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Wage and productivity of employees in service providing industries in Albania: a close look at IT and Business sectors

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Abstract

Nowadays, outsourcing has created new employment possibilities especially in developing countries. Although Albania is considered as one of the most prominent outsourcing destinations in the Balkans, there is little evidence in terms of the varying levels of wage and productivity of workers within the outsourcing sectors. The aim of this thesis is to provide insights regarding the wage and productivity differentials in two specific service-providing industries in Albania, namely IT BPO and BPO. The analysis of primary data collected through a survey (N=62) in four Albanian companies and eight interviews with representatives of outsourcing companies in both mentioned sectors, shows that employees in these industries have below the average wages. Furthermore, the findings from the thesis suggest that education level, employment duration within the company, experience and trainings are significant factors towards wage differentials. However, in terms of productivity differentials, findings show that when working eight hours per day, applying trainings, and including breaks during additional working hours, productivity is not negatively affected. Lastly, all four models of the Efficiency Wage Theory are applicable in both these sectors; however, regarding the relationship of Efficiency Wage Theory with firm size, results are inconclusive. Considering the existing literature gap, this thesis provides insightful evidence and serves as a starting point for future empirical studies.

Keywords: outsourcing, Albania, wage, productivity, differentials, IT, business

To my dearest nephew,

Leo…

Acknowledgments

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I am extremely grateful for my parents and sister. They have been my biggest support system and have always believed in me even when I did not. Everything I am and every accomplishment I have in my life is because of them.

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List of Abbreviations

ACCA – Association of Chartered Certified Accountants

ADM – Adherence Management

BA – Bachelor of Arts (degree)

BPO – Business Process Outsourcing

CEO – Chief Executive Officer

CRM – Customer Relationship Management

FI – Foreign Investments

INSTAT – Institute of Statistics

ILO – International Labour Organization

IP Protection – Intellectual Property Protection

IT BPO – Information Technology Business Process Outsourcing

LCCs – Low Cost Countries

MA – Masters of Arts (degree)

UK – United Kingdom

Chapters

Statement of the problem

In a prospering and globalized world, outsourcing has emerged as a new employment possibility. The term outsourcing refers to “the business strategy of transferring parts of a company's production or service to a contractor outside the company for the purpose of increasing efficiency or lowering costs” (Riggs, 2015). In other words, a company hands out specific business processes or services to other companies in order to maximize its own profits. Nowadays, outsourcing is present in many economic sectors, such as programming, accounting, engineering, manufacturing, legal work, etc. Currently, a developing country such as Albania is classified as one of the prominent destinations mainly in the IT and business sectors (“Outsourcing to Albania”). Information technology business process outsourcing (IT BPO) in Albania is mostly focused on web and/or software developing, while business process outsourcing (BPO) is mostly represented by call centers as well as manufacturing companies. Considering the existing differentials in between basic functions, i.e. manufacturing goods and services in BPO and higher-level functions of IT BPO, it is expected that there are also differences in labor market indicators of these two sectors in Albania, in particular employee’s wage and productivity levels. However, to my knowledge, there have been no previous studies regarding the employees’ wage and productivity in the IT and business sectors operating in Albania; that is why this topic emerges as a research area of interest. This thesis seeks to provide an analysis of wage differentials in Albania in the IT and business outsourcing sectors with respect to hours of working, education, experience, gender, age and labor effort; it will also evaluate how such wage differentials vary by firm size and analyze how implications of such findings affect productivity of workers.

Introduction

In order to provide a better understanding of the topic, it is useful to first define the terms of “outsourcing”, “offshoring” as well as “offshore outsourcing”, which usually tend to be confused with one another. Thesis starts with a brief chronology of outsourcing as a business strategy, from the time it firstly emerged in 1980 up to today.

Then the thesis reviews outsourcing as a practice globally. Two main reasons why the role of outsourcing is increasing, namely reduction of production costs and focus on core competencies, are then elaborated. The thesis also reviews top two global vendors namely, the Philippines and India, and what are their respective characteristics that help reduce the costs for the buyers. Moreover, the six core competencies are presented and how their existence helps entrepreneurships concentrate their business objectives to capacity utilization instead of production is explained.

