% of all CFO organization is located in Riga SSC. Roughly 90% of finance employees in Riga have a university degree, and we are also an ACCA Approved Employer to support our new finance professionals.

We already have a great team of experts in the Riga Finance teams, and we are continuously looking for new professionals to join our company. In these times of integration, Riga Finance teams have showed exceptional excellence and reliability.

Radka:

One area where we see great synergies after EVRY and Tieto merger is providing a career path to our employees, since merged company in Latvia has different level and complexity of operations.

We can employ young professionals with IT competences and provide them Scandinavian language training and at the same time we can recruit employees with Scandinavian language skills and provide them IT related training.

Stable political and economic environment as well as labour market capacity led our company to define Riga as one of our strategic nearshore locations. Yet as a company providing digital services and software, we can see increased competition in the market due to attractiveness of the region.

How has COVID-19 affected the overall TietoEVRY business around the globe and especially the subsidiary based in Latvia? Are there any planned changes as a result of the pandemic?

In late January 2020 TietoEVRY activated a global task force for Corona preparedness. The task force monitors the global situation, is responsible for the precautionary actions and business continuity initiatives. Protecting the health of our people and the safety of our workplaces while maintaining the continued operations are our highest priorities at all times. Our primary objective is to ensure the delivery of our services by securing employee availability globally. We are ensuring that the business continuity plans are up to date, including necessary measures to secure our workforce, data centers, service desk, platforms and deliveries.

As for safety a measure we have e.g., urged our employees to work from home when possible. In challenging times like this we must work together to take concrete actions to limit the spreading of the virus and thus minimize the impact on our employees and the whole society.

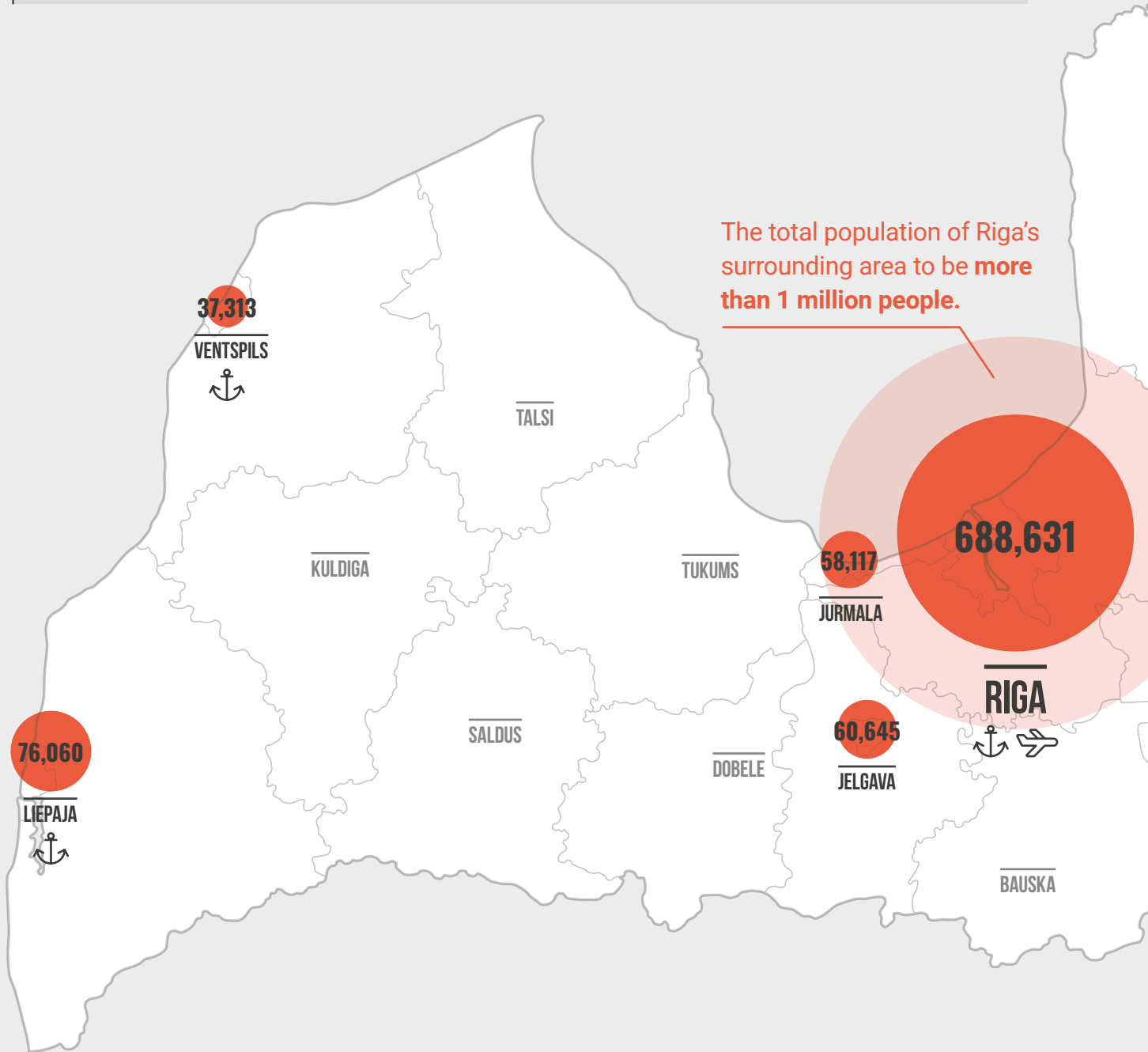
Specifically in Riga SSC, we focused on a few areas that we felt could give the most benefits in terms of emotional and physical well-being:

