# BUSINESS SERVICES SECTOR IN LATVIA 2020

In cooperation with the Investment and Development Agency of Latvia

Report prepared by the Association of Business Service Leaders in Latvia (ABSL Latvia) in cooperation with the Investment and Development Agency of Latvia, EY, Colliers International, Fontes, ERDA.

Interested in cooperating with ABSL?

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ABSL Latvia Members and Strategic Partners:

# FOREWORD

Dear readers,

2019 was a momentous year for the Global Business Services sector in Latvia. After many informal meetings among business leaders in previous years, we joined forces to create ABSL Latvia. In just one year, this platform has become a voice for the sector, which today employs more than 15,000 people, contributes significantly to the Latvian economy, and has experienced 92% growth over the last four years.

Latvia was a pioneer in the GBS sector in the Baltics, as the sector continues to demonstrate stable growth. The export of information and communication technology, including the export of business services, has increased its contribution to Latvia's GDP. For the first time in the nation's history, this industry has surpassed the contribution of what has historically been the largest industry in Latvia, the so-called "East-West Bridge" which includes railways, seaports and financial services. GBS has become an essential sector in the economy, and it continues to grow significantly both in scale and in the maturity of services provided.

ABSL Latvia aims to address five main areas in 2020 and beyond: developing awareness and branding of the sector; providing industry insights; developing our community as a place for knowledge sharing and networking; and providing advocacy and a bridge between the sector and government.

This report aims to support ABSL Latvia's mission to bring awareness, knowledge and data to our members, investors and other stakeholders, to show how far this sector has grown, and to provide an outlook to the future.

On behalf of the ABSL Latvia Board, we would like to thank all the sector companies and stakeholders that supported the development of the first GBS Latvia report. We hope that you find this report insightful.

We have an exciting journey ahead of us, in the future transformation and growth of GBS.

**Fredis Bikovs**
Chairperson ABSL Latvia

# ABSL LATVIA CELEBRATES ONE-YEAR ANNIVERSARY

ABSL Latvia celebrates its one-year anniversary in April 2020. The passing year was full of activities and initiatives in order to develop the business environment in Latvia for BPO, SSC/GBS, IT and R&D business services centers.

While ABSL has already organized its first informative seminars and knowledge-sharing events, there are still many ways for us to learn and become inspired from each other. Additionally, ABSL Latvia has held productive discussions with government officials and other stakeholders, meaning that the best is yet to come in this and upcoming years.

Undoubtedly, the first year is always the most difficult, due to the need to clarify and explain the role of ABSL in Latvia. The Association also needed to build awareness in order to successfully contribute to the development of the business services sector in Latvia.

ABSL Latvia is celebrating its one-year anniversary together with 13 members which together employ more than 5 thousand employees, as well as two strategic partners. The aim of the Association is to double its number of members by the end of 2020, thus becoming an even stronger voice when meeting with government officials and other stakeholders whose involvement could be crucial.

BPO, SSC/GBS, IT and R&D business services centers based in Latvia are welcomed to take advantage of joining ABSL, a strong community which aims to build and shape the voice of the sector. For strategic partners, this is an excellent opportunity to get to know potential clients. To learn what kind of support and initiatives are provided by ABSL Latvia, please find the main responsibilities of the Association below.

## RESPONSIBILITIES OF ABSL LATVIA

**Advocacy**
Communication with government institutions, OCMA & EU funds

**Talents**
Collaboration with universities (improved study programs)

**Awareness**
Appearance in public media & participation in public events

**Networking**
Knowledge sharing events

**Information**
Annual Business Services report

This is a historic year, as the Business Services Report is being issued for the first time in Latvia. This will serve as a tremendous source of information for all stakeholders seeking the latest insights about the Business Services market in our country. ABSL is proud to announce the Investment and Development Agency of Latvia (LIAA) and EY Latvia as it’s main cooperation partners in helping to bring the Report to life.

The Business Services Report will now be issued on an annual basis. The report will increase its value with every passing year, as ABSL will be able to analyse changes in data year-over-year and adjust forecasted trends and scenarios accordingly.

## BUSINESS SERVICES INDUSTRY IN A NUTSHELL

| | |
|---|---|
| 50 | Number of Business Services centers based in Latvia |
| 15,000 | Jobs |
| 10% | Average growth in people employed by the sector in 2019; the same growth rate is forecasted for 2020 |
| IT<br>FINANCE<br>CUSTOMER CARE | Most popular business support functions |
| 50% | Business Services centers headquartered in Scandinavian countries |
| 89% | Sector companies planning to expand operations in Latvia |
| 90% | BPO, SSC/GBS, IT and R&D business services centers implementing automation & AI solutions or planning to do it in the near future |
| 38% | Business Services centers providing their services globally; the remaining part serves specific region or countries |
| 230 | Average number of employees employed per company |

## SECTOR CONTRIBUTION TO ECONOMIC GROWTH IN LATVIA

| | |
|---|---|
| 2.3% | Share in Latvian GDP |
| 8% | Share in Latvian services export |
| MORE THAN 137 M EURO | Yearly payments into government budget through taxes |
| 1,657 EURO | Average gross salary |
| 1,000 EURO | Common entry-level gross salary |

## HIGHLY SKILLED & MULTILINGUAL TALENTS

| | |
|---|---|
| 52 | Higher education institutions |
| 80,000 | Students |
| 15,000 | Graduates each year |
| 85% | Employees of Business Services centers holding Bachelor's, Master's or Doctor's Degrees; the remaining 15% represent students in their final year of studies |
| 79% | Talent employed by BPO, SSC/GBS, IT and R&D business services centers under the age of 35 |
| 7% | Employees from foreign countries, representing 42 countries |
| 95% | Fluent in at least one foreign language |
| 54% | Speak 2+ foreign languages |
| 13% | Speak 3+ foreign languages |

In 2019 Latvia was announced as an emerging location for Global Business Services Centers in the Annual Central Eastern European Shared Services & Outsourcing Awards organized in Warsaw. The prestigious nomination highlights the current situation in Latvia, which has not yet reached the levels of saturation felt in other popular Global Business Services locations in Europe. Riga still has the capacity to welcome new players in the sector. It is comparatively easy to find talent in Finance, Customer Care, HR, Procurement, Law, Logistics, while there might be certain challenges when looking for IT professionals.

# 1 OVERVIEW OF THE BUSINESS SERVICES SECTOR

## REPORT CONCEPT AND METHODOLOGY

Twenty-six BPO, SSC/GBS, IT and R&D business services centers, which represents more than half of all business services companies based in Latvia, took part in the ABSL survey, allowing us to reveal comprehensive information about the sector in 2020. Companies under analysis together employ more than 10,000 employees, offering credibility to the insight provided by the research data.

**26**

Business Services Centers participating in the Survey

**71%**

Overall percentage of business services sector employees in Latvia represented in ABSL research

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 a similarities uniting them under a single sector: Global Business Services (GBS). The Ministry of Economics of the Republic of Latvia has come up with a detailed definition of the Global Business Services sector to provide a clear understanding of what's being counted in the industry.

Here are the main principles describing the Business Services sector in Latvia:

» Service center is formed as the separate business unit of a globally represented organization 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 care, 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.

ABSL | Chapter content preparation: **ABSL LV**

» 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

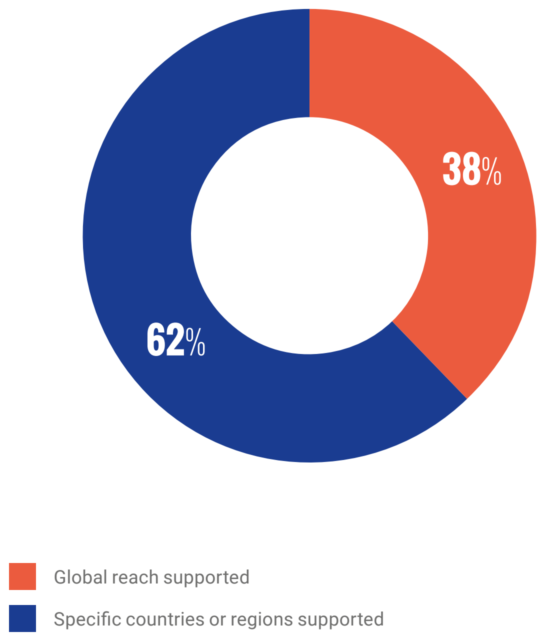
The research features several frequently used terms. Business process outsourcing (BPO) stands for a business unit that provides services to a legally unrelated entity, while Shared Service Center (SSC) represents a company with the main responsibility of supporting group companies either regionally or worldwide. IT 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 customize already developed software. Finally, Research & Development Center refers to a business unit that has its main operations in research, development or testing of certain products or services.

ABSL carried out the research using an online survey tool. The survey included 42 questions in different areas such as changes in headcount, education, skills, services provided, future plans, level of automation and AI, etc. It took approximately 40-60 minutes for each respondent company to provide all the necessary answers. We would like to express our gratitude to all the companies that took part in the survey – without your involvement, this report wouldn't be possible.

Based on the strategy of each global company, a decision must always be made regarding whether to have a single multifunctional business support unit which serves all business around the word or multiple operations in different locations providing services to a region or specific countries.

**FIGURE 1.1**

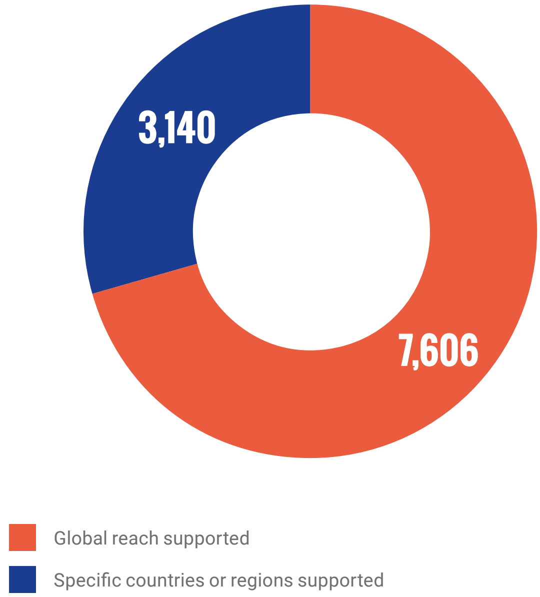
GEOGRAPHICAL REACH OF SERVICES PROVIDED BY BPO, SSC/GBS, IT AND R&D CENTERS




The pie chart indicates that there is untapped opportunity for many BPO, SSC/GBS, IT and R&D business services centers located in Latvia to grow by servicing additional countries and regions.

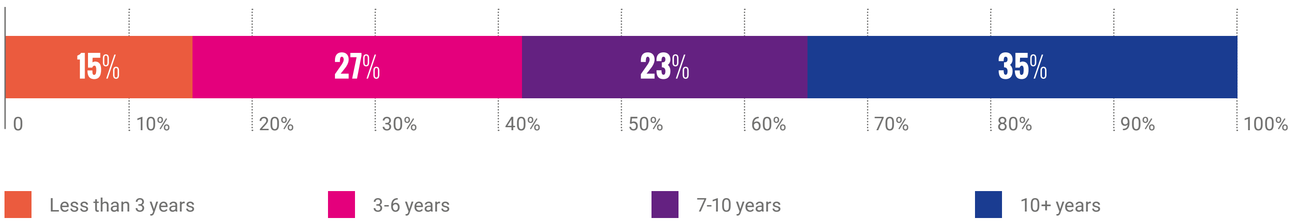
The main competitive advantages of Latvia as a location for business services centers are its unsaturated market and access to multilingual and educated talent, which means that the existing business environment is highly welcoming to scale operations in Latvia.

### FIGURE 1.2
GEOGRAPHICAL REACH OF SERVICES PROVIDED BY SECTOR COMPANIES FROM THE PERSPECTIVE OF PEOPLE EMPLOYED




On the other hand, the figure above reveals a completely different picture by showing that the majority of people employed in sector companies under review are providing their services globally. This means that there are few companies with large number of employees servicing business globally, while the rest of the industry tends to service specific countries or regions.

### FIGURE 1.3
LENGTH OF TIME THAT BUSINESS SERVICES CENTERS HAVE HAD THEIR OPERATIONS IN LATVIA




Although one-third of companies representing the sector have had their operations in Latvia for more than 10 years, the sector as such cannot be considered highly mature in Latvia. The data summarized in the bar chart above leads to the conclusion that few companies have entered the market in recent years. This could be attributed to the insufficient level of activities carried out in order to develop the recognition of Riga as a location for business services organizations. Latvia could be considered an untapped opportunity for sector companies.

## TABLE 1.1
EMPLOYMENT STRUCTURE IN BUSINESS SERVICES CENTERS UNDER REVIEW

**10,746**
People employed in 26 BPO, SSC/GBS, IT and R&D business services centers under analysis

**99%**
Based in Riga

**0.5%**
Based in Ventspils

**0.5%**
Based in Jekabpils

According to data from the Central Statistical Bureau of Latvia, there were 693,046 citizens[1] in the Riga region in 2019. Taking into account the large number of people living in regions close to Latvia's capital city, the majority of which work in Riga, it is more appropriate to consider the total population of Riga's surrounding area to be more than 1 million people. This gives Riga the status of third largest city in Northern Europe. 61% of this population is in their working age. The average gross salary in Riga is 1285 Euro, while the unemployment rate is around 4.7%.This explains why the vast majority of business services centers are based in Riga.

Nevertheless, Latvia is still home to other cities where BPO, SSC/GBS, IT and R&D business services centers could be developed. The current situation shows that companies are being passive in trying to expand their operations in smaller cities of Latvia. Ventspils and Jekabpils have established their first business service centers. Let's have a quick review of other potential cities where business operations could be developed. Cities listed below are chosen based on the number of citizens (starting from 30,000 inhabitants).

## TABLE 1.2
OTHER CITIES IN LATVIA SUITABLE FOR BUSINESS SERVICES OPERATIONS

| | DAUGAVPILS | JELGAVA | JURMALA | LIEPAJA | REZEKNE | VENTSPILS |
|---|---|---|---|---|---|---|
| population* | 91,407 | 60,798 | 57,503 | 76,269 | 30,088 | 37,538 |
| people in working age* | 56,605 | 37,933 | 36,350 | 47,271 | 18,774 | 23,299 |
| unemployment rate** | 14.5% | 6.8% | 4.7% | 7.7% | 14.5% | 7.7% |
| average gross salary*** | 805 | 1,043 | 967 | 1,063 | 828 | 1,108 |

* Office of Citizenship and Migration Affairs in Latvia (March, 2020), *https://www.pmlp.gov.lv/lv/sakums/statistika/iedzivotaju-registrs/*
** State Employment Agency of Latvia (March, 2020), *https://www.nva.gov.lv/index.php?cid=6#bezdarbs*
*** Central Statistical Bureau of Latvia (March 2020), *https://data1.csb.gov.lv/pxweb/lv/sociala/sociala__dsamaksa__ikgad/DSG070.px/table/tableViewLayout1/*

The latest statistics provided by the Central Statistical Bureau of Latvia and State Employment Agency of Latvia reveal a very interesting situation. While the unemployment rate in Riga was 4% at the end of January 2020, Daugavpils stood out with its significantly

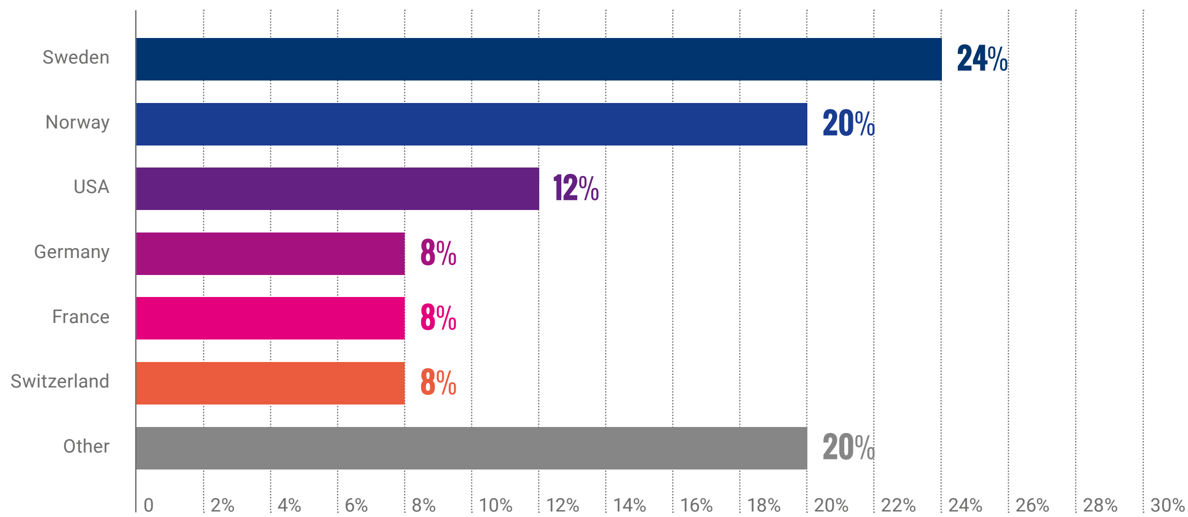
[1] Office of Citizenship and Migration Affairs in Latvia (March, 2020), *https://www.pmlp.gov.lv/lv/sakums/statistika/iedzivotaju-registrs/*

higher unemployment rate of almost 14%. This figure, in combination with the highest number of citizens in their working age turns out to set excellent conditions from the perspective of talent availability. Additionally, the University of Daugavpils has approximately 2,300[2] students and 430 graduates each year in economics, IT, mathematics and management study programs. Taking into account the geographical location of Daugavpils (close to the border of Russia), it is highly recommended to select this location if there is a need for talent with Russian language skills. The only downside of having operations in Daugavpils is its proximity to Latvia's only international airport in Riga. The distance between Riga and Daugavpils is 223 kilometres. Management teams visiting their operations center in Latvia must spend 2-3 hours by car, train or bus to reach Daugavpils.

Only one company out of 26 under analysis acknowledged the possibility of opening a new BPO, SSC/GBS, IT and R&D business services center in the next 12 months in a Latvian city other than Riga. However, it is only a question of time with regard to when other BPO, SSC/GBS, IT and R&D business services centers will start to consider expanding their operations in other cities of Latvia providing a comparable business environment and access to talent.

**FIGURE 1.4**

COUNTRIES OF ORIGIN OF BUSINESS SERVICES CENTERS BASED IN LATVIA




Global companies with business centers based in Latvia prefer a nearshoring model instead of offshoring to keep their business running efficiently.

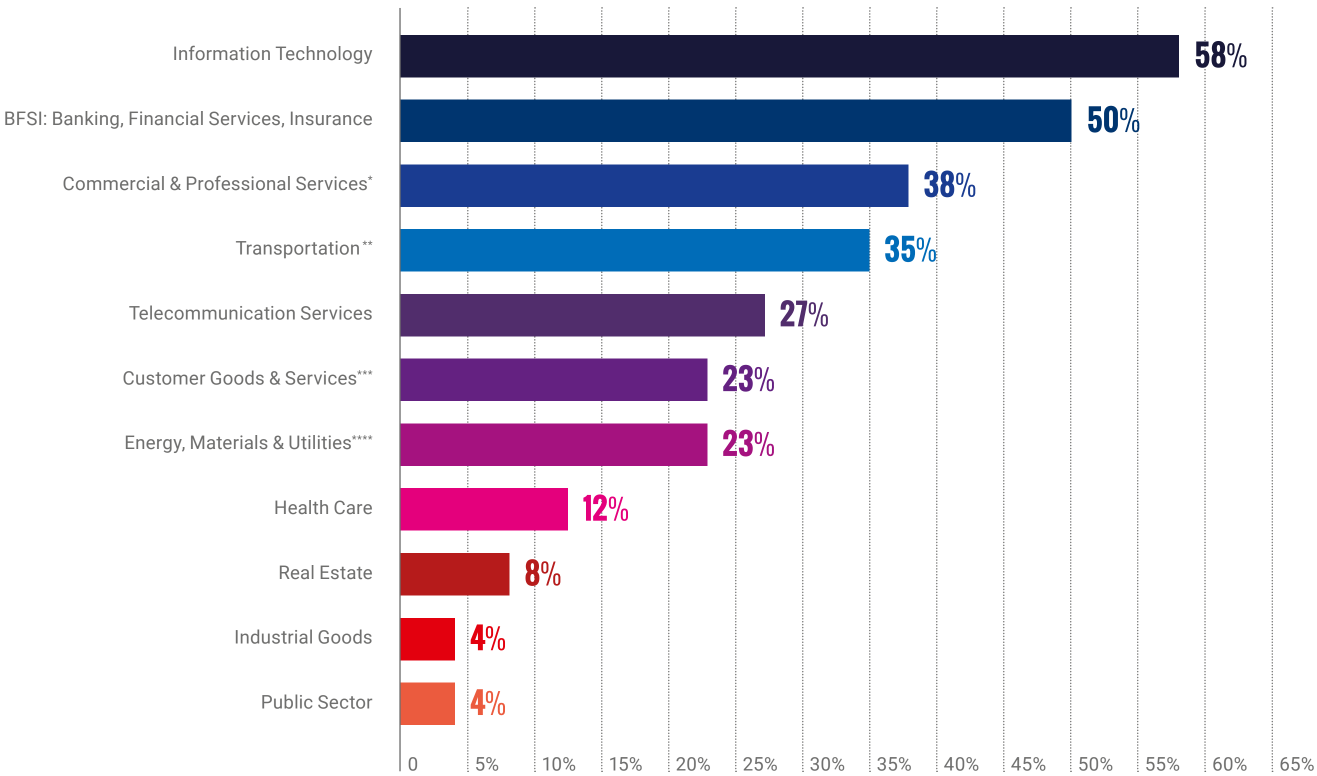
For many years, the highly popular trend of offshoring offered the possibility to significantly reduce costs related to back-office operations. However, global companies have since understood the incomparable competitive advantages of positioning their business units in nearby countries. This is the reason

[2] Ministry of Education and Science (2018)
*https://izm.gov.lv/lv/publikacijas-un-statistika/statistika-par-izglitibu/statistika-par-augstako-izglitibu*

why 44% of business services centers participating in this research originated in Scandinavian countries. Organizations based in Sweden and Norway appreciate similarities in cultural characteristics including the possibility to easily discuss business manners, close or shared time zones, excellent language skills and even a willingness to learn Scandinavian languages. This is considered a strong reason to base BPO, SSC/GBS, IT and R&D business services centers in Latvia. Additionally, Riga International Airport provides multiple daily flights to both countries with only 1-2 hours travel time. These factors cannot be underestimated, since high-level managers usually have fully scheduled calendars and are unwilling to spend time on traveling. Moreover, the Investment and Development Agency of Latvia has launched modern premises in Riga International Airport, designed specifically for business meetings. This means that private meetings can be held also in Riga Airport, where separate meeting rooms offer all necessary technical equipment for presentations, conference calls, and wifi access. There is even coffee available to make meetings more productive .