Particular attention is paid to outsourcing in developing countries. The paper provides the benefits of a successful outsourcing in such countries and focuses on the specific case of Albania, which is considered as a relatively new outsourcing destination in the Balkans with two prevailing sectors, namely IT and business. The existing wage and productivity differentials in both these Albanian sectors are elucidated by analyzing collected data.

Lastly, the thesis explains why the relationship in between Efficiency Wage Theory and firm size could produce interesting implications for the study.

Literature Review

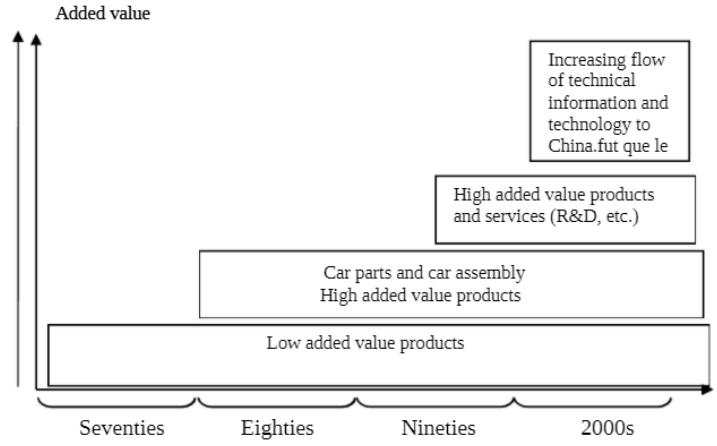
1. Outsourcing

The term outsourcing refers to “the business strategy of transferring parts of a company's production or service to a contractor outside the company for the purpose of increasing efficiency or lowering costs” (Riggs, 2015). The company that provides outsourcing is known as the “buyer”, while the outer company that provides services and/or products is referred to as “vendor” (Dolgui and Proth, 2013). However, it is important to clarify the difference between terms of “outsourcing”, “offshoring” and “offshore outsourcing” that usually tend to be confused with each other. “Offshore outsourcing” is the situation when the vendor operates in a different country from

the buyer (2013). On the other side, “offshoring” refers to a situation when a whole business process is located in a different country (2013).

According to Johnson (2017), outsourcing was formally acknowledged as a business practice by the end of 1980, even though it had previously existed in American companies. Literature suggests that the start of outsourcing dates back in 1970, when the main sectors were textiles, toys, electronic devices etc. (Dolgui and Proth, 2010). However, only in 1980, this business strategy consolidated products with an added value, such as software, medical tools, semiconductors etc. (2010). Starting from the mid-nineties to 2000s, outsourcing was prevalent in many operating industries.

Figure 1: Evolution of Outsourcing in China



Source: Dolgui and Proth, 2013

The most important country back then was China, which played a crucial role as the main vendor for huge outsourcing companies of US and Europe (2010). Figure 1 illustrates the chronological development of the outsourcing sector in China.

As world emerged in the first decade of the 21st century, outsourcing had transformed into an essential practice for companies to participate and manage to survive in the international market. Nowadays, offshoring has spread to various sectors, such as programming, accounting, engineering, manufacturing, legal work etc.

2. Increasing role of outsourcing

Annual figures on outsourcing show an increasing role of this sector globally. Back in 2019, worldwide outsourcing market was estimated to be approximately $92.5 million (Mazareanu, 2020, page 17). However, the actual market value has increased. Only in USA, the outsourcing in 2020 was worth of $132.9 billion and it is expected to have an annual growth rate of 1.6% (“Business Process Outsourcing Services in the US - Market Size 2003-2025”). There are

two main reasons that explain such an increased role of outsourcing, namely, minimizing the production costs and concentrating on core competencies.

2.1 Reduction of production costs

Nowadays, approximately 80% of operating businesses in US have incorporated outsourcing in one form or another (Dolgui and Proth, 2010). Many studies suggest that application of such a business strategy reduces 25% to 30% of the production costs when it is coupled with a good management strategy (2010). However, it is important to point out that lack of the latter can affect the trust of customers by making the quality of outsourced products and/or services debatable.