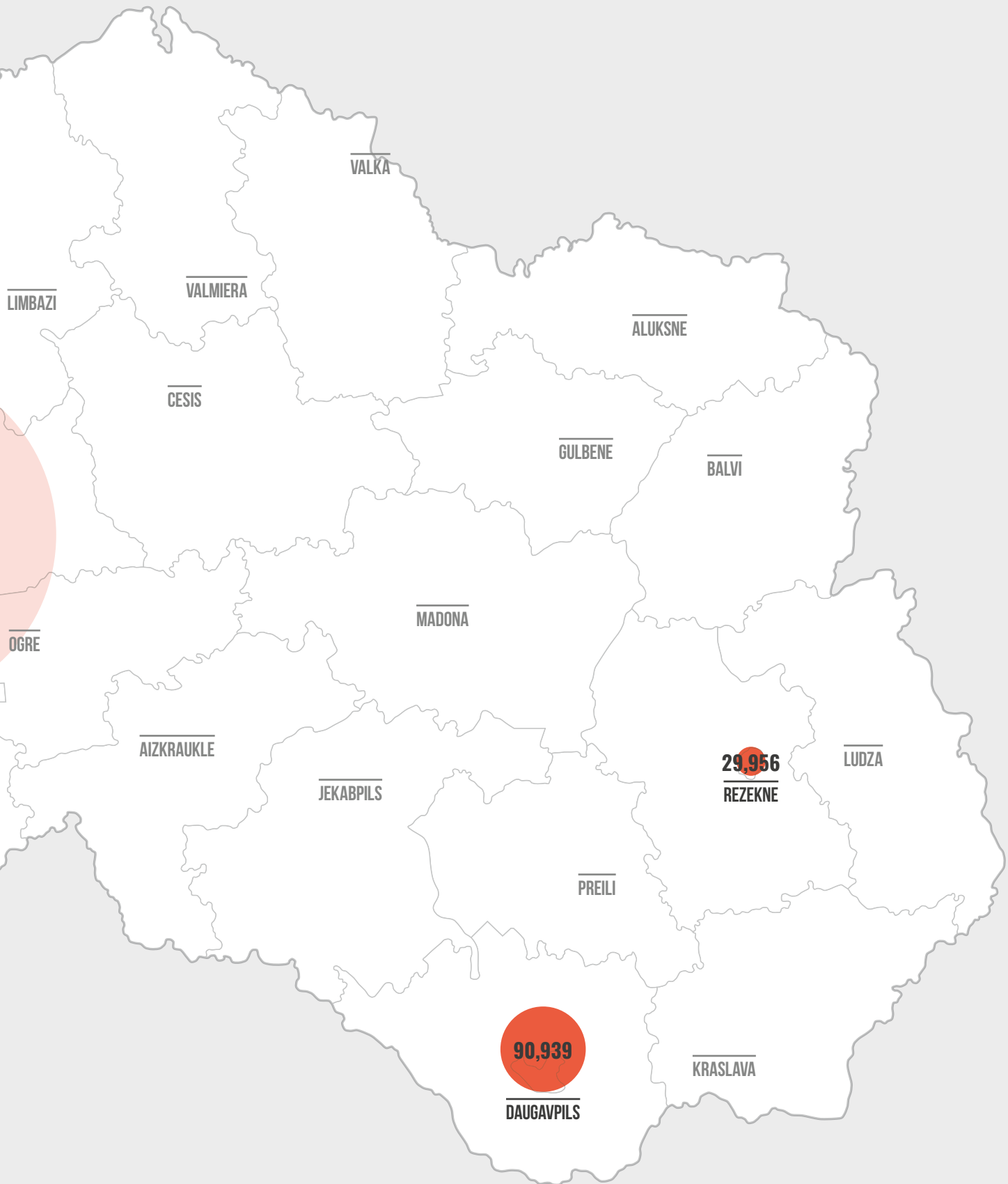
» In the COVID-19 pandemic, TietoEVRY provided free of charge office furniture, chairs, and monitors to furnish the home office.

» TietoEVRY's work-life balance initiative provides employees with a great health insurance policy and includes psychotherapy consultations, to motivate and ensure employees to take care not only of their physical but also mental wellbeing.



MAP OF LATVIA







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