**FIGURE 1.5**

BUSINESS SECTORS THAT BPO, SSC/GBS, IT AND R&D CENTERS SERVICE FROM LATVIA

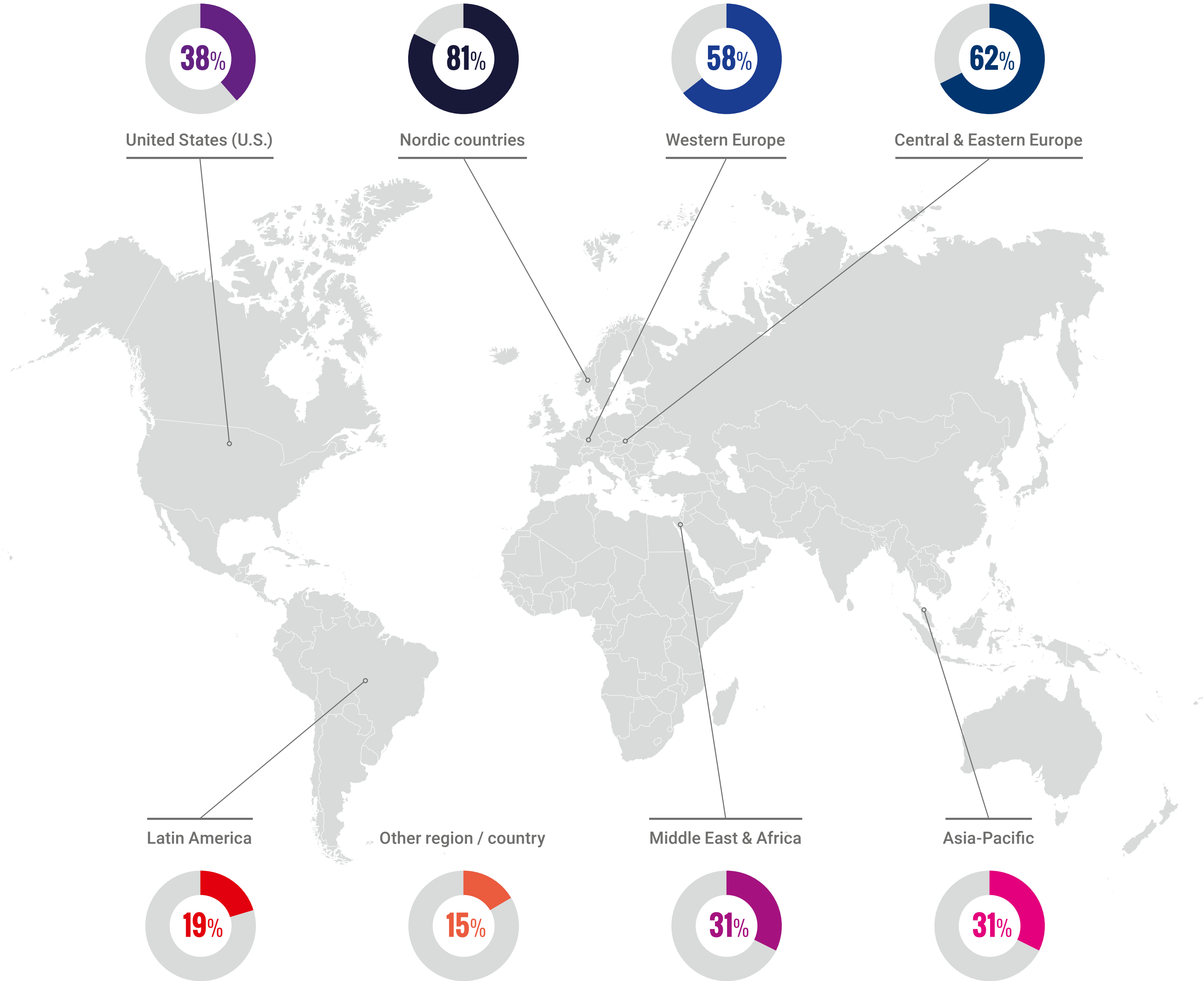



* i.a. Business Support Services, HR Services, Legal Services, Research & Consulting Services
** i.a. Airlines, Logistics
*** i.a. Automation & Auto Parts, Food & Beverages, Media, Retailing, Leisure
**** i.a. Oil & Gas, Chemicals, Paper & Forest Products, Metals & Mining

> The overall professional environment in SSC / GBS, IT and R&D business services centers can be impacted slightly by the industries they service.

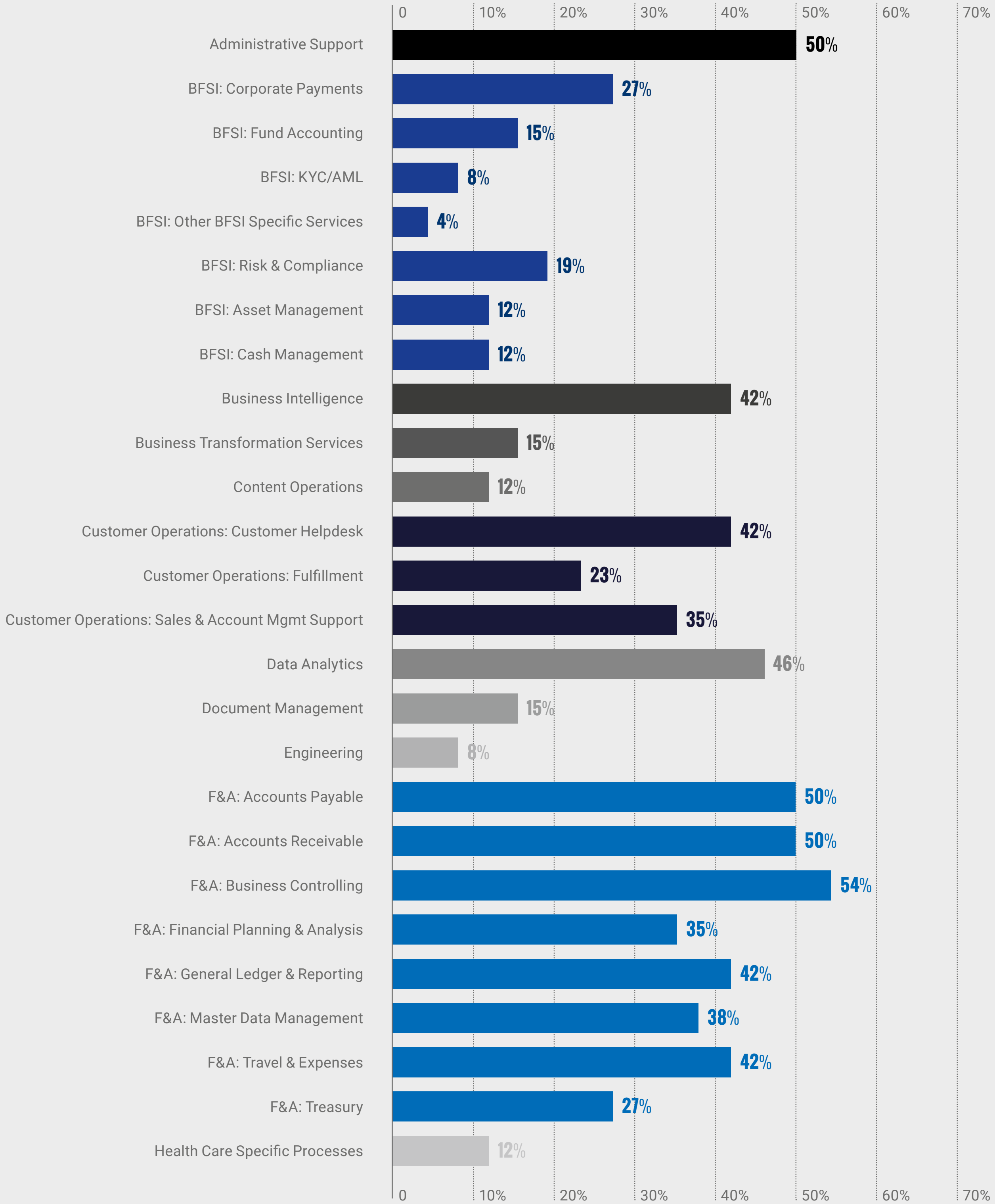
For example, in a Shared Service Centre mainly supporting banking businesses, the dominant expertise in the operational centre will be focused on banking solutions and knowledge in that area. The most popular sectors serviced by operational centers based in Latvia are currently IT and Banking, Financial Services, and Insurance, which explains why those two business support functions are represented in a majority of companies under review.

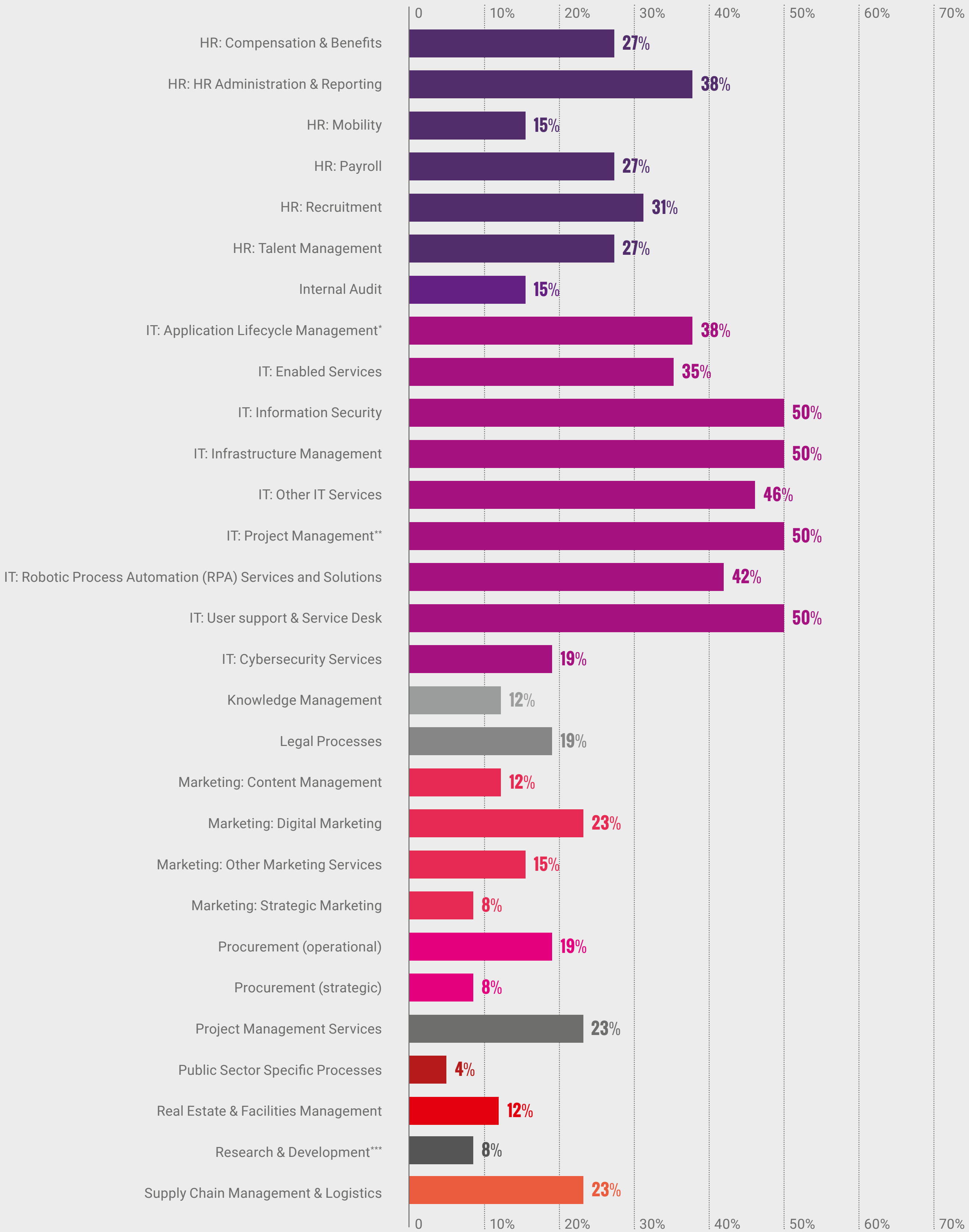
FIGURE 1.6
GEOGRAPHICAL RANGE OF BUSINESS SERVICES PROVIDED FROM LATVIA




The majority of business services centers analyzed in the report provide services to Nordic countries. This correlates directly with the dominant number of BPO, SSC/GBS, IT and R&D business services centers based in Latvia originating in Scandinavian countries.

FIGURE 1.7
PROFESSIONAL BUSINESS SERVICES PROVIDED BY COMPANIES UNDER ANALYSIS



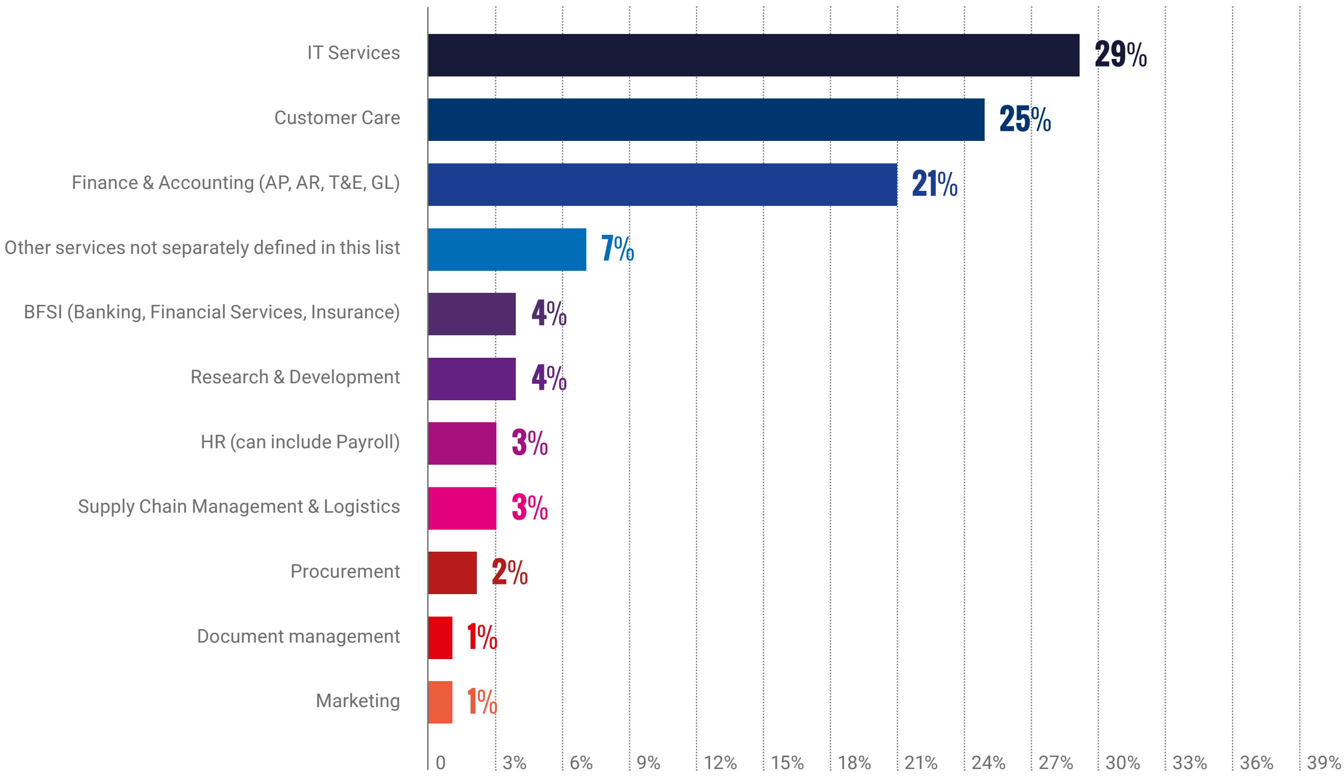



* incl. Software Development
** incl. Cloud Services
*** other than Software Development

The functions most commonly served by business hubs based in Latvia are IT, finance and accounting, data analytics, administrative support and customer care. Although existing companies may feel that there is a shortage of IT professionals, many new investors are willing to set up IT operations in Latvia. Taking into account the characteristics of the labor force in Latvia, there is a high opportunity to develop HR, finance, procurement, legal, and logistics business support functions.

FIGURE 1.8

THE STRUCTURE OF EMPLOYMENT IN SECTOR COMPANIES BY PROCESS CATEGORIES SUPPORTED




Companies differ between multifunctional business services centers and those providing a single business support function. However, most of the people working in organizations under review are employed in IT, customer care requiring specific foreign language skills, and finance. Undoubtedly, jobs in finance or IT are considered to be among the highest paid professions in Latvia. In many cases, customer care extends beyond the classic call center function, as employees must known a Scandinavian language or other specific language in addition to high-level English.

In other popular locations in Central and Eastern Europe, the structure of employment according to process categories supported shows similar trends.

**FIGURE 1.9**

CHANGES IN THE SCOPE OF SERVICES PROVIDED BY SECTOR COMPANIES IN 2019

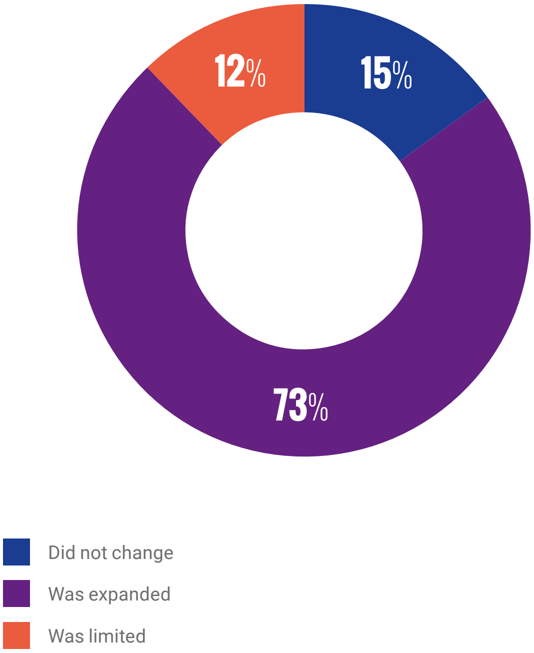



**FIGURE 1.10**

FORECAST FOR CHANGES IN THE SCOPE & GEOGRAPHICAL REACH OF SERVICES PROVIDED BY SECTOR COMPANIES UNDER ANALYSIS IN 2020

| | |
|---|---|
| 35% | New geography and service offerings |
| 27% | New (additional) service offerings |
| 12% | Development in terms of geography |
| 23% | No plans to change our current scope of activities |
| 12% | We are reducing our scope of activities and / or geography |

The companies under analysis have seen 10% growth in headcount, while 73% of business hubs under analysis expanded their scope of services in 2019. This indicates that BPO, SSC/GBS, IT and R&D business services centers are taking over new services, though this does not necessarily mean that those newly acquired services are providing jobs to a significant amount of people. There may be also cases in which existing employees simply take on new responsibilities to ensure an increasing amount of services.

According to the survey, 74% of BPO, SSC/GBS, IT and R&D business services centers are planning to grow in terms of geography, service offerings or both in 2020. This is roughly the same percentage as in 2019: 73%.

In comparison to last year, nearly twice as many companies participating in the survey expect to have no changes in their existing scope of activities in 2020. Of course, opportunities to take over a new business support function can come about spontaneously, as the result of a decision already made by the headquarters of a global company. This means that there may be cases in which the management team of a business hub based in Latvia is not fully aware of the opportunities that may appear in the future. The same conclusion applies to the percentage of companies that indicated a possible reduction in services supported. However, it should be considered positive that this number is significantly lower than in 2019. BPO, SSC/GBS, IT and R&D business services centers under analysis forecasted the same growth in headcount as in 2019 – 10%.

**FIGURE 1.11**
TYPES OF BUSINESS CENTERS

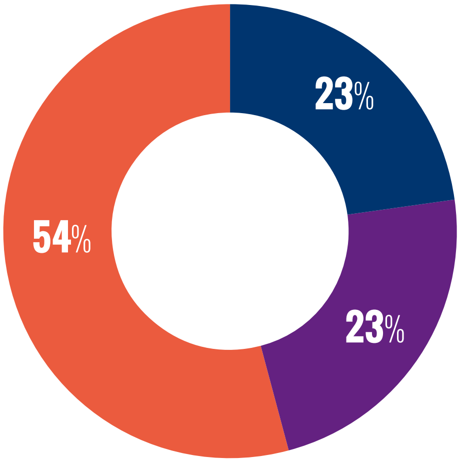
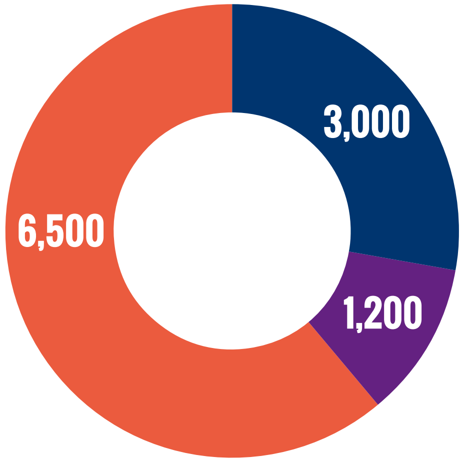


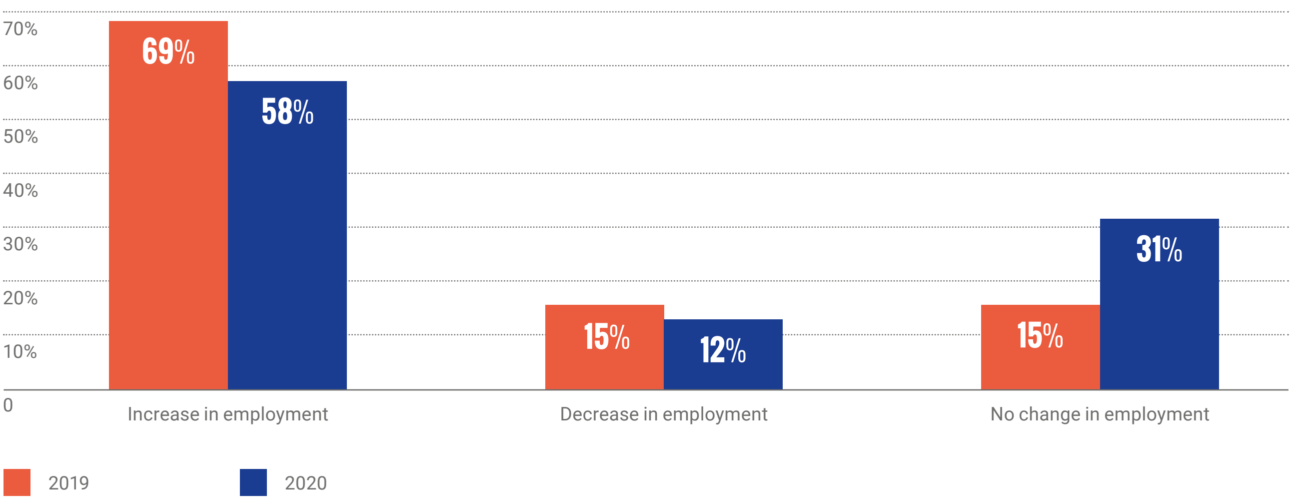

**FIGURE 1.12**
EMPLOYMENT STRUCTURE BY TYPE OF BUSINESS CENTERS




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

The majority of business services centers are operating as internal units and captive centers. The same situation can be seen in employment structure, where more than 6,500 employees are working for these types of organizations.

**FIGURE 1.13**
CHANGES IN HEADCOUNT IN 2019 & 2020 FACED BY BUSINESS SERVICES CENTRES



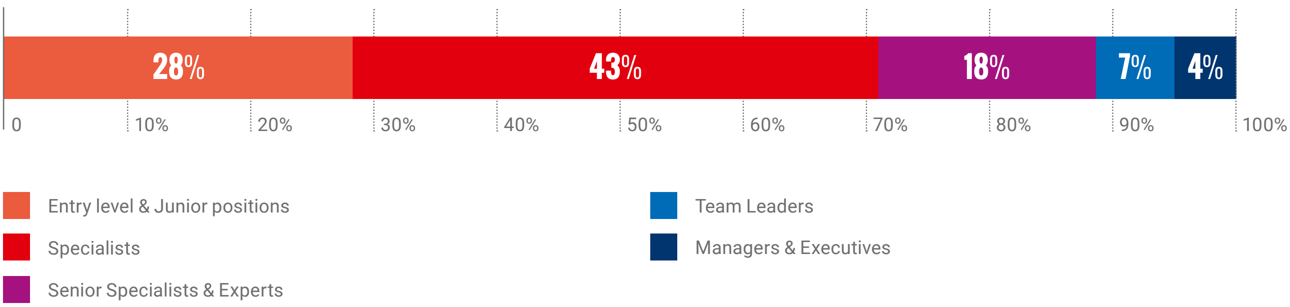
The number of employees at BPO, SSC/GBS, IT and R&D business services centers under review in the end of 2019 was around 10,000. According to updated information, there are around 15,000 people employed in the sector.

69% of business service centers under review have increased their headcount in 2019 by an average of 15%, which means that average sector growth has been 10%. Comparatively less companies, 58%, are planning to increase their number of employees in 2020 by an average of 17%, which leads to the same average sector growth of 10%. Decrease of headcount was 1% in 2019 in the whole sector, and the same percentage is forecasted for 2020. According to assumptions made before the officially declared pandemic situation (COVID-19) in country, it was forecasted to have around 1,000-1,500 new jobs to be created by sector companies, not including opportunities related to new business services centers setting up operations in Latvia. A similar number of new jobs within industry was created in 2019. COVID-19 and bans associated with the crisis situation can negatively impact the forecasted growth.

According to data collected via the survey, the average employee turnover rate is 20% in the BPO, SSC/GBS, IT and R&D business services centers based in Latvia in 2019. At the same time, there are also companies having employee attrition rates even below 10%.