An important factor that determines to some extent the production costs' reduction is the vendor selection. In order to survive the global competitiveness, developed countries prefer LCCs (low cost countries) as vendors partly due to lower living and labor costs. Some great examples of main outsourcing LCCs include China, India, Taiwan, Philippines, and Indonesia. Pai et al. (2013) suggest that considering country governance, IP protection, labor wages and infrastructure, the top three most attractive outsourcing LCCs for manufacturing are Taiwan followed up by India and China.

However, a more updated report of 2019 shows that the two leading BPO countries are the Philippines and India (Gallimore, 2019). Combination of low labor costs with a great quality service and twenty-four-seven support makes the Philippines a great vendor alternative. Currently, this country is classified as the 5th holiday destination in South East Asia. The two main outsourcing sectors for the Philippines are financial services and telecommunication (2019). On the other side, India is the leading outsourcing vendor regarding the technical support and IT services. Such a country provides twenty-four-seven client maintenance, competitive fees, superior equipment and agents with great English-speaking skills (2019). Besides the Philippines and India, Brazil and Mexico are ranked respectively as the 3rd and 4th best LCC vendors worldwide.

2.2 Focus on Core Competencies

Besides minimizing the production costs, the most important reason why outsourcing is preferred as a business strategy is the opportunity it provides to focus on core competencies. According to Quinn and Hilmer (1994), who were the first to redefine the concept of "core competencies" as "strategic outsourcing", an effective outsourcing has several characteristics of core competencies, such as:

1. Having "sets of skills that cut across traditional functions". For a company, skills are more important than products or functions it provides. Such competencies can improve the efficiency of a company's processes.
2. Having "flexible, long-term platforms". This would provide an enterprise with the ability for adaptation when considering the evolution of costumers' demands.
3. Having a small number of activities. This implies that by focusing and improving in specific areas, the company can become dominant in production of specific goods/services.
4. Being able to attain prevalent knowledge gaps in the market.
5. Maintaining a close relationship with the customers.
6. Maintaining the entrepreneurship's skills. This entails constantly investing in research and development.

Focusing on the above-mentioned core competencies makes companies overall more efficient. In other words, by outsourcing specific parts of the production process, entrepreneurs manage to concentrate their business objectives to capacity utilization instead of production.

3. Outsourcing in Developing Countries

Outsourcing is a highly desirable business strategy for developing countries. Goswami (2012) suggests that service exports of developing countries, i.e., Brazil, India, China, Nigeria, and Morocco etc. have increased approximately 15% per year since the middle of 1990. Nowadays, such countries are exporting high-value and skill intensive services, namely information and business services, besides the classical ones such as transportation and travel (2012). The reason why outsourcing has become such a prominent business strategy in developing countries is the comparative advantage these countries tend to have due to technological divergences and relative funding (entailing production elements, institutions and infrastructure).

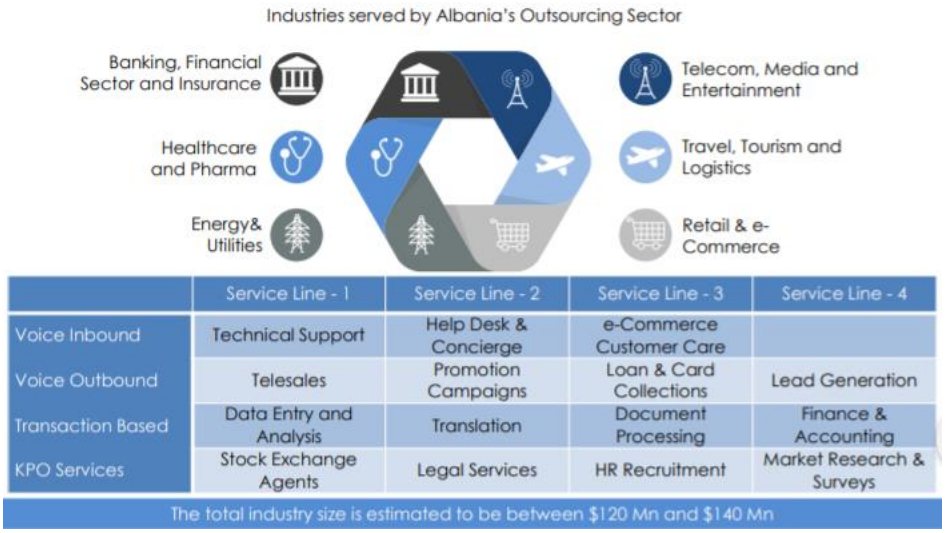
Characterized by “low levels of GDP, high unemployment, and dependence on imports” (Hoti, 2018, page 11), developing countries can generate great benefits from outsourcing. However, creating the necessary conditions in order to stimulate FI (foreign investments) is considered crucial, because outsourcing in developing countries relies heavily on it. For instance, 93% of the BPO industry investment in the Philippines was financed by FI (Goswami, 2012). Therefore, presence of FI can make outsourcing in such countries successful, resulting in unemployment reduction, income growth of highly educated people, development of human capital and production of a spillover effect in the domestic market (Hoti, 2018).