## FIGURE 1.14

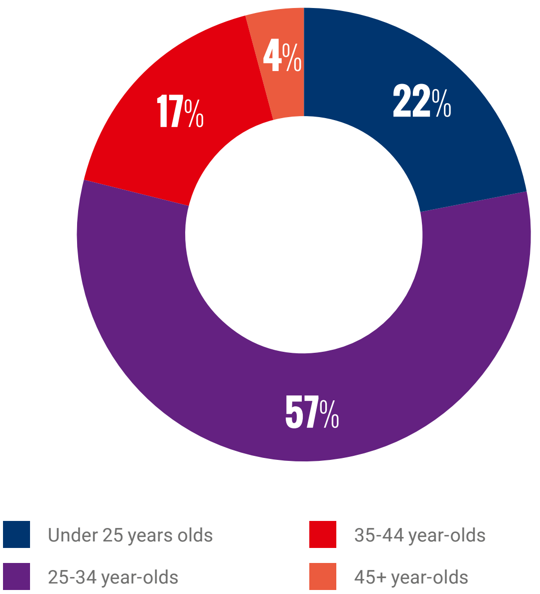
STRUCTURE OF EMPLOYMENT IN SECTOR COMPANIES BY CATEGORIES OF POSITIONS




A vast majority of employees working for BPO, SSC/GBS, IT and R&D business services centers under review are in junior or specialist positions, while 29% are more experienced employees sharing positions in expert, team lead or management roles.

**FIGURE 1.15**

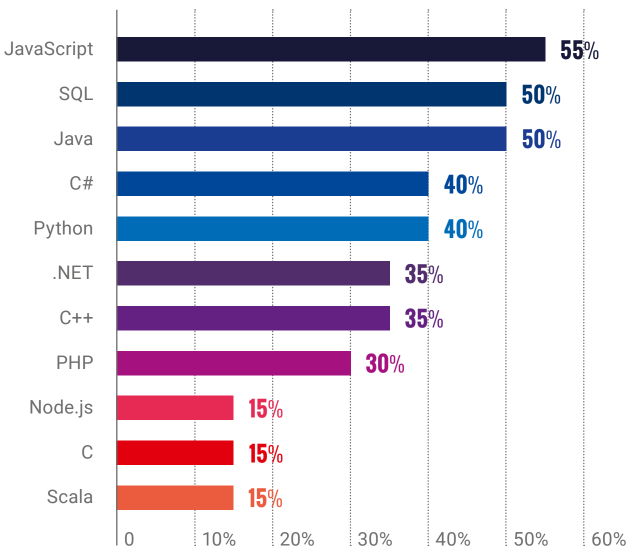
STRUCTURE OF EMPLOYMENT IN SECTOR COMPANIES BY AGE GROUP




The vast majority of people employed in business services centers are millennials; because this generation grew up in the era of technology, they have had the superpower of being able to easily learn the new systems, IT and digital tools widely used in BPO, SSC/GBS, IT and R&D business services centers. Interestingly, that is only a small percentage of people aged 45+ employed in the sector. This can be explained by the fact there one of the main requirements to be able to work for a business services centre is English language skills at a professional level. Generation X and Baby Boomer employees are people who have lived in Latvia since the period shortly after World War II, which had major implications on language skills. Accordingly, a large majority of people aged 45+ are well educated in Russian language or even German while significantly lacking in English skills. In addition, their ability to adapt to new systems, IT and digital tools might not be as fast since they have not grown up among these new technologies. Nevertheless, there are several BPO, SSC/GBS, IT and R&D business services centers that have started to slowly integrate the 45+ age group.

**FIGURE 1.16**

PROGRAMMING LANGUAGES USED BY IT-RELATED BUSINESS SERVICES CENTERS




The most frequently used programming languages in IT-related business services centers are JavaScript, SQL, Java, C#, Pyton, C++ and PHP, while Scala, C and Node.js are less popular. This means that talents with JavaScript, SQL, Java programming skills are highly demanded by sector companies.

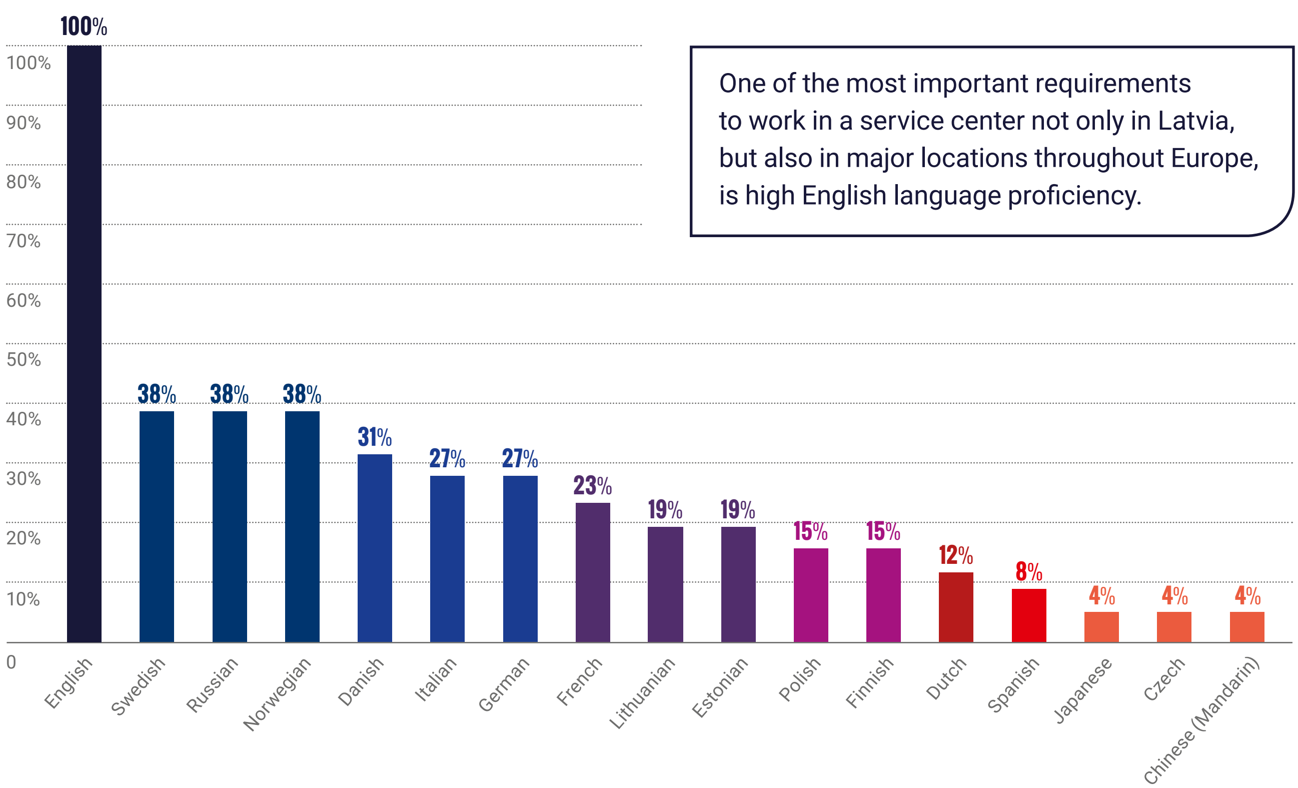
Some BPO, SSC/GBS, IT and R&D business services centers organize internal IT training in order to have the required programming skill sets. Latvia is also home to private IT schools that provide programming courses for adults who already have full-time jobs in a different area but would be willing to change their professional profile. Latvia's higher education institutions have around 7,000 IT students each year and nearly 800 graduates, however, this is not enough to meet the demands of the highly growing IT sector. Because of this, people are being recruited also from other countries. At the end of 2019, approximately 750 foreign residents, 7% of total foreign residents, were employed in sector companies under review. This amount is not particularly high due to the fact that it is still considered to be time-consuming to acquire the necessary work permits for foreigners coming from third countries. Non-Latvians are mainly employed in jobs related to IT or customer care. There has been a shortage of IT professionals for several years, not only in Latvia but also in other European countries. Therefore, it is not surprising that companies with IT function are looking for professionals from other countries. In order to solve the shortage of IT talents, recently University of Latvia, Riga Technical University and Riga Business School have launched a new bachelor's study programme where business and leadership meet IT. This is an outstandingly competitive study programme attracting students from nearby countries.

The given opportunity to go for a double diploma with prestigious University at Buffalo in New York will be highly appreciated by those individuals who are striving for the best. The newly formed bachelor's program proves that Riga is on its way to become the most recognized city in the region, known for high level Business & IT professionals.

The correlation between customer care functions and foreign workers is mostly due to specific language skills. Many BPO, SSC/GBS, IT and R&D business services centers organize internal language academies, but for some it is easier to recruit foreigners for whom the needed language is their mother tongue. This is a popular tendency when people with Scandinavian languages are needed.

**FIGURE 1.17**

LANGUAGES REQUIRED BY THE CUSTOMERS OF BUSINESS SERVICES CENTERS




One of the most important requirements to work in a service center not only in Latvia, but also in major locations throughout Europe, is high English language proficiency.

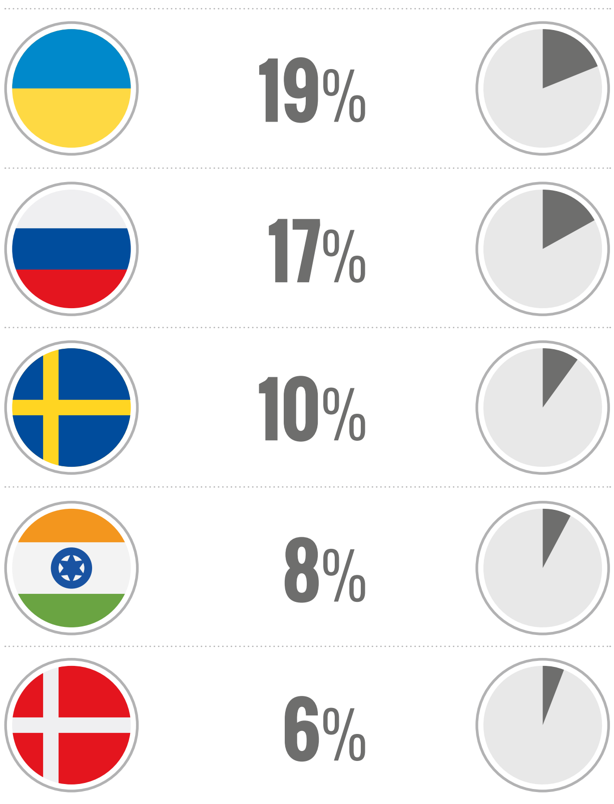
This explains why all BPO, SSC/GBS, IT and R&D business services centers with no exceptions marked English language as a strong necessity. English is used in emails, everyday communication, all internal informative systems and working tools.

Because the origin of many sector companies is Scandinavia, it is logical that there is a comparably high demand for Swedish, Norwegian and Danish language skills.

Considering the geographic location of Latvia and the historical relationship between Russia and Latvia, there are many cases in which global companies maintain customer care operations in Latvia where Russian language is a high level necessity for the business.

**FIGURE 1.18**

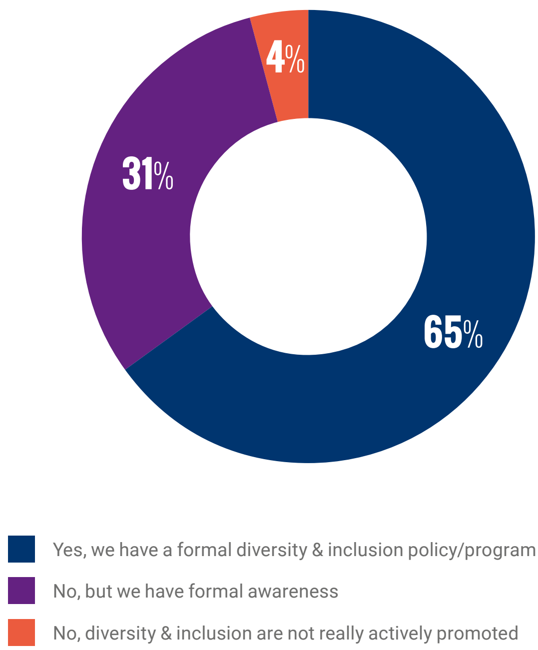
COUNTRIES OF ORIGIN OF FOREIGNERS EMPLOYED IN BUSINESS SERVICES CENTERS BASED IN LATVIA




A significant number of foreigners employed in BPO, SSC/GBS, IT and R&D business services centers are citizens of Ukraine or Russia, mainly in the IT sector. India boasts large IT talent resources, many of whom are willing to seek well-paying jobs in Europe. Swedish and Danish nationals are largely those working for customer care support operations.

**FIGURE 1.19**

DIVERSITY & INCLUSION AS A PART OF BUSINESS STRATEGY




Diversity and inclusion policy contains many focuses, including gender and gender identity, age and generation, race and ethnicity, disability and ability, sexual orientation, and religious and spiritual beliefs. The organizations under analysis can be considered as good examples for other businesses from the perspective of diversity and inclusion policy practices. According to survey results, 65% of 26 surveyed companies have a formally sanctioned policy in place, while 31% have formal awareness about principles associated with diversity and inclusion strategy in the company.

**FIGURE 1.20**

PROPORTION OF WOMEN IN THE STRUCTURE OF EMPLOYMENT

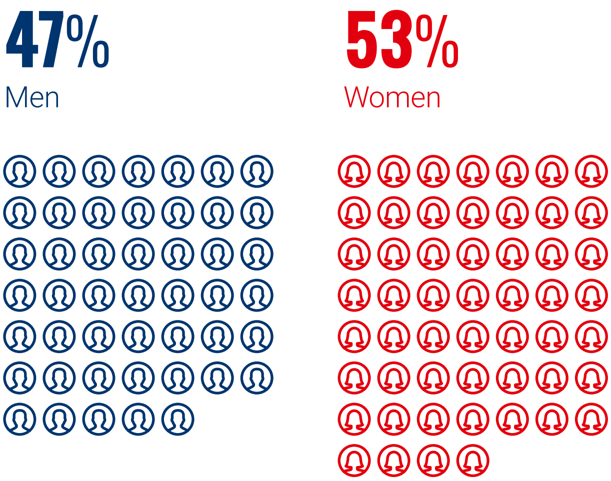
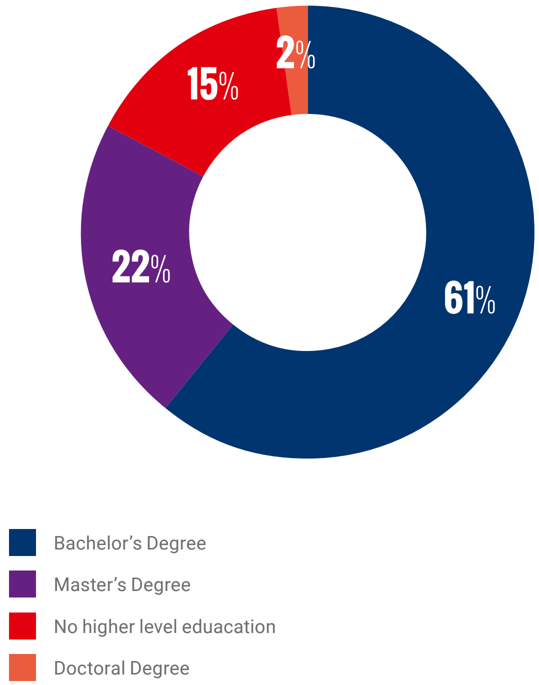



**FIGURE 1.21**

STRUCTURE OF EMPLOYMENT ACCORDING TO HIGHEST LEVEL OF EDUCATION




The two most popular business support operations are IT and finance, with finance largely dominated by women and IT by men. It is therefore not surprising that the companies under analysis show a good overall gender balance. In customer care, both genders are equally represented.

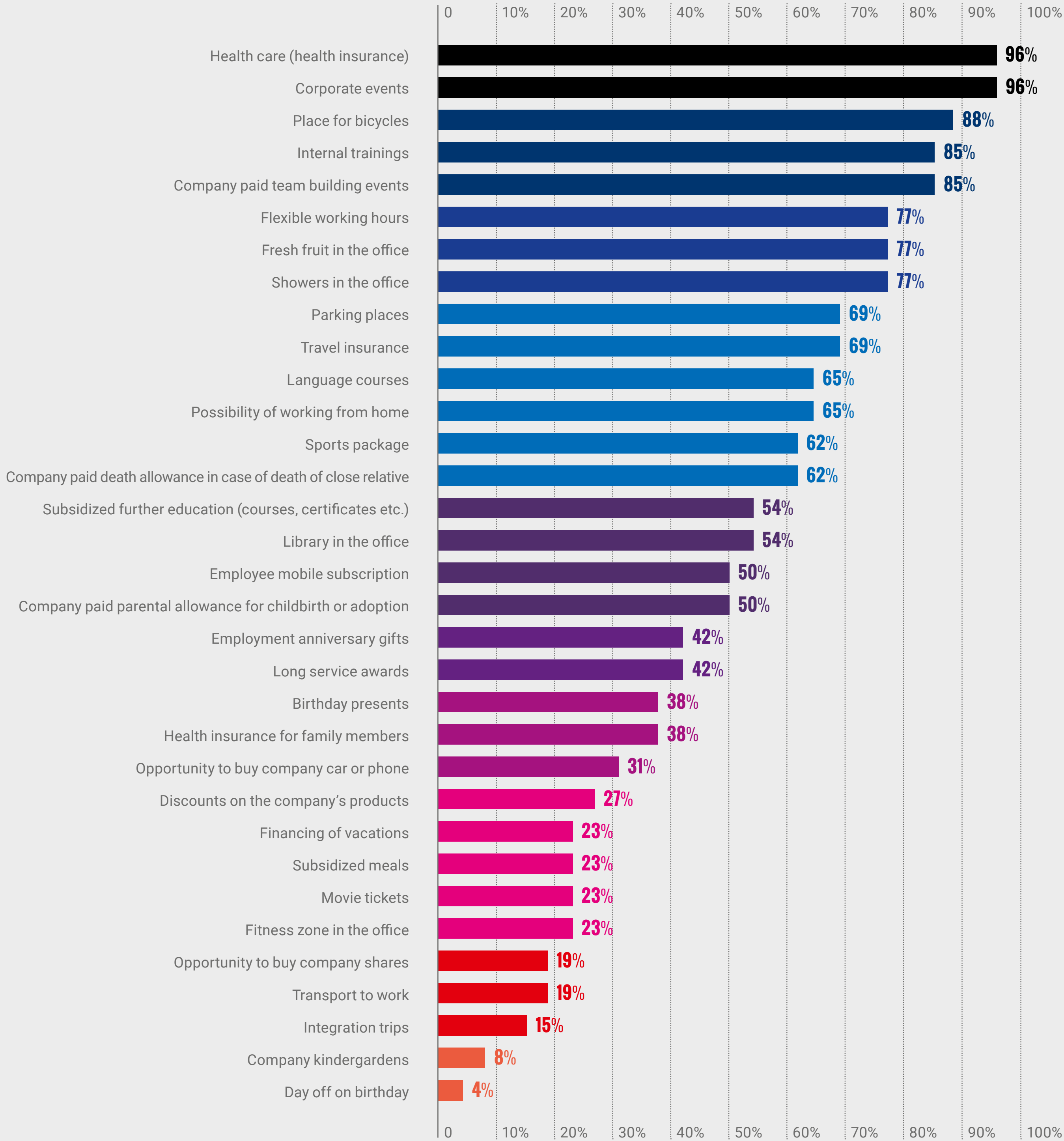
There are many ongoing initiatives in order to attract more women to IT positions. These include free company-organized programming training, even for those women who are not employees of the company, knowledge-sharing gatherings, and inspirational seminars organized to make women feel more welcome in the world of IT. Interestingly, companies that participated in the survey showed complete gender balance with regard to women in senior management teams. Besides, according to Eurostat data, the largest share of women among managerial positions is recorded in Latvia (56%). This is the only European Union Member State where women are a majority in this occupation.[3]

Almost all people employed by BPO, SSC/GBS, IT and R&D business services centers under analysis hold a bachelor's, master's or doctoral diploma (85%). The majority of remaining employees are in their last year of studies, going through final exams to earn their diploma.

[3] Eurostat, (2017)
*https://ec.europa.eu/eurostat/documents/2995521/9643473/3-07032019-BP-EN.pdf/e7f12d4b-facb-4d3b-984f-bfea6b39bb72*

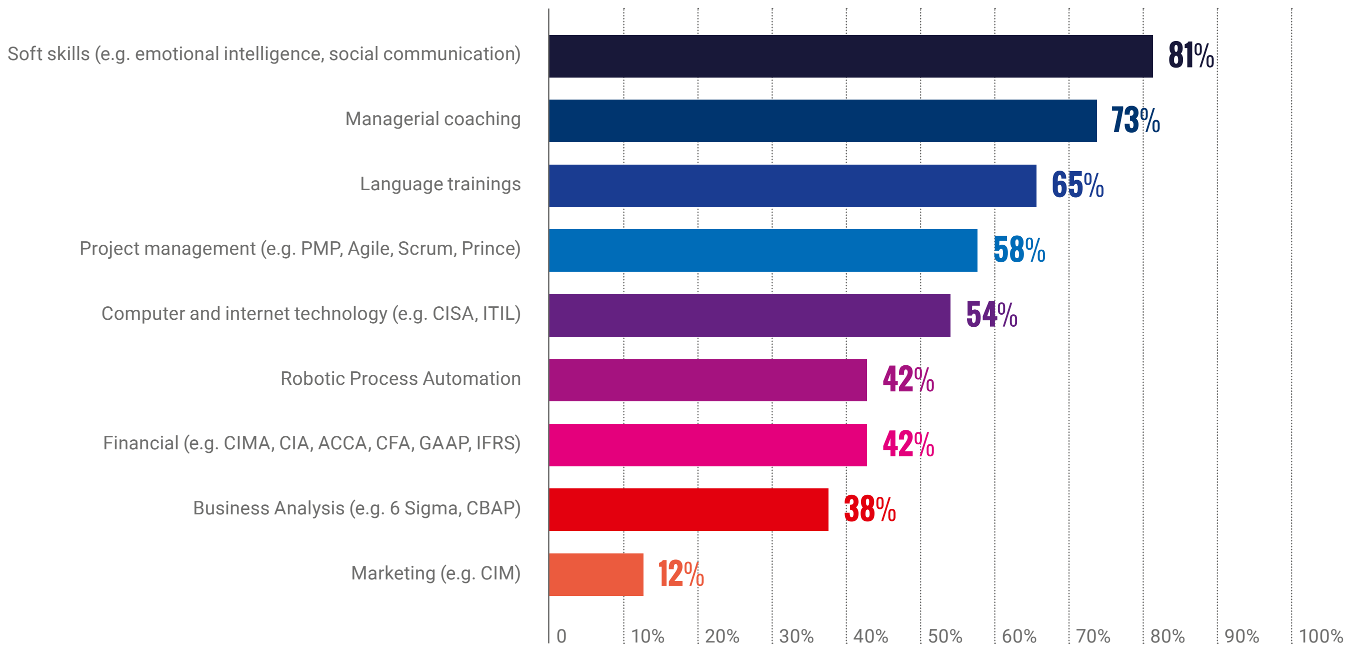
FIGURE 1.22

MOST POPULAR NON-WAGE BENEFITS PROVIDED TO EMPLOYEES



There are many benefits provided by sector companies to their most precious asset – employees. The practice of creating a supportive, motivational and employee-friendly environment comes from broadly accepted best practices in global companies. BPO, SSC/GBS, IT and R&D business services centers are setting high standards for their work environment, which has also started to impact local companies. Health insurance, corporate events and internal training are only some of the most popular benefits. Some business services centres seek to stand out from each other by providing something even more appealing like psychologist consultations, public transportation allowances or a day off on September 1st to spend the day together with children. HR managers are constantly measuring the satisfaction of employees and trying to improve the employee benefits basket in order to have one that truly satisfies the needs of all employees.

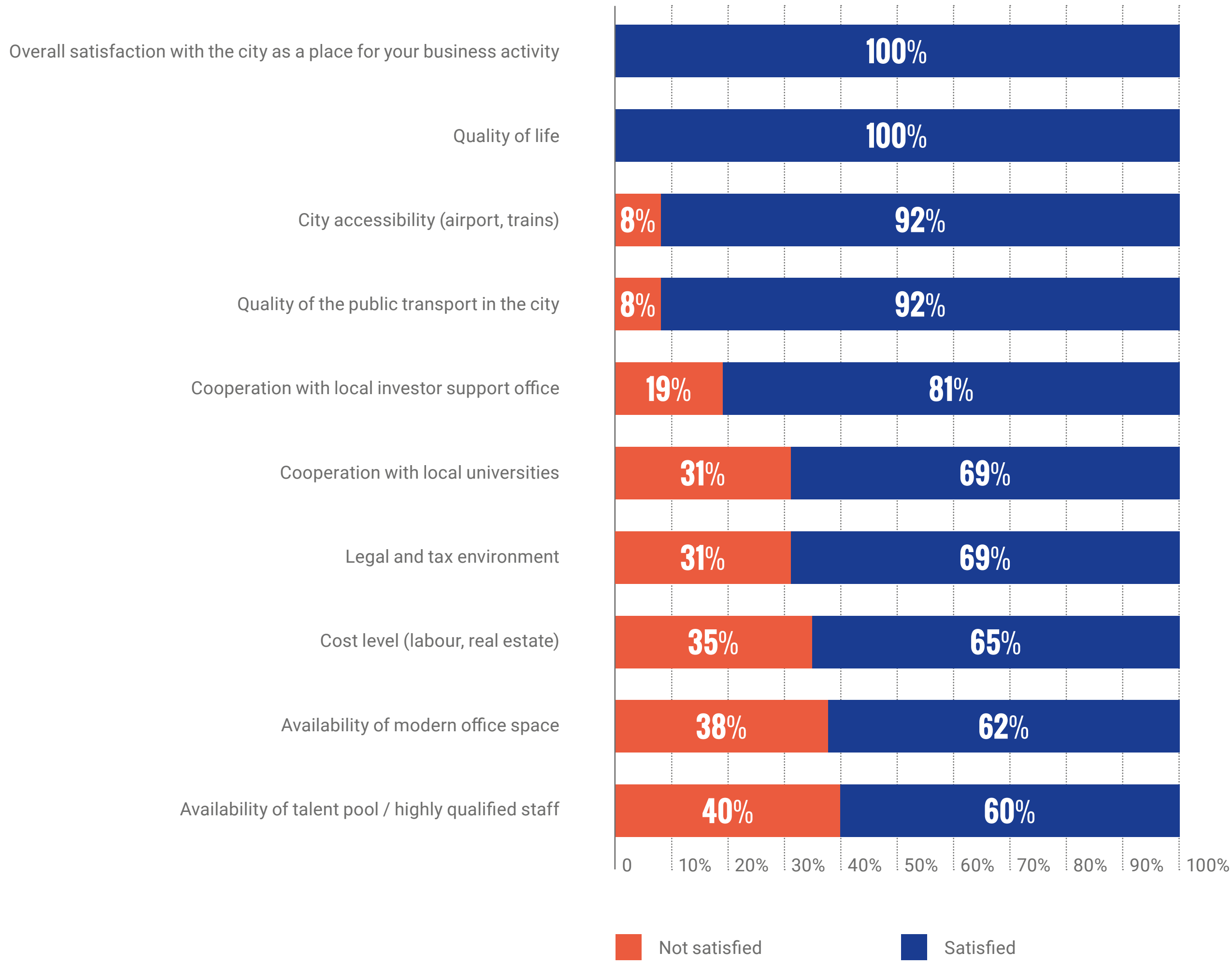
**FIGURE 1.23**
TYPES OF PROFESSIONAL TRAINING PROVIDED TO EMPLOYEES




Nearly all business services centers provide training to its operational staff. The most popular sessions are focused on developing soft skills or teaching a particular foreign language needed for daily work. Although the need for managerial coaching and soft skills may be questionable, this type of training is especially popular, since many specialists over time get promoted to become experts or senior specialists, followed by middle or senior level management positions. Those people have grown into management level roles, but they might be missing a core understanding of team management or the soft skills needed to successfully manage a team or project. Following trends related to the Agility and Scrum framework, many IT companies are moving towards Scrum teams. This means that all team members should clearly understand the principles and core guidelines of Scrum framework, so courses are being organized to put everyone on the same page. Additionally, robotics and IT courses are booming, since many companies are moving towards more automated business processes in order to limit or exclude routine, low added value activities.

**FIGURE 1.24**

OVERALL SATISFACTION WITH CERTAIN FACTORS IN THE LATVIAN CITY WHERE THE COMPANY MAINLY OPERATES

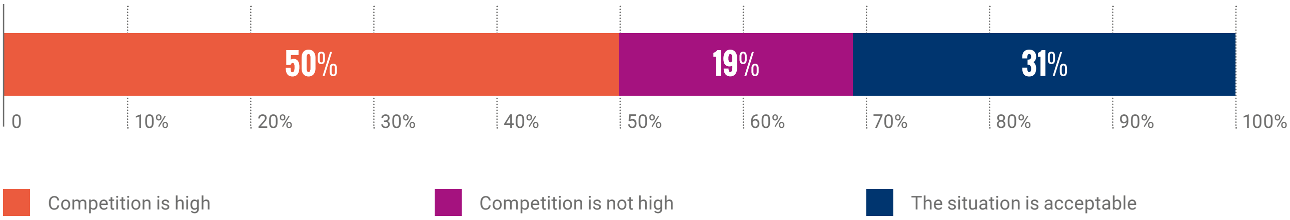



One of the factors that investors most highly appreciate is accessibility (mostly with regard to Riga). According to the survey, nearly all BPO, SSC/GBS, IT and R&D business services centers are located in the capital city of Latvia, which is home to Riga International Airport and its frequent flights to Scandinavian countries and good connectivity with almost all of Europe. None of the surveyed companies provided a negative answer with regard to the city as a home for business activity, with the same applying to quality of life. While it seems that salary levels are comparatively low in the country, cost of living is significantly lower than in other European countries, ensuring a good quality of life for people living in Latvia. Additionally, the quality of public transportation in the city has been identified as a positive of being located in Riga. Trains, trams, busses can take citizens to any place in Riga in less than 20 minutes.

Overall, the companies under review gave positive responses with regard to the different factors influencing Riga as a location for business activity.

## FIGURE 1.25

OVERALL PERCEPTION OF ORGANIZATION MANAGERS REGARDING COMPETITION IN THE LABOUR MARKET WITHIN THE SECTOR

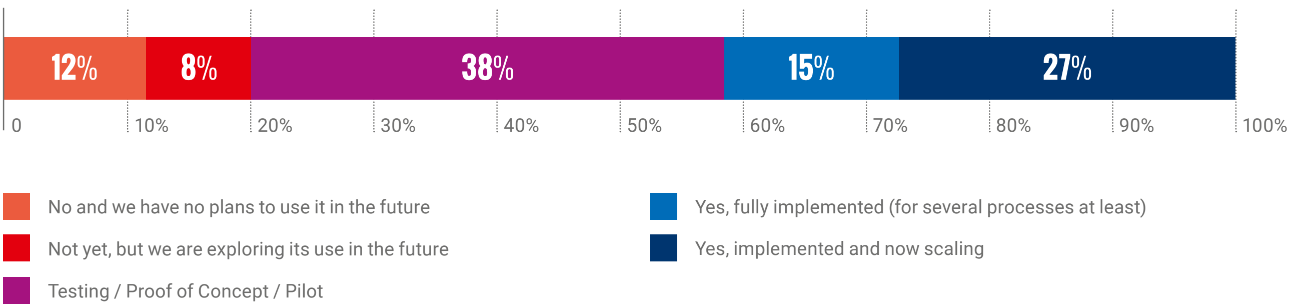



There is a strong balance between those who claim that competition among BPO, SSC/GBS, IT and R&D business services centers is high and those who disagreeing or are satisfied with the current situation in labour market. GBS sector organizations differ from other employers in the market, since those companies are quite similar in terms of salary levels, benefits provided and career growth opportunities.

However, employees tend to change companies every two or three years. The balance can be also explained by the characteristics of millennials who are employed in BPO, SSC/GBS, IT and R&D business services centers. It is well known that millennials are more likely to switch jobs more often, which may lead to the conclusion that there is high competition in the labor market.

## FIGURE 1.26

OVERVIEW OF INTELLIGENT PROCESS AUTOMATION PROGRESS

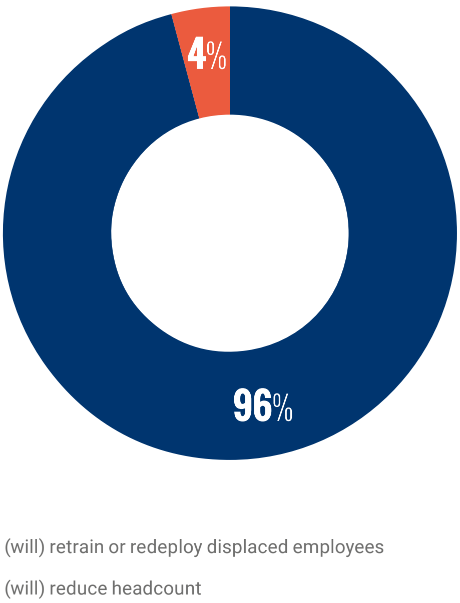



Process automation and robotics is one of the hottest topics among GBS sector companies. The majority of BPO, SSC/GBS, IT and R&D business services centers have already implemented automated solutions at certain level. Few companies are still in the process of developing the most efficient tools to limit routine tasks, thus making space for more advanced business support activities.

It is only a matter of time until all business services organizations will have automated processes to some extent. Currently, 80% of all companies under analysis answered positively about robotics solutions in their organizations, while 8% are planning to use it in the future. Automation is being used in all business support functions from customer care to finance to even HR. The time when companies could argue that automation doesn't apply to their services is over; today, automation is everywhere, helping companies to reach the same results using less time and human effort. The concept of fully automated SSC has come up at international conferences organized for experts in the BPO, SSC/GBS, IT and R&D business services center sector. While it may sound like a utopian idea now, an increasing number of companies has automated its function to a greater extent with each passing year. Accordingly, companies have released their workforce to tackle much complicated tasks with higher added value; this allows employees to be responsible for more interesting tasks while also earning a better salary.

**FIGURE 1.27**

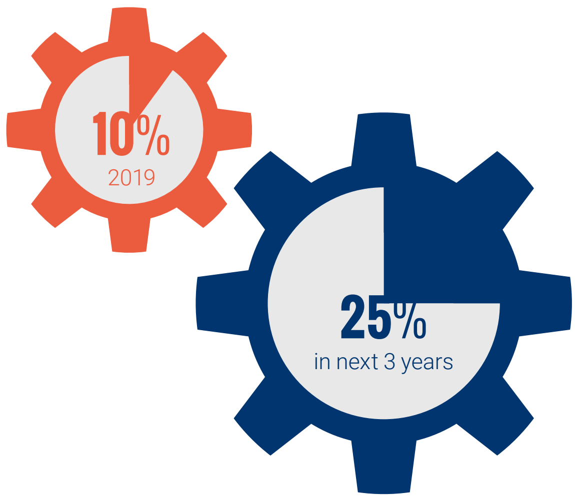
EMPLOYMENT PLANS REGARDING THE IMPLEMENTATION OF RPA




Only 4% of BPO, SSC/GBS, IT and R&D business services centers plan to reduce headcount as a result of automation solutions implemented, while nearly all organizations under review plan to provide more complicated tasks and responsibilities to those employees whose jobs are directly impacted by robotic process automation.

**FIGURE 1.28**

DEGREE OF AUTOMATION AND ROBOTIZATION PROCESSES NOW AND IN THE NEXT THREE YEARS




The current degree of automation and robotization of processes in the companies under review averaged 10% of the total extent of business services provided. However, some business services centers have already automated and robotized 70% of their processes.

BPO, SSC/GBS, IT and R&D business services centers are more optimistic when they forecast the degree of process automation and robotization in the next three years. The average degree of automated and robotized processes in BPO, SSC/GBS, IT and R&D business services centers in the next three years is 25%.

# LATVIA / RIGA

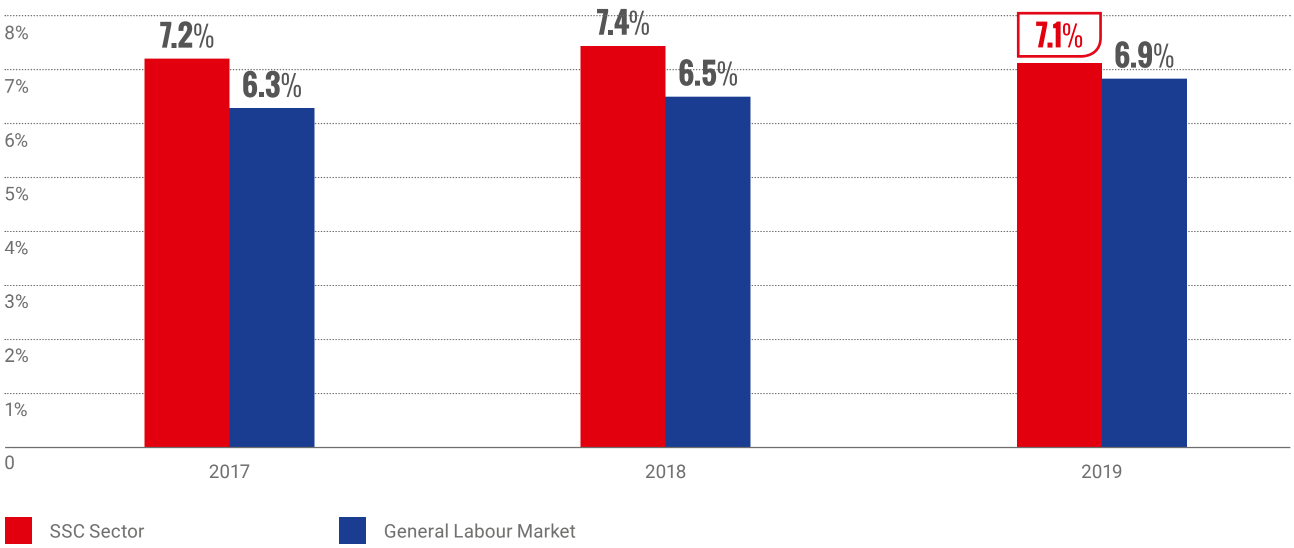
# 2 TRENDS IN LABOR MARKET

## COMPENSATION CHANGES

Compensation in Shared Service Center (SSC) sector goes in line with the overall trends in the general labour market in Latvia – the year-over-year changes in compensation have been experiencing rather significant upward movement during the last few years. Moreover, increases in monthly base salaries[1] in the sector are slightly higher than in the general labour market.

**FIGURE 2.1**

AVERAGE CHANGE IN MONTHLY BASE SALARY IN THE GENERAL LABOUR MARKET AND IN SSC SECTOR, LATVIA, 2017-2019, %

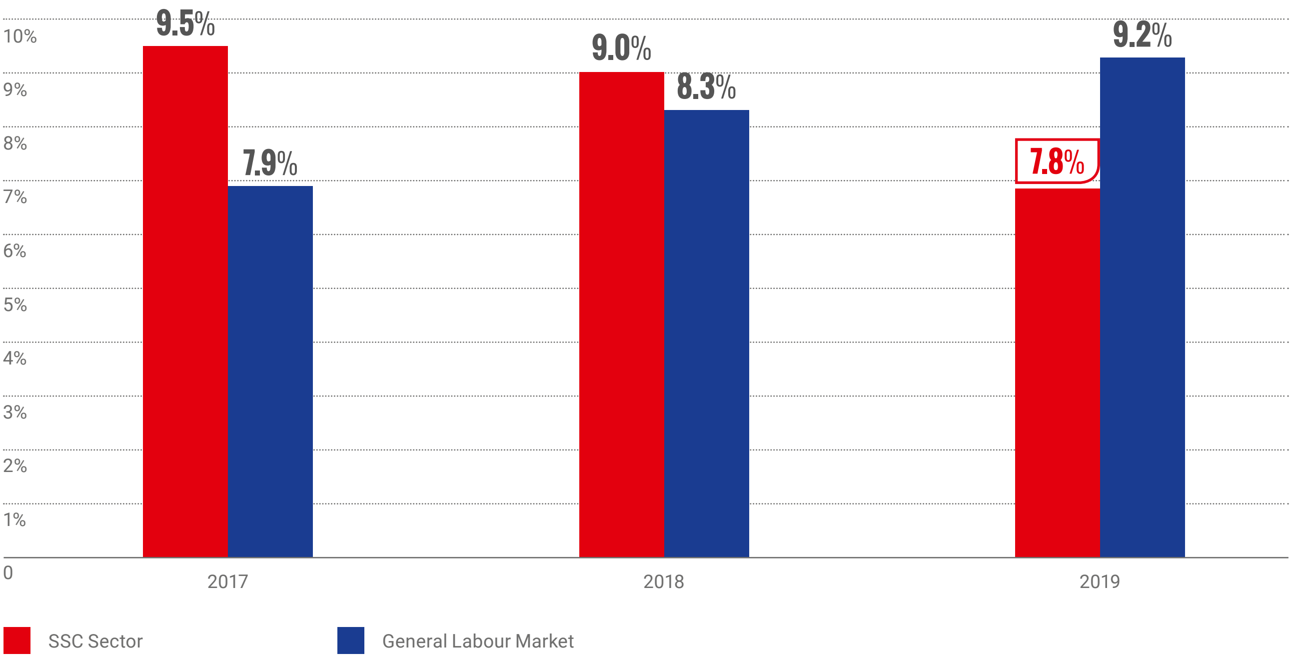



FONTES | Chapter content preparation: **Fontes**

**Source:**
*SIA Fontes Vadības konsultācijas* is a leading human resource management consulting company in the Baltic states that conducts annual compensation surveys and supports organizations in developing and implementing compensation systems, performance process, function and duty audits for more than 20 years.
Fontes conducts annual General Compensation Survey regarding the general labour market and different sector surveys since 1996, including Shared Service Center (SSC) Sector Compensation Survey which was introduced in 2015.
**Sample of Fontes SSC Sector Compensation Survey:** 23 organizations in 2019, 21 organizations in 2018 and 18 organizations in 2017.
**Sample of Fontes General Compensation Survey:** 369 organizations in 2019, 340 organizations in 2018 and 286 organizations in 2017.

**FIGURE 2.2**

AVERAGE CHANGE IN ANNUAL TOTAL CASH[2] IN THE GENERAL LABOUR MARKET AND IN SSC SECTOR, LATVIA, 2017-2019, %




In 2019, change in monthly base salary for employees whose position did not change[3] in SSC sector was on average +7.1%, and annual total cash change was on average +7.8%. This salary changes calculation includes all data – of employees whose salary was increased, decreased or did not change over the last year.

Compensation level in the SSC sector is on average higher then in the general labour market in Latvia. For more details please see pp. 38-40 (section “Compensation level”) and pp. 42-43 (Section “Social fairness – living wage) of this report.”

[1] Monthly base salary – gross monthly base salary stated in the job agreement for full time equivalent. Monthly base salary does not include variable elements of compensation.

[2] Annual total cash – gross annual total compensation, including base salary and all possible bonuses, incentives and allowances.

[3] The calculation of compensation change includes positions if the same position is occupied by the same employee and if role and responsibilities of the position have not changed significantly. The change was taken into account in those organizations which have not significantly changed their compensation system during the observation period. This method allows to make the most precise year-over-year comparison (i.e. to compare “apples to apples”).

## TABLE 2.1

AVERAGE CHANGE IN COMPENSATION BY EMPLOYEE GROUPS IN SSC SECTOR IN 2019 COMPARED TO 2018, %

The most significant average change in compensation in SSC sector was for employees at specialist level positions: +7.9% in monthly base salary and +8.9% in annual total cash. The main reason behind the change is the overall competition for high skilled labour and professionals in the labour market in 2019 in general, across all industries, which has happened as a result of a rapid economic growth in the last few years and overall labour shortage in the country.

| Employee Group | Monthly base salary | Annual total cash |
|---|---|---|
| Executives | 6.3% | 8.1% |
| Management | 7.5% | 7.0% |
| Senior Specialists | 7.5% | 7.8% |
| Specialists | 7.9% | 8.9% |
| Junior Specialists | 5.7% | 7.0% |

## TABLE 2.2

PROPORTION OF EMPLOYEES WHOSE COMPENSATION HAS DECREASED/REMAINED CONSTANT / INCREASED IN SSC SECTOR, % OF EMPLOYEES

Monthly base salary and annual total cash increased for vast majority of employees (for approximately 8 out of 10 employees having similar responsibilities as the year before), but not for all. For some employees compensation remained constant, and approximately 1 out of 10 employees received less in annual total cash than a year before.

| | Monthly base salary | Annual total cash |
|---|---|---|
| Decreased | 0.3% | 9.5% |
| Remained Constant | 18.3% | 6.8% |
| Increased | 81.4% | 83.7% |

## TABLE 2.3

AVERAGE AMOUNT OF COMPENSATION INCREASE/DECREASE FOR ALL EMPLOYEES WHOSE COMPENSATION WAS CHANGED IN SSC SECTOR, %

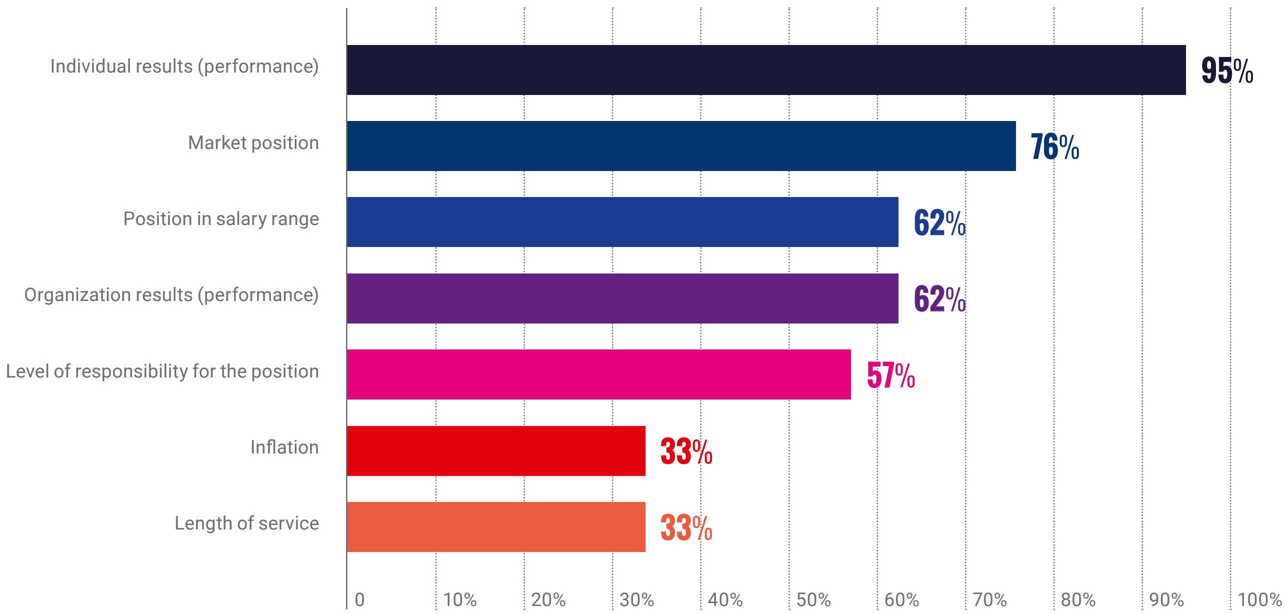
For those employees whose compensation has increased during the year, the monthly base salary increase was on average 9.9% and annual total cash increase was on average 11.2%.

| | Monthly base salary | Annual total cash |
|---|---|---|
| Compensation Decrease | -0.8% | -3.5% |
| Compensation Increase | 9.9% | 11.2% |

The average change in compensation is an indicator representing the compensation change trend in the labour market; however, it should be applied critically and with caution, also, taking into account additional information.

## FIGURE 2.3

FACTORS HAVING AN IMPACT ON COMPENSATION CHANGE IN SSC SECTOR ORGANIZATIONS, % OF ORGANIZATIONS



# COMPENSATION LEVEL

Besides the data on compensation changes, which is based on data of employees having similar responsibilities as the year before, it is useful to look at the changes in the overall compensation level, including the data of all employees (also newly hired and promoted) as well as data of all organizations (also new organizations in the survey sample). Taking whole perspective into account, the average compensation level has also increased in 2019: monthly base salary level has increased by 5.1% on average, and annual total cash by 5.6% on average.