3.1 Outsourcing in Albania

Located in the Western Balkans, Albania presents quite a promising outsourcing destination. The multilingual capability of the workforce, stable banking system (foreign owned mostly), relatively low labor costs and taxes compared to other European countries, favorable visa and work authorization facilities, frequent usage of euro and dollar as currencies (“Outsourcing to Albania”), are some of the factors that make Albania suitable as an outsourcing center in Europe. BPO appeared in Albania during the first years after the fall of communism. In such conditions, the first outsourcing activities in Albania were in the garment and textile industry (“Outsourcing to Albania”). Back then, such a sector provided new employment possibilities for thousands of people who needed a job.

Nowadays, Albania appears to be one of the rapidly growing outsourcing destinations. In terms of talent pool size, Albania is currently considered part of 1st to 3rd generation (call center, payroll processing, transactional processing and ADM) with a low complexity. The main industries served by Albania’s outsourcing sectors are banking, financial sector and insurance, telecom, media and entertainment, healthcare and pharma, travel, tourisms and logistics, energy and utilities, retail and e-commerce (“Establishing a strong BPO industry in Albania”, 2017).

Figure 2: Industries served by Albania's Outsourcing Sector



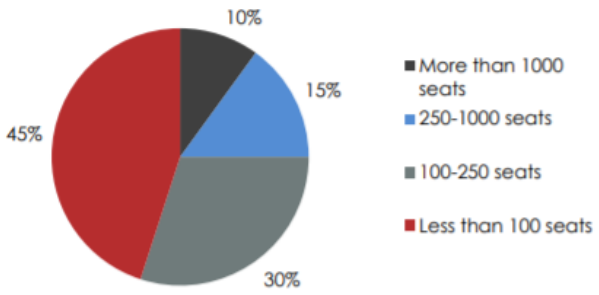
	Service Line - 1	Service Line - 2	Service Line - 3	Service Line - 4
Voice Inbound	Technical Support	Help Desk & Concierge	e-Commerce Customer Care	
Voice Outbound	Telesales	Promotion Campaigns	Loan & Card Collections	Lead Generation
Transaction Based	Data Entry and Analysis	Translation	Document Processing	Finance & Accounting
KPO Services	Stock Exchange Agents	Legal Services	HR Recruitment	Market Research & Surveys

The total industry size is estimated to be between $120 Mn and $140 Mn

Source: Albania Investment, 2017

According to *Albanian Investment Council*, the total estimated size of the BPO industry in Albania appears to vary from $120mln to $140mln and it employs 25,000 up to 32,000 workers (2017), while there are no data regarding the employees of IT BPO industry. In terms of firm's size, 45% of outsourcing companies have less than 100 seats, 30% have in between 100 and 250 seats, 15% have 250 to 1000 seats, and the remaining 10% have more than 1000 seats. This entails, that Albanian market is mostly occupied by small outsourcing companies.