**FIGURE 2.4**

AVERAGE CHANGE IN MONTHLY BASE SALARY LEVEL IN SSC SECTOR, 2017-2019

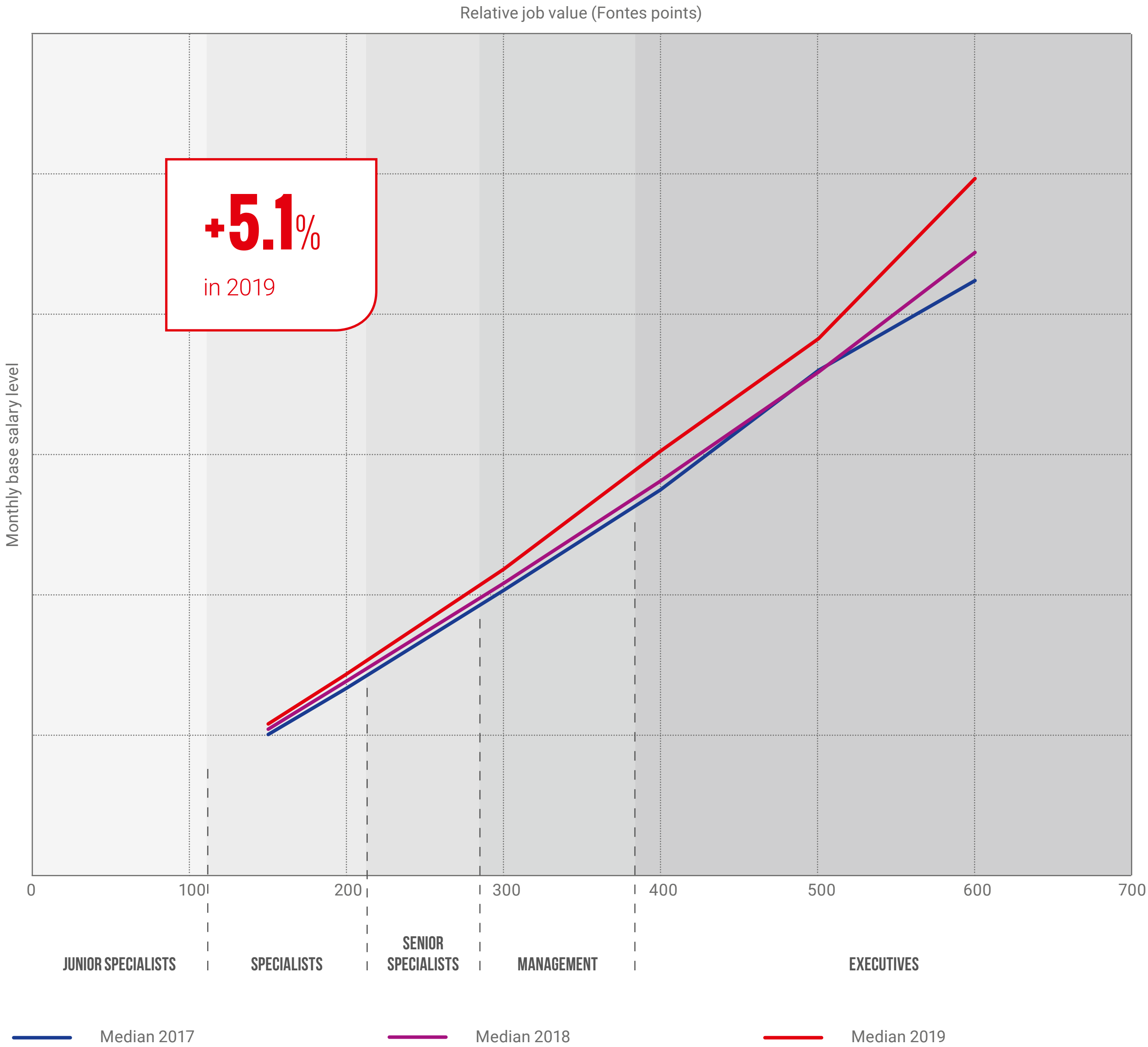
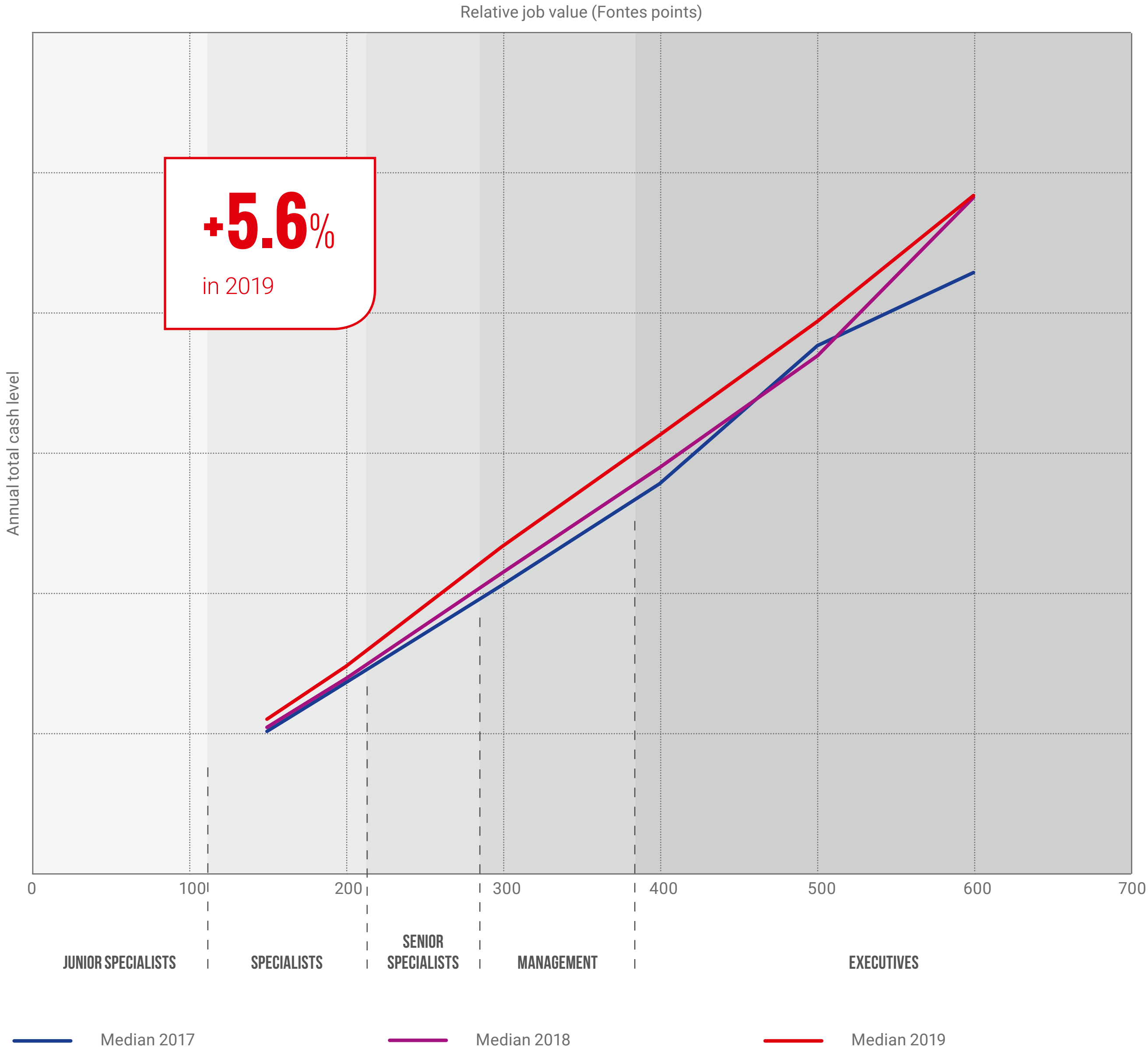


**FIGURE 2.5**

AVERAGE CHANGE IN ANNUAL TOTAL CASH LEVEL IN SSC SECTOR, 2017-2019



The most rapid compensation growth level (15%-18%) was observed for positions in the following functions:

+ customer service,
+ risk management,
+ business and operational analysis[4].

In order not to be misled by rapid compensation increases in %, it is good to keep in mind that the compensation level in Latvia is one of the lowest among the European Union countries[5]. Therefore higher increase in % does not always mean high increase in EUR.

Compensation level varies among positions with the same relative job value[6] across different functions as a result of demand and supply of labour for a specific position. There are jobs that have relatively higher (market index "high") or lower (market index "low") compensation level compared to positions with same relative job value. Reflecting on the general trends in the labour market, compensation level is significantly higher, by on average 20%, for IT field related positions for all employee groups. High pressure on wages for IT positions is caused by a high demand for IT specialists as a result of increasing digitalization, IT industry growth and limited availability of qualified human resources.

**TABLE 2.4**
POSITIONS WITH MARKET INDEXES "HIGH" AND "LOW" IN SSC SECTOR IN 2019

| Market Index "Low" | Employee groups | Market Index "High" |
|---|---|---|
| Administrative and office services | SPECIALISTS | IT – Testing<br>IT – Project Management<br>IT – System analysis |
| Data processing and analysis<br>Logistics | SENIOR SPECIALISTS | IT – Testing<br>IT – Project Management<br>IT – Software Development |
| Data processing and analysis<br>Accounting | MANAGEMENT | IT – Software Development<br>IT – Project Management<br>IT – System Architecture |
| Internal Audit (Control)<br>Project Management | EXECUTIVES | IT – Software Development<br>IT – System Architecture<br>IT – Management |

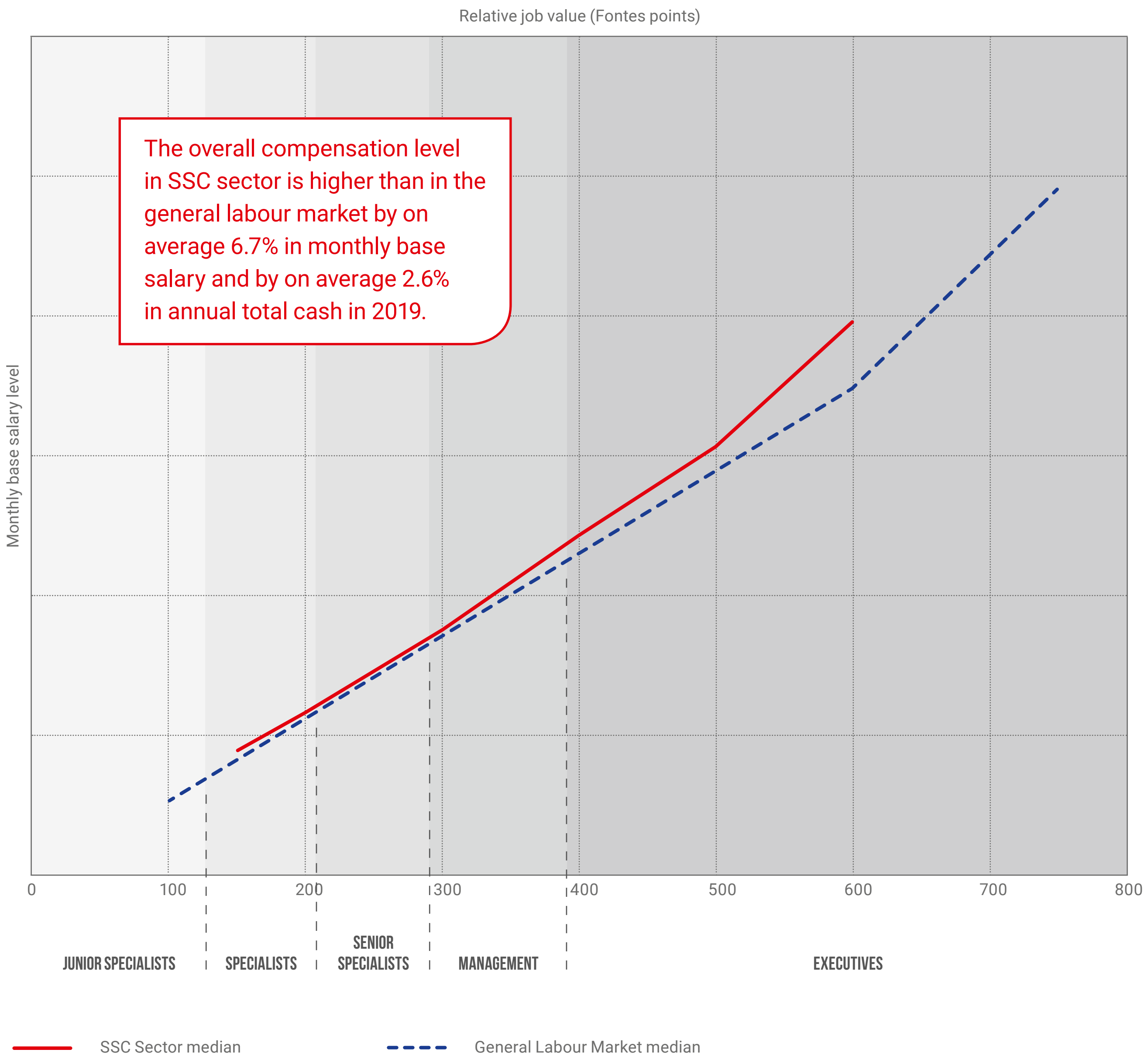
[4] Business and operational analysis jobs relate to business and economic analysis and development of models for analysis, evaluation and change forecasting of environmental, process and business models.

[5] Eurostat data: *https://ec.europa.eu/eurostat/statistics-explained/index.php/Hourly_labour_costs*

[6] Job value – relative job value in points according to the Fontes job evaluation method which makes essentially different jobs comparable.

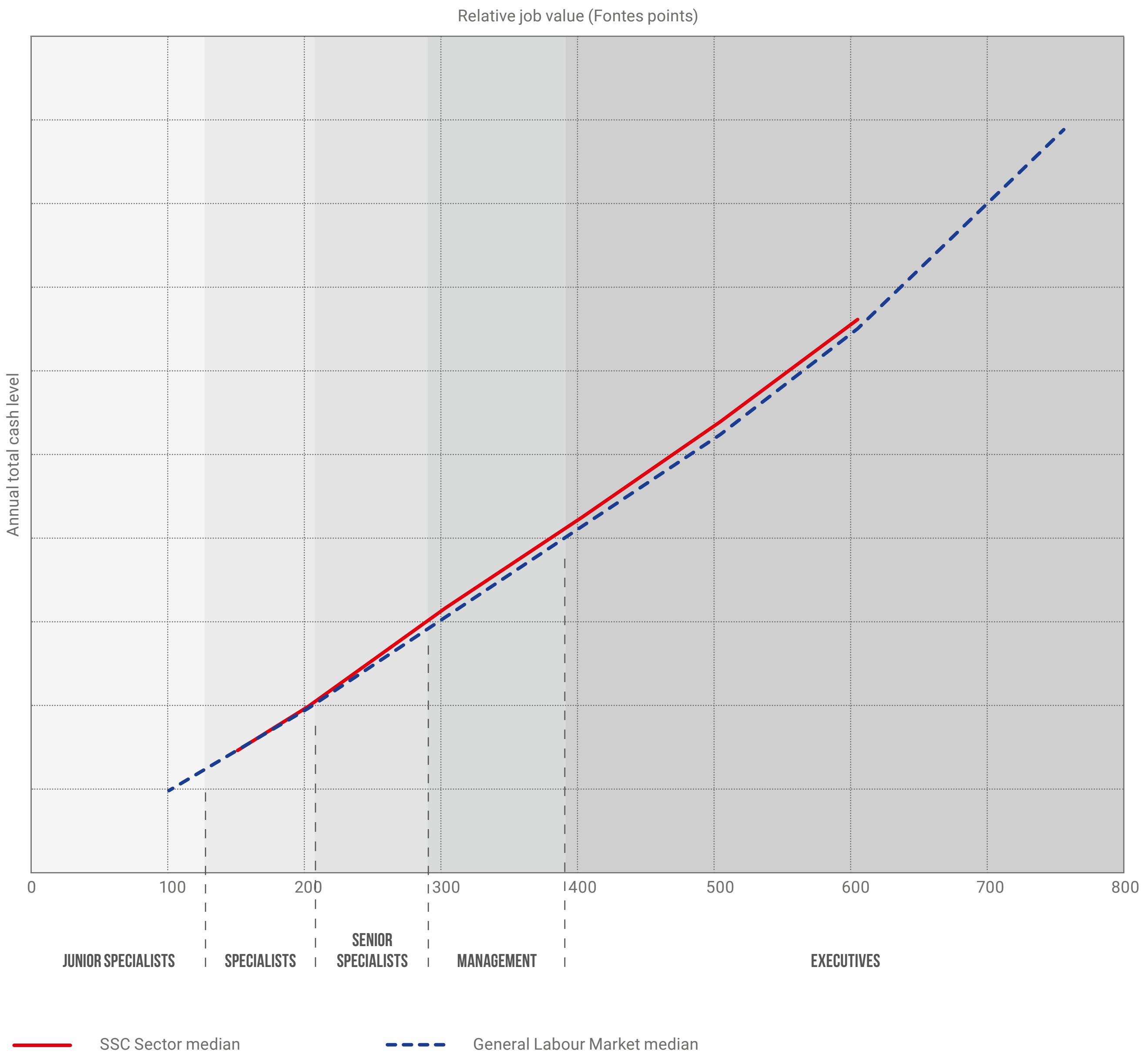
**FIGURE 2.6**

MONTHLY BASE SALARY LEVEL IN THE GENERAL LABOUR MARKET AND IN SSC SECTOR, 2019



## FIGURE 2.7

ANNUAL TOTAL CASH LEVEL IN THE GENERAL LABOUR MARKET AND IN SSC SECTOR, 2019

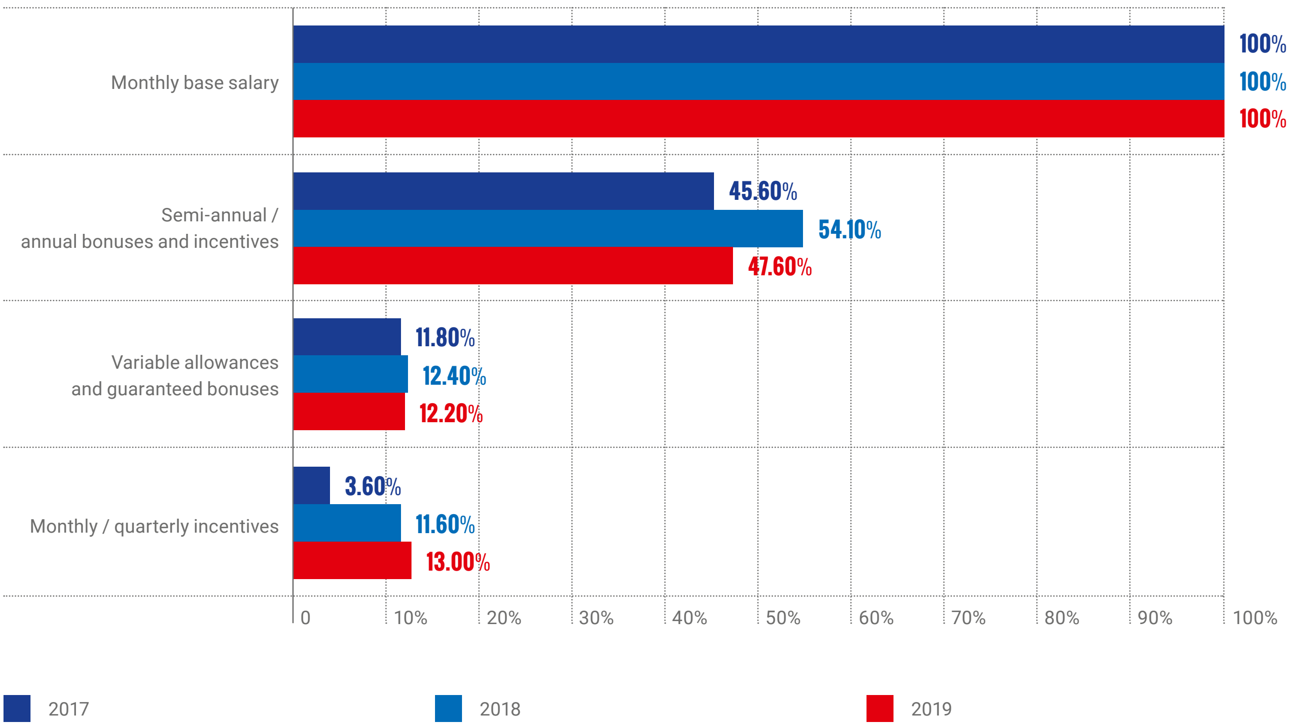


## COMPENSATION COMPONENTS

In 2019, 61% of employees have received at least one variable component of compensation. Semi-annual / annual bonuses and incentives (mainly annual ones) are the most popular variable components in the sector.

**FIGURE 2.8**

COMPENSATION COMPONENTS PAID OUT TO EMPLOYEES IN SSC SECTOR IN 2017-2019, % OF EMPLOYEES



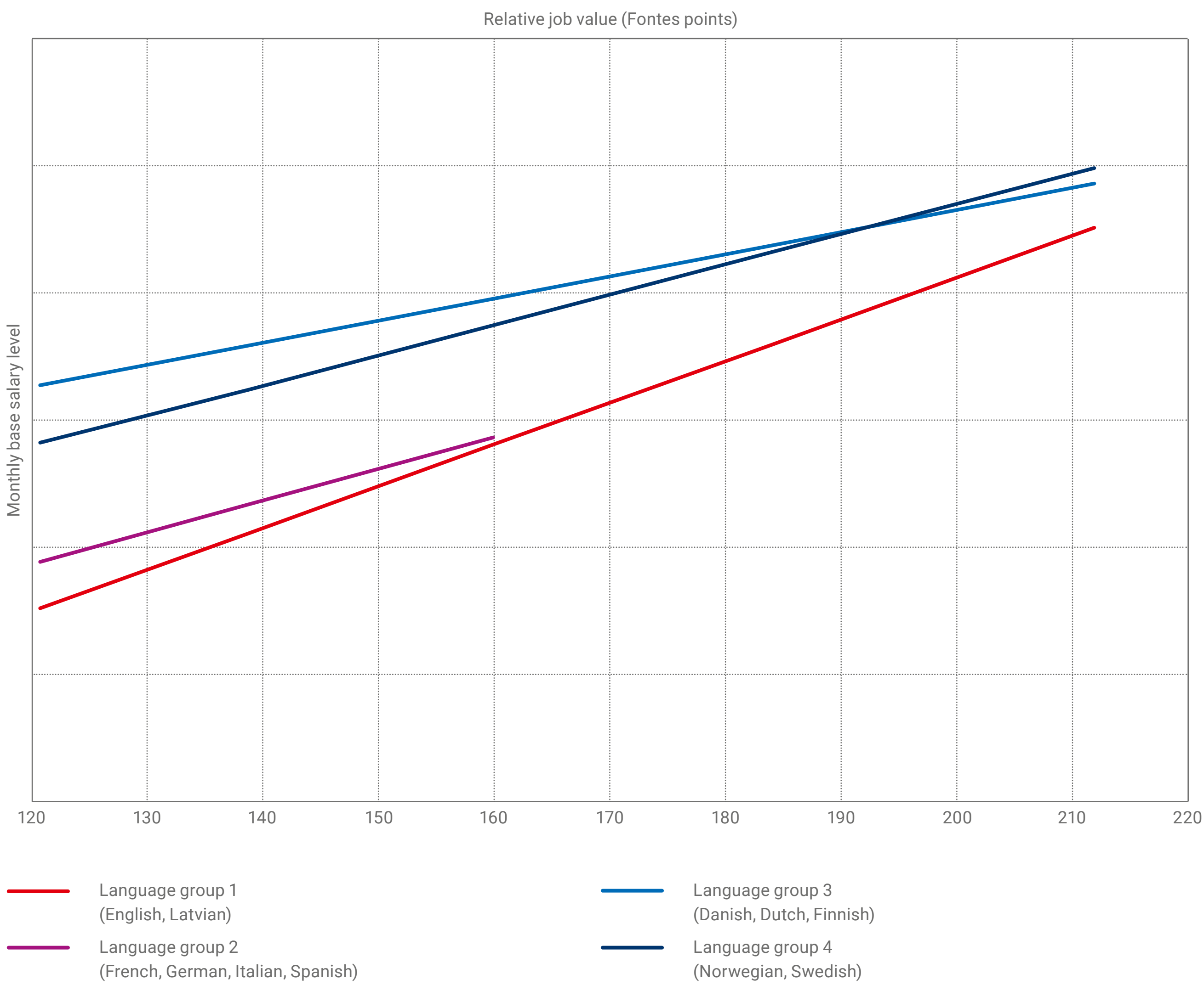

## FOREIGN LANGUAGE IMPACT ON COMPENSATION

As SSC employees often are required to use different foreign languages, it is important to understand whether and by how much their compensation is affected by this factor. For this analysis all languages required for working purposes in SSCs were divided in several groups, shown in the figure 2.9.

Languages in group 1 – Latvian and English – are considered as base languages, with no impact on compensation. The results of the analysis show that specific foreign language knowledge has an impact on compensation. The biggest impact it has on the compensation for the most junior positions.

## FIGURE 2.9

DIFFERENCES IN MONTHLY BASE SALARY LEVELS BY LANGUAGE GROUPS




## SOCIAL FAIRNESS – LIVING WAGE

Living wage is a wage that is high enough to maintain a normal standard of living, i.e. it is income level that is enough for at least modest living, not just survival. Several organizations in the Latvian market have already started to plan to include the living wage as a new reference point for the minimum wage in their compensation policies – some of them are aware that it is getting harder to attract talents for lower compensation level, especially from younger generations, some of them are guided by the principles of social responsibility. However, this does not imply that organizations increase every position's salaries to the living wage but rather the employer strategically plans for increasing the relative value of the position making it worthy of the living wage. Common actions include review of jobs' responsibilities within the organizations, optimization and automation of internal processes.

In 2019, the average wage in the SSC sector was higher than the living wage[7]. There still were 34% of employees in SSC Sector whose compensation was lower than the living wage, nevertheless, the results is more promising than in the general labour market where this proportion is closer to 50%.

**€ 1,238**
Living Gross wage (Riga)

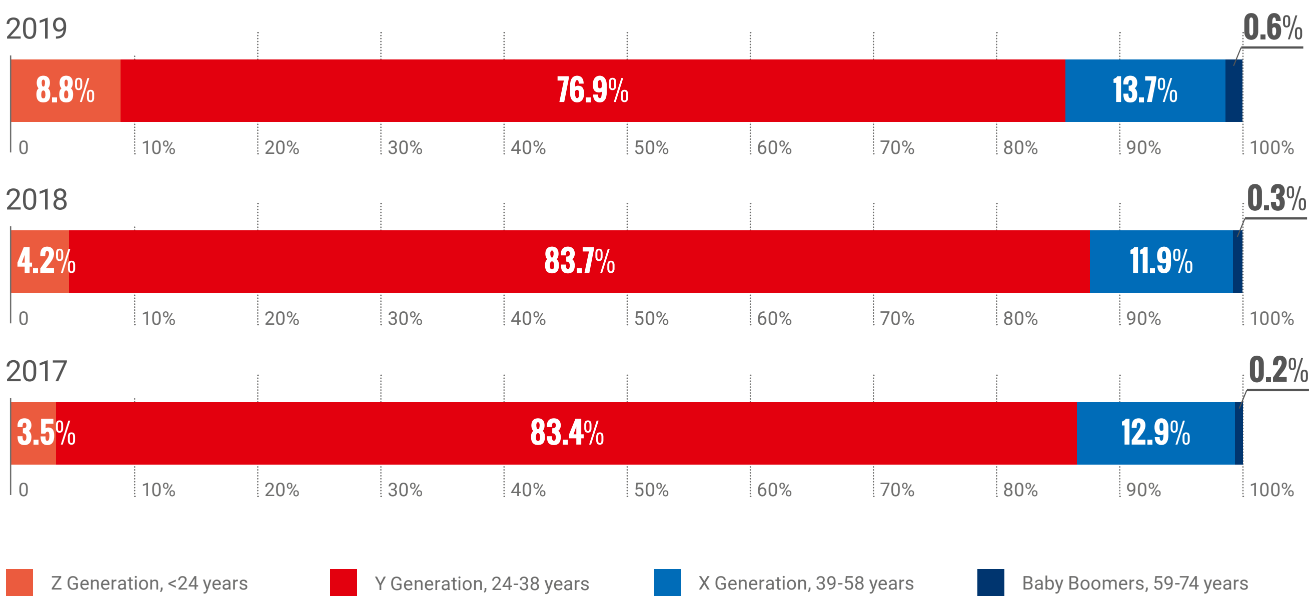
**€ 1,456**
Average Gross wage, SSC Sector (Riga)

**Average wage in the general labour market, Riga 1,279 EUR.**
**Average wage in the general labour market, Regions 1.020 EUR.**

## AGE DIVERSITY

Majority of SSC sector employees represent Generation Y; however, proportions of both Baby Boomers and Generation Z increase over the years. To address labour shortage, organizations try to attract older employees and at the same time actively hire interns that allows them to involve more employees from Generation Z.

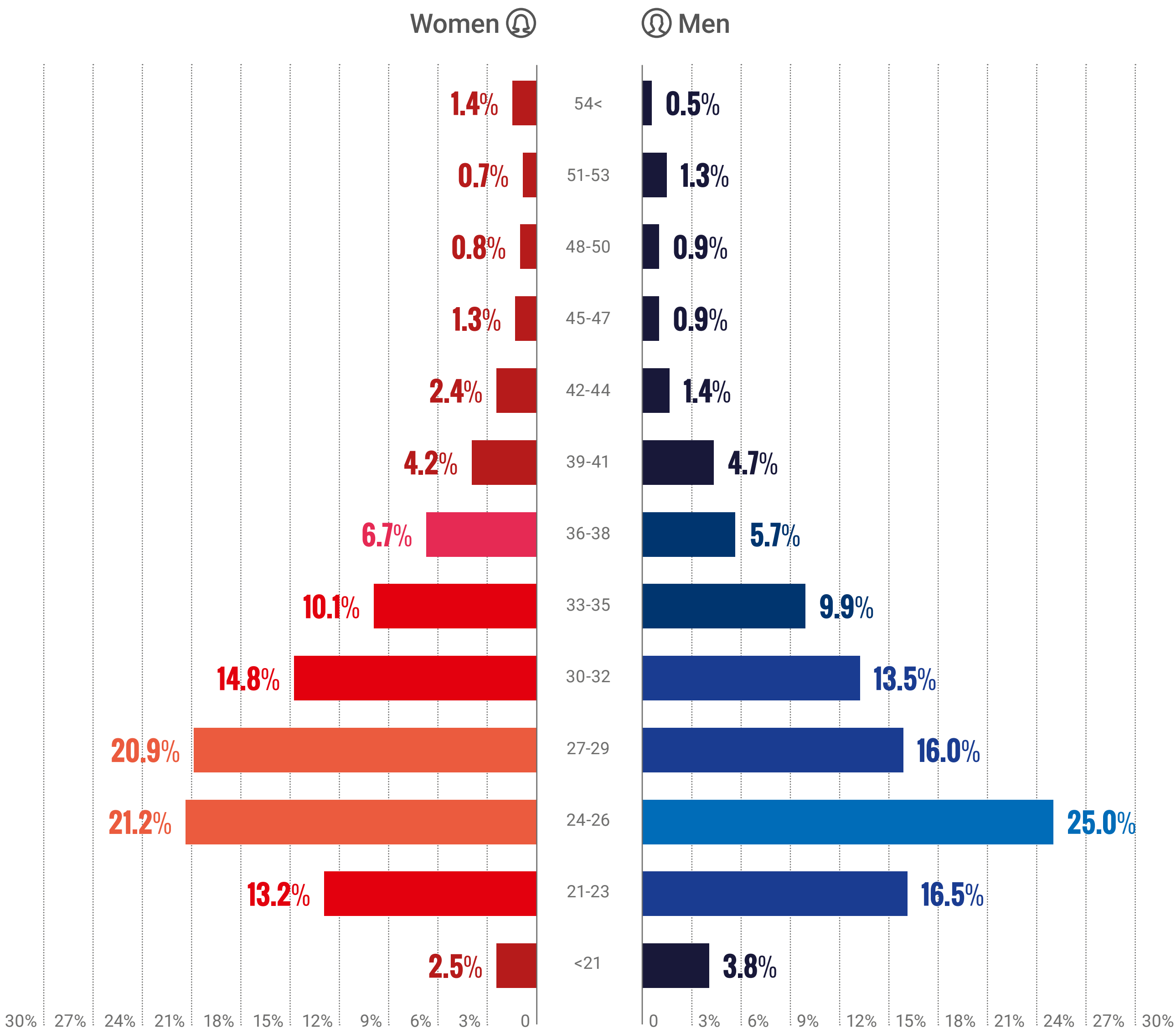
**FIGURE 2.10**
PROPORTION OF EMPLOYEES IN THE SSC SECTOR BY AGE, 2017-2019, % OF EMPLOYEES




[7] Based on Fontes calculations of living wage, which is calculated for a person who: lives alone and does not have dependents, rents average apartment and pays utility bills, uses public transportation, purchases food, necessary clothes and hygiene products (at an average price level), once in a month attends an entertainment event (e.g. theatre, cinema), once in a month has meal outside in a mid-range café/restaurant, once a year goes to doctors and dental hygienist, and puts 5% of income into savings.

**FIGURE 2.11**

PROPORTION OF NEW EMPLOYEES[8] BY AGE, 2019, %



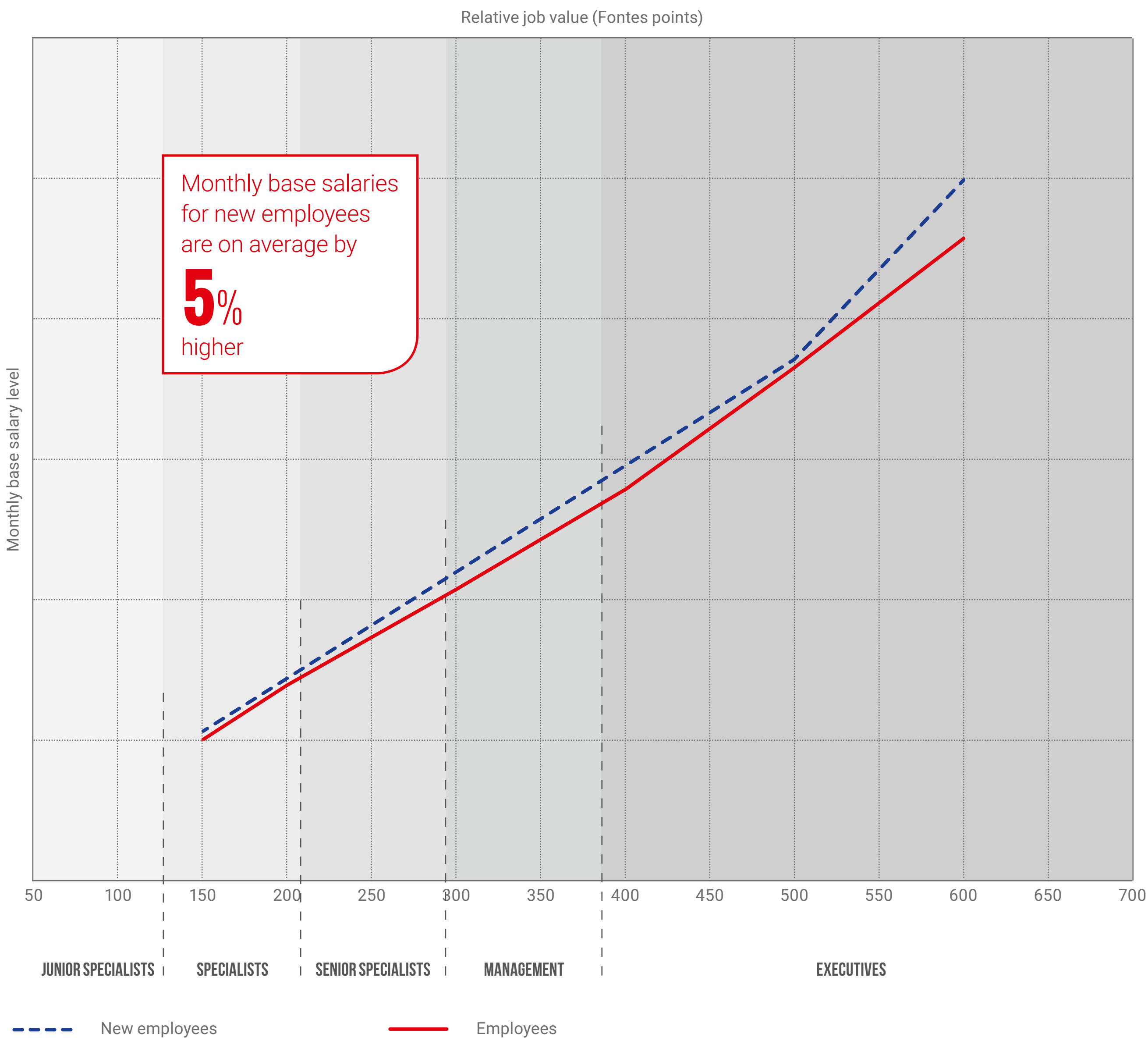

[8] Employees who were hired during the last 12 months at the time of the survey

## COMPENSATION FOR NEW EMPLOYEES

Due to the situation in the labour market, SSC sector organizations are often forced to offer higher salaries to attract new talent. As a result, new employees have on average by 5% higher monthly base salaries than their peers who have been with the organization longer. This is a warning sign – if not addressed, resentment among longer-tenured but lower-paid employees could dampen motivation and lead to higher employee turnover.

**FIGURE 2.12**

DIFFERENCES IN MONTHLY BASE SALARY LEVELS OF NEW EMPLOYEES AND OTHER EMPLOYEES IN SSC SECTOR, 2019



## GENDER PAY GAP

Gender pay gap among all employees in the SSC sector is on average 5.7%. However, for men and women in similar positions it is significantly lower, on average 2.8%. This is a better result than in the general labour market, where the gender gap for employees in similar positions is 4.7%.

**FIGURE 2.13**
DIFFERENCES IN ANNUAL TOTAL CASH LEVELS, ALL POSITIONS, SSC SECTOR, 2019

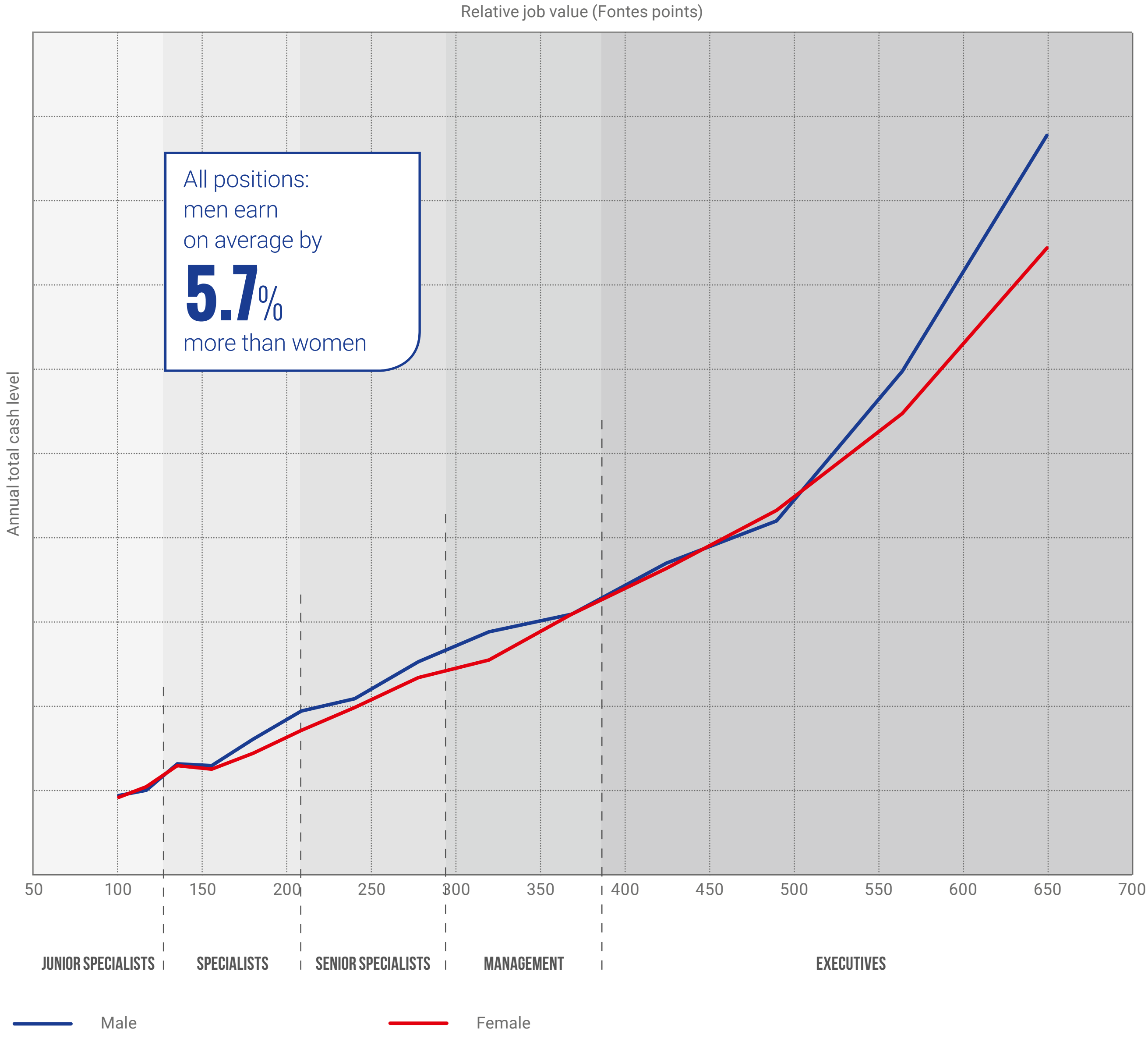
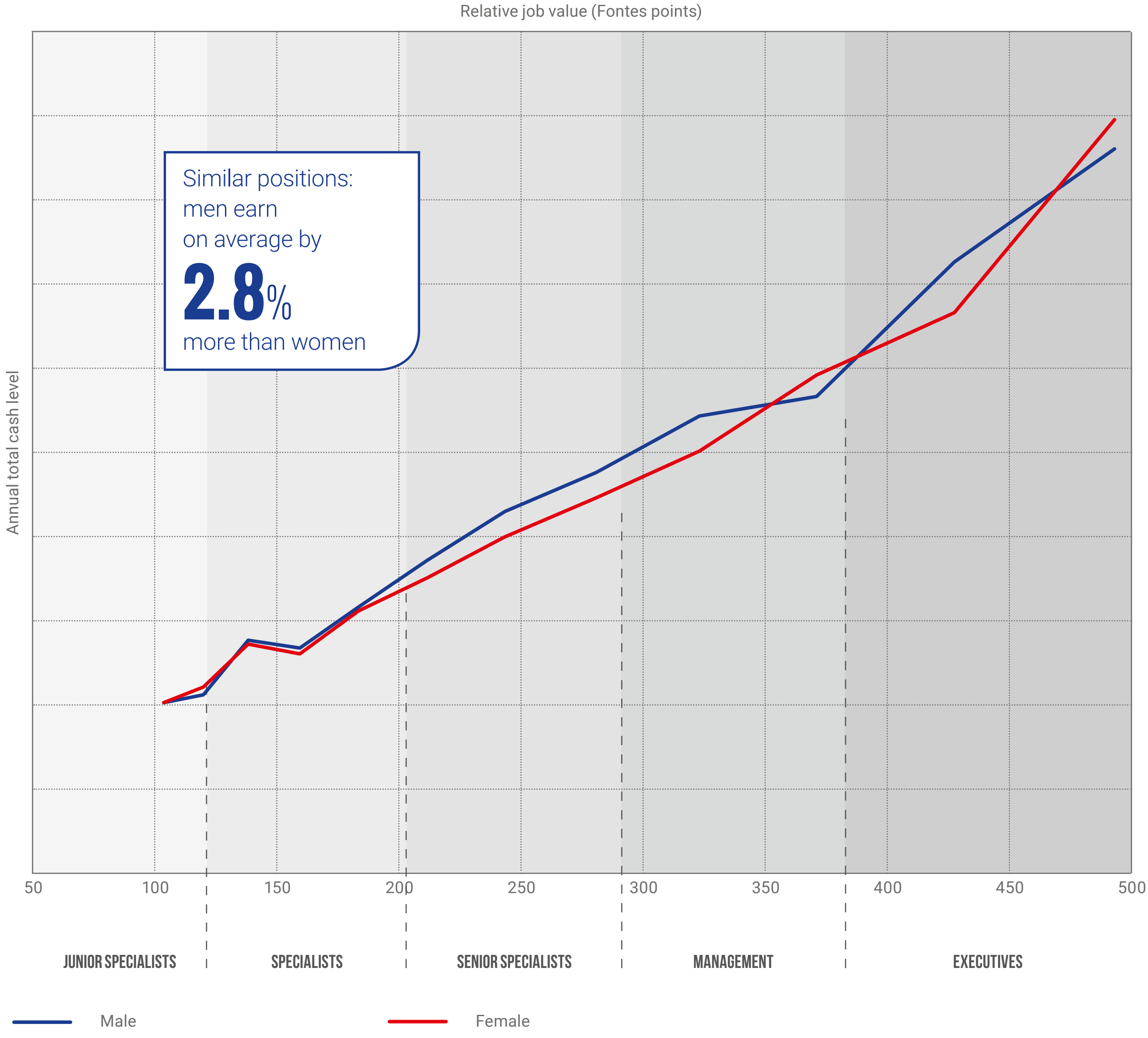


**FIGURE 2.14**

DIFFERENCES IN ANNUAL TOTAL CASH LEVELS, SIMILAR POSITIONS, SSC SECTOR, 2019



## PLANS, CHALLENGES AND FORECASTS

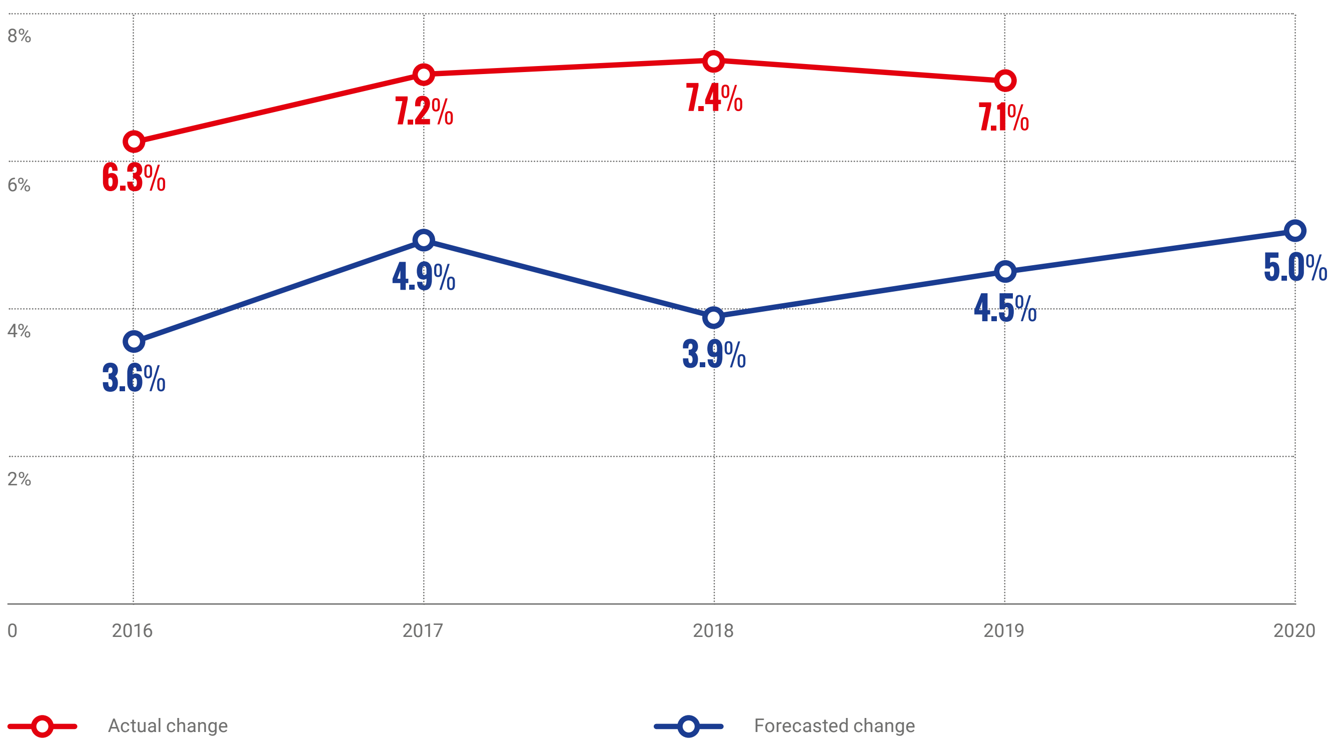
In the beginning of 2020, the forecasts regarding economic growth in Latvia were positive, there were signals of economic slowdown, but moderate growth was foreseen, whilst labour market continued to shrink due to ageing population and migration.

On May 2019, all SSC sector organizations planned to increase monthly base salary and annual total cash in 2020-2022: forecasted increase in monthly base salary was on average 5.0% in 2020, and 4.2% in 2021 and 2022; forecasted increase in annual total cash was on average 5.2% in 2020, and 4.4% in 2021 and 2022. It is noteworthy to mention that over the past few years the actual compensation changes in the sector were higher than forecasts.

However, the situation after the first quarter of 2020 has changed – taking into account the influence of COVID-19 pandemic it is expected that instead of slower economic growth in Latvia there will be a decline, and unemployment rate will increase. It is also clear that there will be changes in net migration rates that should have an impact on the labour market. Considering the news coming from the general labour market (companies laying off employees, freezing planned salary increases and even decreasing compensation), it is likely that in the nearest future it will be easier to attract and hire new employees. It is also expected that the salary growth will be significantly slower than in previous years.

**FIGURE 2.15**

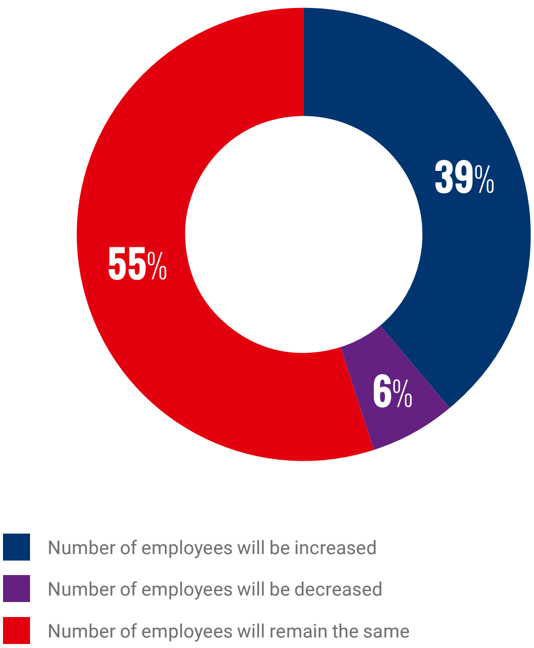
FORECASTED AND ACTUAL AVERAGE CHANGE IN MONTHLY BASE SALARY IN SSC SECTOR IN 2016-2020, %



According to the forecasts made in 2019, 55% of SSC sector organizations planned to maintain the same number of employees, 39% of organizations planned to increase the number of employees, and 6% of organizations planned to decrease the number of employees in 2020.

**FIGURE 2.16**

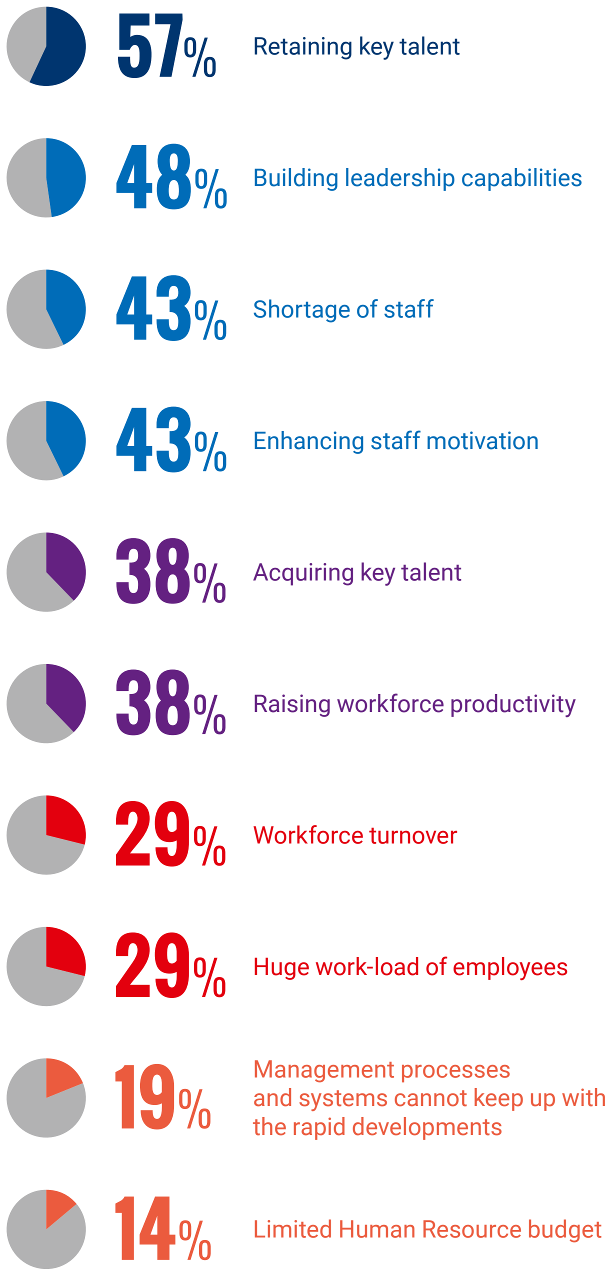
PLANNED CHANGE IN THE NUMBER OF EMPLOYEES IN 2020 IN SSC SECTOR ORGANIZATIONS, % OF ORGANIZATIONS




Challenges that have become more relevant in 2019 are building leadership capabilities, huge workload of employees and retaining and acquiring key talent. The positions for which it is the most difficult to attract candidates and retain employees are finance specialists at professional level.

**FIGURE 2.17**

MOST SIGNIFICANT CHALLENGES IN HUMAN RESOURCE MANAGEMENT FIELD IN SSC SECTOR IN 2019



# 3 OFFICE MARKET

Riga office market has developed gradually. After independence in 1991, the professional office stock in Riga as such did not exist. At the same time, it was clear, that active development of business environment cannot be possible without quality premises. Further we describe the development of professional office space in Riga by periods.

## THE BEGINNING OF THE DEVELOPMENT 2000 TO 2004

Supply of professional speculative office properties in the period between 2000 and 2004, was mainly driven by the reconstructions of the historical buildings in the city centre. The development of office space in Riga was relatively slow although several projects entered the market in a face of built-to-suit office premises. Examples of such companies are LMT, Rimi and Bank of Latvia. One of the few newly built speculative office buildings was Valdo Office complex at Bauskas street 58a.

## SECOND WAVE OF THE GROWTH 2005 TO 2008

In 2004 Latvia joined European Union. As a result, Latvian economy started to grow more rapidly, foreign investments were attracted, foreign companies opened their branches in Latvia and local businesses expanded their activities.

Among other markets, Riga Office market had experience considerable growth and total stock increased from 135,800 sqm in 2004 to 417,500 in 2008. Intensive development was caused by favourable credit politics and low interest rate for loans offered by banks.

The demand for modern, convenient and appropriate office premises was constantly strengthening and exceeding the existing supply.

Decentralization of office building locations was another trend observed then with the business activities moving towards the periphery of the capital and to the regions.

Readiness to move out of Riga centre was partly caused by need of the growing international companies for larger modern spaces, capacious parking areas but still necessity of vicinity of CBD. Need for new premises forced companies to project their future needs for office space and sign lease agreements even during the construction of the building.

Stable demand for office premises forced landlords to increase service qualities and slowly increase rent rates. Overall balance between demand and supply had led to market normalisation and stabilisation.

Delays in completion were widespread in the market, with an average delay of 2-3 months, depending on the size of the project.

Chapter content preparation: **Colliers International (Latvia)**

## CRISIS 2009

A deep GDP decline, high unemployment rate, decrease of real wages, investment outflow, unrealistic expectations and absence of support aside from speculative capital, followed by a severe downturn of office market. Many speculative projects, which had been waiting for funding in the preconstruction stage, were frozen or even abandoned with no vision of a development strategy or any chance of attracting investments. Still, some projects stayed in the development stage and, according to proper strategies, had a fair chance of delivery despite the tense market situation.

Projects that were under construction during 2008-2009 (ca 59,000 sqm of speculative space) were completed by the end of 2009. Completion delays were widespread and varied from 2 to 10 months with an average of 4-5 months.

Lack of financing affected not only developers but also end users. Most companies did not plan to expand existing premises and were aimed at optimising their costs. As a result, companies searched for and moved to less expensive or smaller premises. All in all, businesses felt unsafe and unstable: the average deal got smaller and companies became unwilling to sign long-term or middle-term leases. Yet another group of companies, although much smaller in number, attempted to secure a low rent rate for long periods as they set long-term business aims to take advantage of the market situation.

## STABILIZATION 2010 TO 2012

After severe economic decline, 2010-2012 were the years of stabilization. Many companies understood the new market realities and found new ways of doing business in a challenging environment. Many companies that were able to overcome the difficult period of 2008 – 2009 became able to plan ahead and build strategic plans for next three-five years. They started to hire new staff, expand and grow their businesses. This was reflected in first signs of growth of demand for office space and made positive overall effect on the commercial real estate market. As a result, during 2010-2012 vacancy rate in Riga office market started to decline and more than 138,000 sqm of vacant A and B class office space were absorbed.

Development of new office buildings was still sluggish as rent rates were not high enough and oversupply in office market keeps the vacancy on a high level.

## THE BEGINNING OF THE DEVELOPMENT 2013 TO 2015

Along with the general economic improvement and increase of business activity, the office market expressed positive dynamics, resulting in falling total vacancy, gradual increase of rent rates and growth of total absorption figures. As a result, several office projects were commissioned, and the new ones added to pipelines. Still the development of new office projects was quite scarce but was confidently building up.

In general, the office market is more landlord favourable, additionally, the shortage of high-quality office premises has allowed landlords to sign prelease agreements during the construction stage of new office building.

## DEVELOPMENT PROPERTIES 2016 TO 2018

In 2016 the industry received signals from the occupiers on rising interest for modern high-quality office premises. This demand originates from the businesses needs to expand, as well as to increase efficiency and the need to provide additional non-material benefits to their workforce. As a result, the first newly built office buildings in this period were partly pre-leased before commissioning and further occupation was taken in a short period. However, construction volumes were insufficient and office stock out of date. As a positive sign should be mentioned the high interest of office development properties, especially from Baltic developers. Years 2016 to 2018 marked with many notable development property deals and tendency continued in 2019. Nevertheless activity in segment was rising and more and more developers announced plans of new office projects.

# BEGINNING OF BOOM 2019 AND LATER

## HOW STRONG COVID-19 WILL AFFECT NEW OFFICE DEVELOPMENT?

The Riga office market in 2019 experienced the largest stock increase in the last 10 years. During the first month of 2020 another large office project was commissioned with GLA 25,000 sqm. Interest from developers for the Riga office market remains high, as evidenced by several notable development property acquisitions in 2019 and last four years. In 2020, development activity will remain at the level of 2019, while more than ca GLA 300,000 sqm of office space is currently under planning with high possibility that large part of it might be transformed to the active construction during next 2 years.

However, the state of emergency in Latvia due to Covid19 was declared (March 12th, 2020) and several measures were taken. Up to the end of February 2020, there was no Covid impact on the market, development plans were in the process and economic indicators were good – meaning all future scenarios had positive outlook. Nevertheless, it is obvious that there will be a negative impact on economics which has also been confirmed by Bank of Latvia and other institutions. Even though no office projects currently under construction or planning are stopped or postponed, most likely development volumes might slow down.

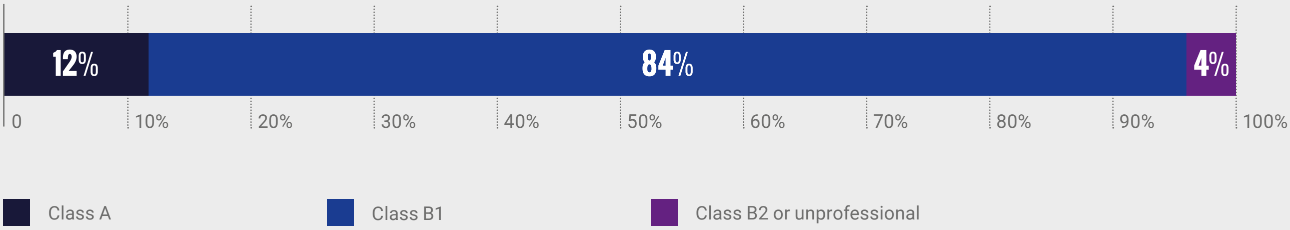
In, 2019 take-up for office premises remained in a level of previous years, nevertheless interest for new office projects increased. The largest contribution in office take-up remained from IT and professional service companies. In the beginning of 2020, the vacancy rate stood at 9.1%, which is 5 pp higher comparing to the end of the previous year. Class A and B1 office rents have been stable in Riga for several years and no large changes are expected.

*Photo: Marcis Baltskars*

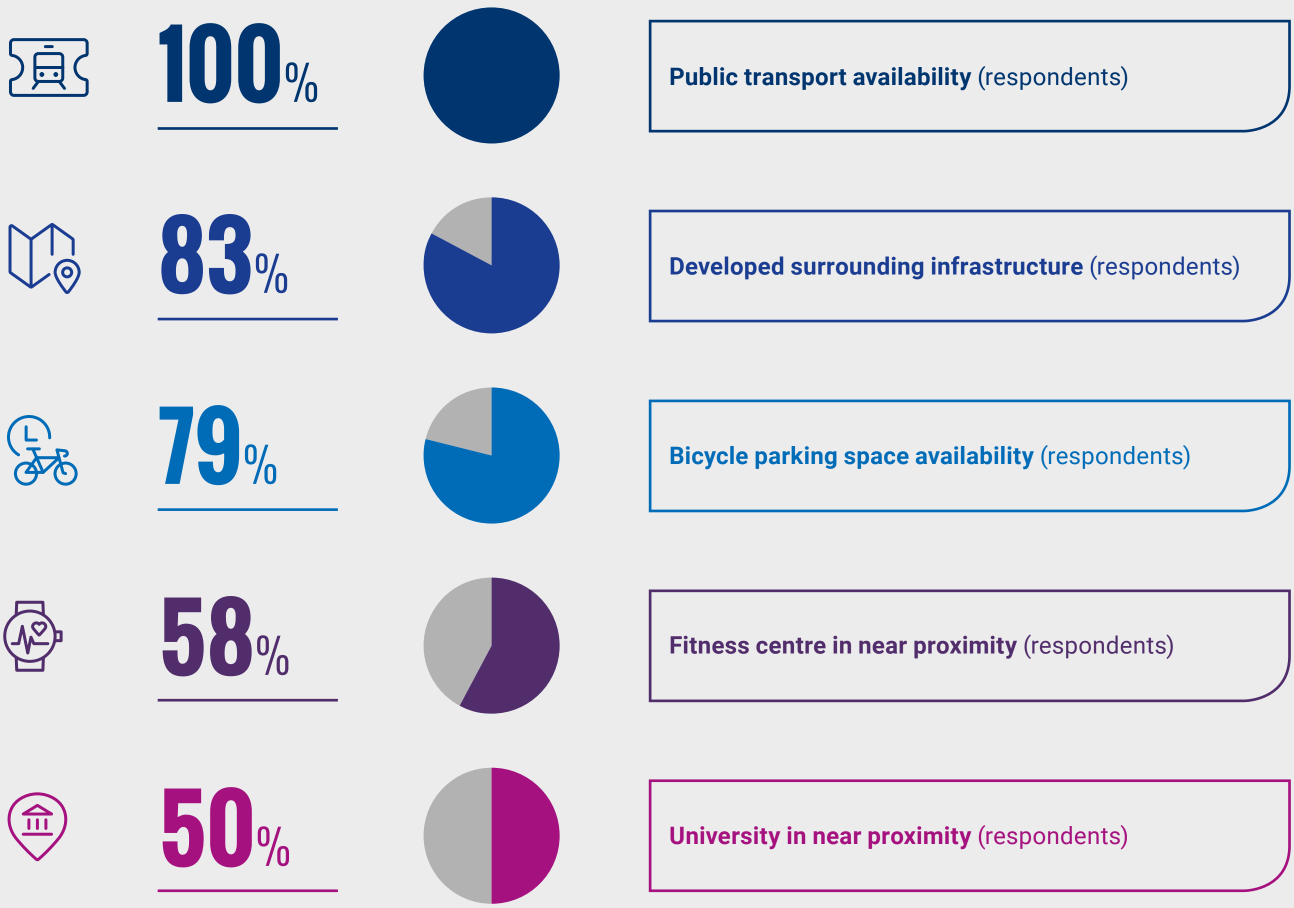
**FIGURE 3.1**
RIGA OFFICE MARKET IN NUMBERS

| | |
|---|---|
| 773,000 sqm ↑ | **Total stock** |
| 60,000 sqm ↑ | **Under construction** (including 25,000 commissioned in January 2020) |
| 9.1% → | **Vacancy** |
| 65,000 sqm → | **2019 Completions** |
| 300,000 sqm → | **Under planning** |
| 14-16 EUR / sqm → | **Class A** Rent rates (sqm / month) |
| 10-14 EUR / sqm → | **Class B1** Rent rates (sqm / month) |

## FIGURE 3.2
OFFICE SPACE OCCUPIED BY CLASS




## FIGURE 3.3
MAIN CONDITIONS OF OFFICE LOCATION BY BUSINESS SERVICE COMPANIES



# LATVIA / RIGA

# CABOT SUCCESS STORY

CABOT

## WHAT IS THE SCOPE OF ACTIVITIES & SERVICES PROVIDED BY THE COMPANY?

Cabot Latvia is a global business service delivery center for Cabot Corporation – a leading global specialty chemicals and performance materials company from the United States of America. Cabot Latvia provides financial, IT, purchasing and customer services to the company's operations in Europe, Middle East, Africa and North America regions. The company is very proud of the culture and environment it has built where its' more than 230 employees are united by values, inspired by its people and driven by purpose to ensure the most attractive platform for business services.

## NEW EXPERIENCE FACED IN 2019

In the fall of 2019 Cabot Latvia celebrated 5-year anniversary and announced significant expansion, creating almost eighty new workplaces. It was driven by corporation's major transformation project – the creation of global business service (GBS) organization and transition of selected North America's service operations to Riga. Cabot aims to create a fit-for-purpose organization with end to end process operating model that consists of core business processes three of which are delivered from Riga: order to cash, source to pay and record to report.

## PLANS FOR 2020

However, Cabot does not stop there, 2020 will be the year of continuous improvement and transformation towards agile organization with an in-depth focus on digitalization. Cabot Corporation has recognized the talent in Latvia and continues to bring in additional roles such as financial analysis, internal audit, talent acquisition, commercial excellence and marketing communications. At the beginning of summer, Cabot Latvia will move to a new office location in Jaunā Teika. The new location will offer easy access from all districts of the city, convenience and an excellent working environment.

## WHAT DO YOU APPRECIATE THE MOST ABOUT BEING BASED IN LATVIA?

Choosing Latvia as the location for company's business service center has exceeded all expectations. The depth and the caliber of talent is what sets Latvia apart. Riga is conveniently located in close proximity to other priority European locations and business leaders, making it an ideal choice. Also, the level of support we received from government and Latvian Investment and Development agency made the choice of Latvia much easier. We are delighted to see how the business service sector is evolving and we believe that going further ABSL Latvia, that we are proud to be founding members of, will have a leading role in strengthening this development.

# CIRCLE K SUCCESS STORY

## WHAT IS THE SCOPE OF ACTIVITIES & SERVICES PROVIDED BY THE COMPANY?

CIRCLE K BUSINESS CENTRE was established in 2012 to support Circle K's Retail and Fuel business in Europe. Currently Business Centre Riga employs more than 630 smart and skillful professionals. The scope of services includes Finance & Control, Logistics & Distribution, Customer service, IT, Procurement, HR. Business Centre provides support for 9 European countries and North America.

## NEW EXPERIENCE FACED IN 2019

Year 2019 was a year of continuous growth for Circle K Business Centre in Riga. Total number of employees in Riga office increased for more than 100 FTE's – from 525 in year 2019 to 630 in year 2020. Office on Duntes street accommodates Business Centre in 6600 $m^2$. Finance & Control department continued building the reputation of Centre of Excellence for Financial reporting and Operational accounting, which resulted in continuous growth of scope. Logistics & Distribution department started to provide services for North America by securing various fuel value chain processes, thereby expanding geographical scope. IT Network team from Riga designed network architecture, coordinated rollout and did most of the actual deployment in Data Center consolidation project in North America. Customer contact Centre served over 1 million customer interactions across 8 countries for both full-service Circle K and automated Ingo brands. With efforts of Business Centre Riga, Circle K's first Virtual Customer Assistant Kay was launched in Scandinavia. This increased B2B & B2C customer satisfaction by effectively solving their issues. VCA is integrated with the latest technology (RPA) and majority of Circle K card related requests are handled without human touch – thus improving resolution time.

## PLANS FOR 2020

Together with Circle K ambition to double financial results by 2023, Business Centre Riga office will be focusing on digitalization and standardization across all regions to sustain quality in services provided. One of the major directions Business Centre will be focusing on is continuous support for North American colleagues.

Business Centre is an essential partner supporting development of new business segments, like Electric Vehicles Lab, Food delivery, Mobile payments. Currently Voice bot is piloted and will be rolled out in North America for Global Fuels Distribution center. Data Centre consolidation project in North America is planned to continue for another 2 years, so the network team is going to be instrumental for its success.

## WHAT DO YOU APPRECIATE THE MOST ABOUT BEING BASED IN LATVIA?

When making decision about the location of Business Centre for Circle K, major factors that were considered were: accessibility and infrastructure, availability of skilled local resources, language capabilities, scalable platform for growth, already established TOP employer brand.

Latvia, and Riga ticked all the boxes. Riga International airport provides easy traveling possibilities. Developed IT infrastructure is a great support when it comes to implementing new technologies. We have smart and hardworking people who are eager to learn and develop. Over 200 employees of Circle K Business Centre Riga are speaking Scandinavian languages. Due to an increase in scope and complexity of responsibilities more than 25% of employees were promoted during last year. Circle K is a well known and recognized brand in Latvia – famous for fast and friendly service. Circle K was recognised as the top employer in Retail sector in Latvia for 9 years in a row. Circle K Business Centre was recognized as Business Services Firm of the year in Baltics during the CEE Business Services Awards 2019.

Ambition of Circle K is to become the world's preferred destination for Convenience and Fuel and Business Centre is significant support to fulfill this ambition.

# SEB SUCCESS STORY

**Alesja Kirčenko**
Deputy Head of SEB Global Services in Riga

## WHAT IS THE SCOPE OF ACTIVITIES & SERVICE PROVIDED BY THE COMPANY?

SEB Global Services in Riga provides world-class financial services to SEB group customers and business divisions in 20 countries worldwide. Since its establishment in 2006, the branch supports SEB on the journey of becoming a leader in efficiency and innovation.

SEB Global Services in Riga supports SEB group's operations by offering a wide range of services, including payment operations and cash management support as well as services related to trading products, risk management, compliance and IT. The centre also serves international banks and global financial institutions with services in transactions settlement and asset servicing of Nordic securities trades.

The company is dedicated to continuing broadening its competencies. This ambition is also reflected in a steady increase in headcount. In over more than a decade, the company has grown from 100 to 700 professionals, successfully expanding responsibilities into new areas.

## NEW EXPIERIENCE FACED IN 2019?

In 2019, the company onboarded several new functions in Latvia, expanding a range of IT services and control functions, such as Know Your Customer (KYC) and Anti-Money Laundering (AML). This led to continuous growth of SEB Global Services in Riga, having in average 9% increase each year.

The company's achievements over the recent years have been recognised both within and beyond SEB group. In 2019, SEB was recognised as the best Sub-Custody service provider in Nordic markets in one of the most trusted surveys based on clients' assessment, with the Sub-Custody team at SEB Global Services Riga playing a major role in achieving this recognition. Finally, in the beginning of 2020, SEB Global Services was awarded as the „Business Firm of the Year – Baltics" at Shared Services and Outsourcing Awards in Warsaw.

## PLANS FOR 2020

As professionals dedicate a big portion of their time to improving processes, more and more of the company's manual tasks are being automated. Currently existing digitalised process redesign solutions automate over 200 tasks daily, amounting to a 2,5 million tasks in SEB in the past year, allowing faster customer service and higher focus on quality. Enhancing customer experience through process automation is one of SEB Global Services top priorities for 2020.

In order to attract and sustain top talent, the company will continue focusing not only on business strategy and results, but also on creating equal opportunities that would enable all employees to succeed. By fostering an environment, in which differences of thoughts and backgrounds are celebrated, SEB Global Services is able to retain talent and in turn, increase customer satisfaction.

## WHAT DO YOU APPRECIATE THE MOST ABOUT BEING BASED IN LATVIA

The established SEB business presence in Latvia was just one of the reasons why SEB Global Services was opened in Riga in 2006. A convenient geographical location, well established infrastructure, possibilities for future expansion and favourable business environment, as well as the availability of talents are important factors that allowed the company to grow while maintaining a world-class quality of financial services.

# 4 LATVIA – LOCATION FOR BUSINESS SERVICES CENTERS

**Poland, Czech Republic, Hungary, Romania and Slovakia**

Variety of national currency
**(PLN, CZK, HUF, RON and EUR)**

| Total population | Average employment in BSC sector |
|---|---|
| **83.4** million people | **7/1,000** |

**Lithuania, Slovenia, Latvia and Estonia**

**EUR** is the only currency

| Total population | Average employment in BSC sector |
|---|---|
| **8.2** million people | **6/1,000** |


Chapter content preparation: **EY**

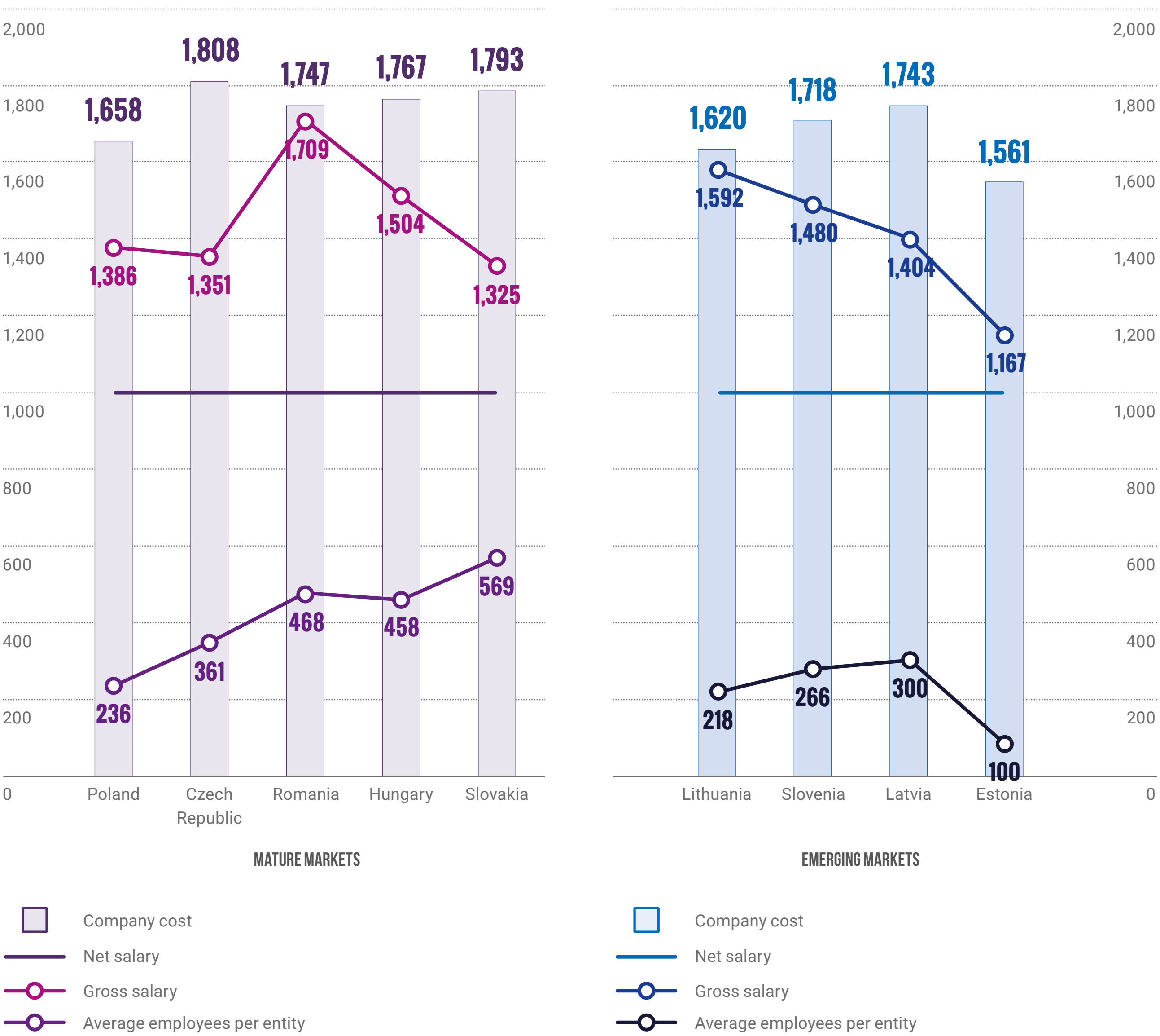
## WHY TO ESTABLISH BUSINESS SERVICES CENTRE IN LATVIA?

When looking at the map of Europe, it is evident that proximity to Central and Northern European countries has been one of the reasons to establish near-shoring Business Services centre (hereafter 'BSC') in Latvia thus getting the access to talents with necessary language skills.

What are the other reasons to prefer Latvia as location to establish BSC?

**FIGURE 4.1**

MONTHLY COMPENSATION COSTS (1,000 EURO NET) COMPARED BY EMERGING AND MATURE MARKETS



Business process automation at certain level becomes a necessity in both, Mature and Emerging markets due to tight resources, lack of competencies in labor market and overall reducing population in Europe. Yet benefits to establish BSC in each market differ:

| | MATURE BSC MARKET | EMERGING BSC MARKET |
|---|---|---|
| Size of BSC sector | 533,000 employees | 49,000 employees |
| Sector per country | 37,000-198,000 | 8,000-17,000 |
| BSC locations | Capital<br>University cities<br>Regional economic centers | Capital<br>Plus 1 |
| BSCs established[1] | 1,614 | 240 |
| Average employees per entity | 400+ | 200+ |
| Benefits | Standardized services<br>Larger talent pool<br>Variety in foreign language skills<br>Higher yields from automation | Compact teams<br>Swift process redesign<br>Speed of decision making and change management<br>Convenient travel to BCS location in capital |

[1] BSCs servicing domestic entities were excluded. Only publicly available information sources were used.

## HOW TO HIRE TOP TALENT?

Salaries are no longer a commercial secret in Latvia since the payroll ranges must be disclosed in job advertisements since the end of 2019. Thus, everyone in Latvia can benchmark the competitiveness of salary level compared to the rest of the market.

When looking at the wider geography of typical BSC locations in Europe, the question gets even more complicated. Countries having mature Business Services (hereafter "BS") sector, employing between 37,000-198,000 people, like Poland, Czech Republic and Slovakia, publish salaries on annual/ bi-annual basis. For other countries, providers offer online benchmarking tools, like Hungary, employing 55,000 people in BS sector.

Finance & accounting related positions offering 1,000 Euro net pay are compared in the table below. Comparing popular BS locations and its talent availability in capital cities of each country, the following conclusions can be made:

» Latvia ranks in the middle when compared with its peers from the perspective of pay level per skills and experience in accounting & finance. There is an opportunity in Latvia to hire Accounting Specialist with 1-2-year experience for 1,000 Euro monthly net pay.

» Meanwhile, for the same salary range you can hire university graduates – Junior Accountants in Poland, Czech Republic and Estonia.

» When compared to Lithuania and Hungary, it might be possible to source even more experienced talent for the same salary.

### TABLE 4.1
ACCOUNTING & FINANCE SPECIALIST (1,000 EURO NET SALARY) AVAILABILITY IN DIFFERENT COUNTRIES COMPARED BY LEVEL OF SENIORITY

| | JUNIOR ACCOUNTANT | ACCOUNTING SPECIALIST | SENIOR ACCOUNTANT |
|---|---|---|---|
| Capitals of countries | For net salary of 1,000 euros you can hire accounting assistant in capitals of Poland and Czech Republic. Also, one of Emerging BSC markets – Estonia | For net salary of 1,000 euros there are available general ledger, payroll or cash collection specialists in capitals of Slovakia and Latvia | In capitals of Lithuania and Hungary BSC can sometimes find experienced talent for 1,000 euros net pay |
| Experience | University graduate | 1-2 years | 3+ years |
| Typical functions | Junior general ledger accountant, payroll or accounts payable | General ledger or payroll specialist, may be responsible for account balances, keeps proper documentation and prepares reports | Prepares reports, introduces procedures, responsible for account balances, works with auditors, designs process improvements |

The possible explanations for such variation could be Estonia's proximity to Finland, thus having market with higher salary expectations, as well BS sector saturation in Poland and Czech Republic, which results in high competition for talent.

## QUALITY OF LIFE

When comparing the relative quality of life that BSCs offer to their employees, Latvia scores higher than other emerging BS locations. Meanwhile, mature BS countries are not comparable, due to high variation of GDP per capita in capital vs. regional economic centers.

Real GDP per capita is a measure of economic activity and is also used as a proxy for the development of a country's living standards.

| GDP per capita[2] | Annual cost[3] 13 x monthly | Relative quality of life | Countries |
|---|---|---|---|
| 12,500 | 22,600 | 81% higher | **Latvia** |
| 15,600 | 21,600 | 38% higher | **Average of Lithuania, Slovenia, Latvia, Estonia** |

In addition to salary cost, other criteria are important when considering one or another BS location, such as productivity, customer satisfaction, employee attrition rate, total tax burden and ease of doing business. Latvia is among attractive BS locations in Europe, with competitive salary ranges for accounting specialists. As salaries are no longer a secret in hiring, it is relatively simple to benchmark salary ranges of other BSC functions served from Latvia.

[2] Source: Eurostat, Real GDP per capita 2019, chain linked volumes, EURO

[3] The payroll levels for capitals of the countries, offering 1,000 EUR net salary were compared. 5 countries in selection had data of 2019 salary ranges, 2 countries – data of 2020, 2 countries – no publicly available data about payroll levels.

# LATVIA / RIGA

# 5 LABOR MARKET POTENTIAL AND COMPETITIVE ADVANTAGES OF GBSC

In terms of market potential, the Latvian labor market should not only be judged from the perspective of overall resource availability, but also in terms of competition for talent. The article below provides an overview of the Latvian labor market as of February 2020 and helps to reveal the competitive advantages for GBS centers in the fight for talent. While the labor market status quo and any future forecasts at that point in time seemed rather restrictive, one should understand that the GBS centers were and still are leading the war for talent due to their above-average investments in employee well-being and advanced HR practices.

## UNTAPPED POTENTIAL IN THE LATVIAN LABOR MARKET

According to the Central Statistical Bureau of Latvia (2020), in 2019 there were 1.4 million people between the ages of 15 and 74. Of these, 971,000 were economically active (69.3%) – 910,000 were employed (employment rate of 65%) and 61,000 were searching for a job (unemployment rate of 6.3%) *(CSB, 2020)*. It is a fact that the recent health and economic crisis has brought significant changes in the Latvian labor market. However, we believe that for comparative analysis historical data can still be used as a good proxy, considering that no industry and no country was able to avoid the impact of Covid-19.

ERDA STRATEGIC HR & BRANDING

Chapter content preparation: **ERDA**

## EMPLOYMENT RATE IN LATVIA – THE LOWEST AMONG BALTIC STATES

In absolute terms, there were 428,000 economically inactive inhabitants between the ages of 15 and 74 in 2019. In fact, in February 2020 the employment rate in Latvia was the lowest among the Baltic states (Latvia – 65%, Lithuania – 65.7%, Estonia – 69.2%), indicating that even in low unemployment environment there was untapped potential in Latvia to involve economically inactive inhabitants in the labor market.

## ROOM FOR COMPETITION AMONG GBS CENTERS

Competition for talent among GBS centers in Latvia is still significantly behind the competition present in neighboring countries. In Vilnius, 78 GBS centers altogether employ 17,000 employees, while in Riga, 50 GBS centers employ 15,000 employees *(ABSL 2020, Invest Lithuania, 2020)*. In Estonia, the overall number of GBS centers is more than 80. Although they have less total employees than in Riga, they still create noteworthy competition amongst themselves *(Invest in Estonia, 2020)*.

## CULTURAL FIT IN TERMS OF INCLUSION OF WOMEN

Another aspect indicating more favorable conditions in Latvia than in other Baltic states relates to the inclusion of women in the labor market. For 96% of GBS centers in Latvia, diversity and inclusion is a topic of high importance, raised among employees either informally (31%) or with the help of formal diversity and inclusion programs (65%) *(ABSL, 2020)*. According to the latest data, Latvia is the perfect place for embedding diversity and inclusion policies, especially related to the inclusion of women in business. Data shows that 29% of board seats in Latvia are held by women, indicating significant superiority over Lithuania (10.8%) and Estonia (8%), and placing Latvia among the TOP 10 countries across the world in terms of share of women in boardrooms *(Deloitte, 2019)*.

## GBS LEADING IN EMPLOYEE WELL-BEING

On average, GBS centers have higher employee engagement and satisfaction rates than local companies. Due to the absence of comparable data among local companies, it is hard to accurately showcase this tendency. Nevertheless, our experience shows that Latvian capital companies tend to have rather negative or poorly positive employee net promoter scores (eNPS), with only a few exceptions mostly rooted in the start-up and exporting community. GBS centers, in contrast, have their eNPS median measure set around +50 *(ABSL, 2020)*. There are many different factors that influence employee engagement and satisfaction. These factors include intangible and difficult-to-measure concepts such as company culture and team dynamics, as well as more practical matters such as benefits and functional office space.

## RICHER BENEFITS PACKAGES

When it comes to benefits, the data proves that GBS are leading the market. As an example, such basic offerings as health insurance coverage or corporate events are offered by 100% and 96% of GBS accordingly, as opposed to 56% and 49% of the overall market *(ABSL, 2020; CV-Online, 2019)*.

With regards to flexibility arrangements, the business services industry offers far better preconditions which can become highly important when trying to reach the potential reserves of economically inactive citizens. Flexible working hours and possibilities to work from home are considered to be a huge benefit and are accordingly offered by 77% and 64% of GBS *(ABSL, 2020)*. In comparison, only about 28% and 13% of all Latvian employers can offer similar flexibility *(CV-Online, 2019)*.

## BETTER-EQUIPPED OFFICE SPACES

Since work-life balance has become unattainable in the modern business environment, employers try to ensure employee comfort during their working hours at office, and the GBS industry is leading in these terms as well. Their offices are well-equipped to fit the needs of their employees. For example, while all GBS have kitchens, 96% have leisure rooms with sofas, and 46% can offer terraces or balconies to their employees. In general market the same level of convenience is offered by 46%, 29% and 10% of the employers, respectively. *(ABSL, 2020; CV-Online, 2019)*. It can also be seen that GBS centers are far ahead in ensuring modern and comfortable office spaces with parking opportunities (69% vs 24%) *(ABSL, 2020; CV-Online, 2019)*.

## GBS SHOWCASING EMPLOYEE-ORIENTED HR PRACTICES

Aside from higher remuneration and more attractive non-wage benefit packages, it is clear that the GBS industry has a lot more to offer their employees. Foreign corporate culture in Latvia is associated with employee-oriented practices and advanced employee services.

## CLOSER TO PEOPLE AND BUSINESS DECISIONS

HR teams in the industry tend to be more people-oriented when compared with the overall market. The median number of HR specialists working with 100 employees in one GBS is 1.2 specialists *(ABSL, 2020).* The same index for an average Latvian employer is 0.85 specialists per 100 employees *(ERDA, 2019).* By having enough specialists, GBS can ensure that they have enough resources to address and fully serve the needs of all their employees.

What's more, they are also making sure that HR teams have their say in business operations. While only 39% of employers have involved their HR teams in business decisions making in Latvia, the GBS industry shows a more positive tendency with involvement of up to 58% *(ERDA, 2019; ABSL, 2020).* Integrating the HR perspective in daily decision making has allowed them to prioritize workforce-related questions in their agenda while helping them to become one of the most desirable and modern workplaces in the country.

## MORE ADVANCED DIGITAL PRACTICES

Technological advancements aimed at improving the customer experience have leaped forward over the recent years. Unfortunately, when it comes to competition for talent, many employers in Latvia fail to offer a quality digital experience to their employees. According to data, only 17% of Latvian employers are using simple technologies like digital applicant tracking systems, and only 13% are using digital onboarding tools *(ERDA, 2019).* In comparison, the GBS industry shows far better results with 69% and 31% accordingly *(ABSL, 2020).*

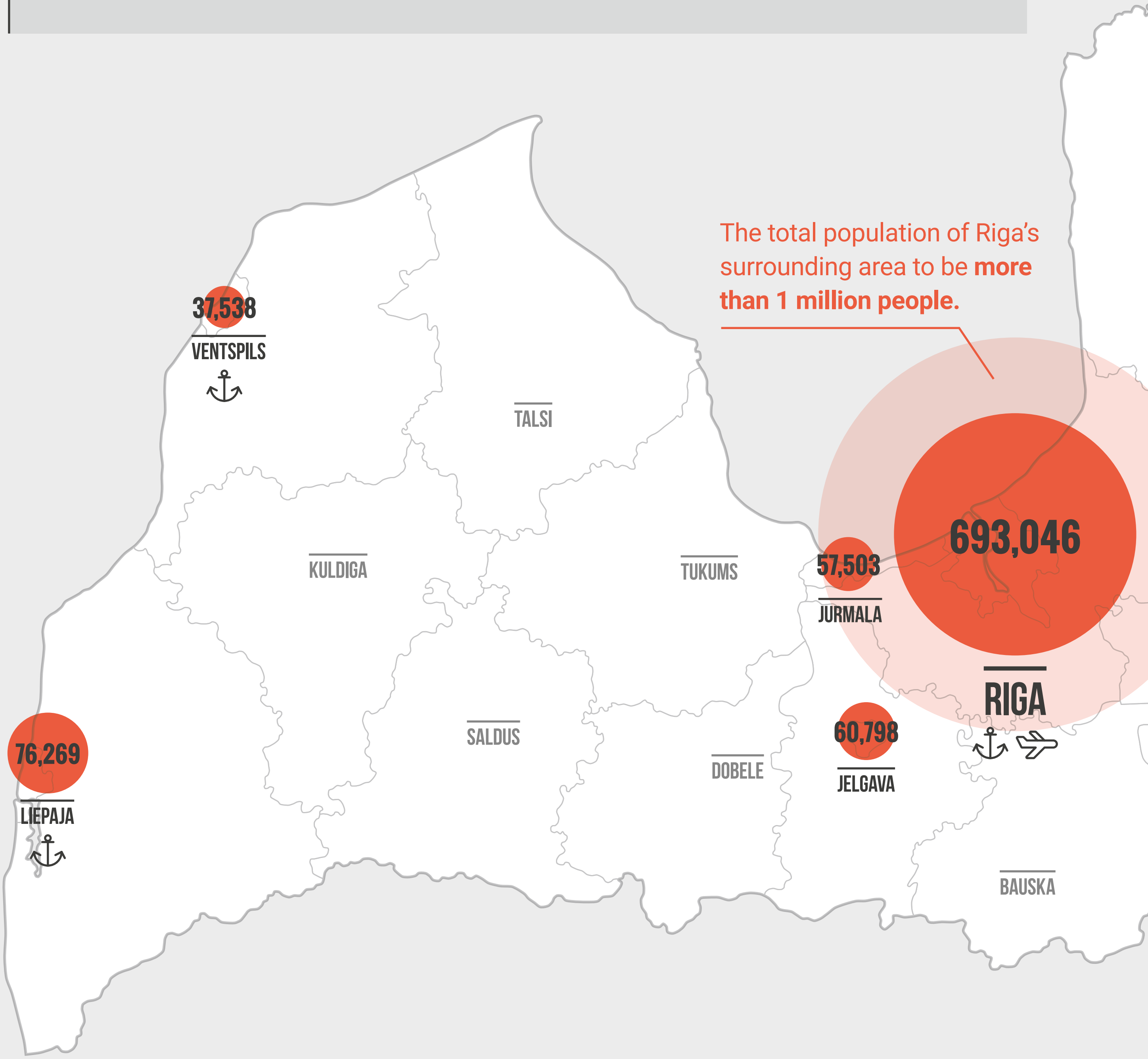
This is a noteworthy factor when it comes to competition for talent, as service centers ensure that both potential and existing employees have a more pleasant experience when interacting with the employer.

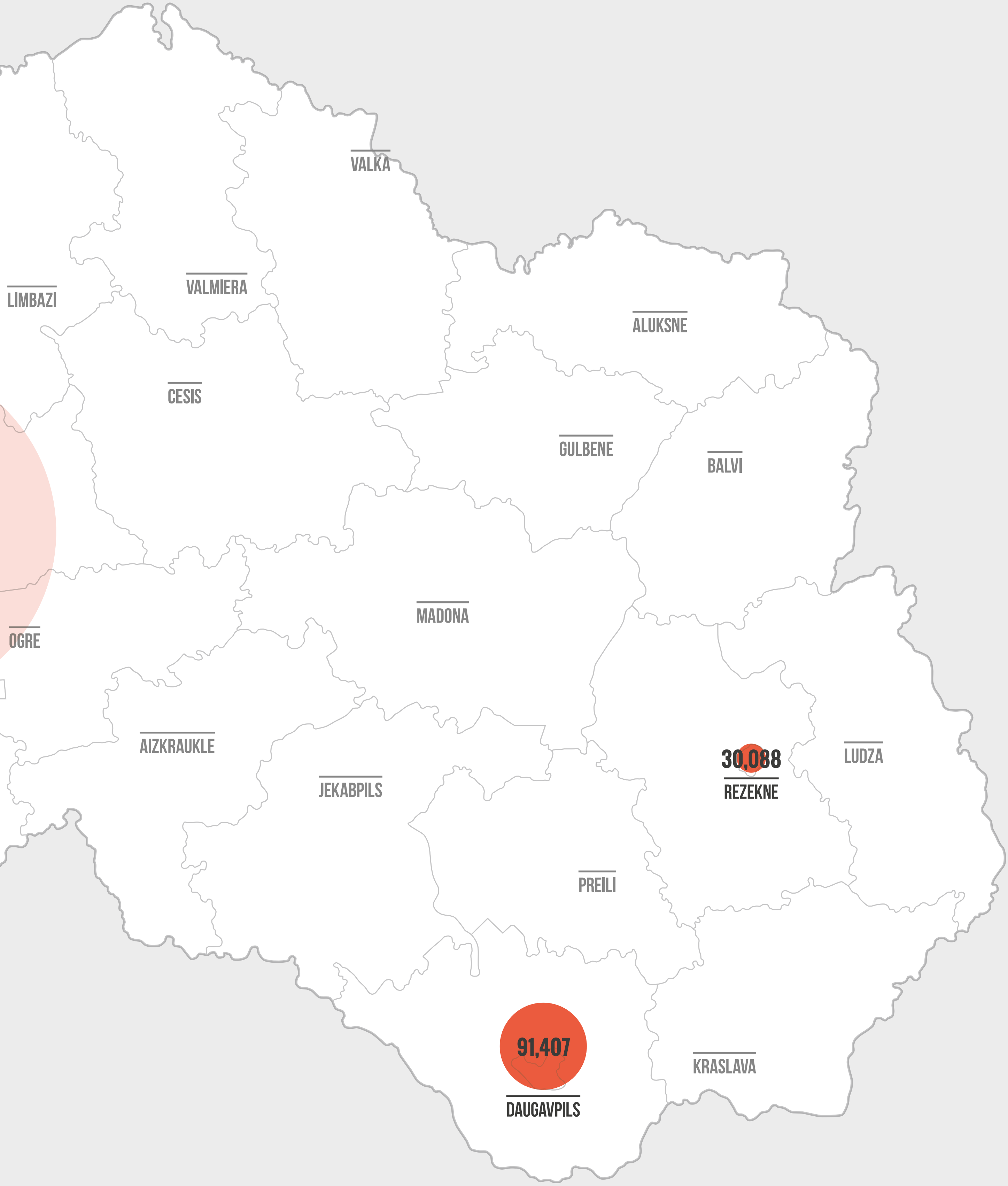
## SUMMARY

Before the Covid-19 pandemic shook the world, the Latvian labor market was showing signs of overheating. Despite the recent setback caused by the health crisis, the war for talent will soon accelerate again. Once that happens, GBS centers, showing employee-oriented attitude with above average remuneration and benefit packages, as well as advanced digital HR practices, will have a significant competitive advantage compared to other employers in Latvia.

**Zane Čulkstēna**
Founder of ERDA

FIGURE


The total population of Riga's surrounding area to be **more than 1 million people.**
37,538
VENTSPILS
TALSI
KULDIGA
TUKUMS
57,503
JURMALA
693,046
RIGA
76,269
LIEPAJA
SALDUS
DOBELE
60,798
JELGAVA
BAUSKA


VALKA
LIMBAZI
VALMIERA
ALUKSNE
CESIS
GULBENE
BALVI
MADONA
OGRE
AIZKRAUKLE
30,088
REZEKNE
LUDZA
JEKABPILS
PREILI
91,407
DAUGAVPILS
KRASLAVA

MAGNETIC LATVIA

# Riga - Emerging GBS City

- #3 largest North-European City
- 50 global business centers with 15k employees
- Highly qualified workforce at reasonable costs
- Great language skills: 3 languages on average per person

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