Figure 3: Albanian BPO firms by employee strength



Source: Albania Investment, 2017

Nonetheless, there tend to be wage discrepancies in between companies operating in the same sector as well as in between both sectors. Even though Albania is not one of the highest paying countries for workers in the ICT (information and communications technology) sector, at the national level, the ICT jobs fall under the category of the most paid ones. According to *INSTAT*

(Institute of Statistics), the average gross wage per month in the ICT industry for the second quarter of 2020 was 84,589 ALL and it is ranked as the second most paid sector after finance ("Wage Statistics, Q2-2020",2020) (Please refer to Table 1). In terms of BPO industries, an individual working in a call center has a relatively high average wage that goes up to 65,800 ALL per month ("Customer Service and Call Center Average Salaries in Albania 2020", 2020). Moreover, workers in the garment/shoe sector have an average monthly wage of 30,406 ALL (Arqimandriti, 2016), that is a little higher than the current minimum wage of 26,000 ALL (INSTAT, 2020). Therefore, given this variety of wage levels, it is logical to assume that productivity levels in these outsourcing sectors will differ as well. There is an economic theory that explains why such wage and productivity differentials may exist in different companies and why above the average market wages can prevail (Refer to section 4).

Table 1: Average gross monthly wage per employee by economic activity

NACE Rev2 (sections)	Economic activity by NACE Rev2	Q.2/17	Q.3/17	Q.4/17	Q.1/18	Q.2/18	Q.3/18	Q.4/18	Q.1/19	Q.2/19	Q.3/19	Q.4/19	Q.1/20	Q.2/20
	Total	**49,150**	**48,863**	**50,614**	**49,145**	**50,392**	**50,015**	**52,312**	**51,532**	**52,645**	**51,870**	**53,458**	**53,232**	**54,149**
A	Agriculture, forestry and fishing	36,657	36,489	37,187	36,822	36,961	36,334	37,343	37,956	39,313	36,397	35,105	33,850	33,856
B,C,D,E	Industry	39,688	39,911	42,615	41,023	41,464	41,711	44,672	43,463	43,607	44,134	45,418	45,088	45,536
F	Construction	42,612	43,354	44,015	43,630	43,654	43,749	43,475	42,428	42,521	41,715	42,292	41,560	41,531
G,H,I	Wholesale and retail trade; transportation and storage; accommodation and food service activities	34,560	34,788	35,501	35,375	36,561	36,555	38,292	38,558	38,892	38,577	40,147	39,964	39,415
J	Information and communication	77,004	72,284	74,782	71,497	78,423	75,597	77,719	76,037	87,605	76,500	80,003	78,460	84,589
K	Financial and insurance activities	111,199	96,523	111,368	100,455	114,162	100,609	111,626	101,734	113,339	100,547	115,094	104,985	117,941
L,M,N	Real estate activities; Professional, scientific and technical activities; administrative and support service activities	54,729	56,086	58,355	57,819	58,247	59,157	60,807	59,726	60,102	57,871	60,214	60,355	60,963
O,P, Q	Public administration and defense; compulsory social security; education; human health and social work activities	60,403	60,826	61,755	60,306	60,756	61,103	62,070	61,554	63,276	64,065	63,577	63,134	63,860
R,S,T,U	Arts, entertainment and recreation, repair of household goods and other services	49,528	49,186	51,301	49,349	49,740	49,168	56,560	57,402	56,295	56,012	60,431	57,814	57,140

Source of information: General Directorate of Taxation, social insurance contributors; INSTAT's calculation

Source: *INSTAT*

4.Efficiency Wage Theory

Efficiency Wage Theory is a crucial element of Keynesian theory that explains why an over market real wage rate can emerge (Snowdon and Vane, 2002). The main idea of this theory is that wage and productivity of workers within a firm are positively related (2002). The theory explains why operating firms are willing to pay higher than equilibrium market wages even when there is a surplus of labor supply, otherwise the cost imposed upon the company due to lower productivity would be higher than the incurred cost of hiring an additional worker with the existing wage.

4.1 Models of Efficiency Wage Theory

There are four models of Efficiency Wage Theory, *the labor turnover model, the adverse selection model, the shirking model,* and *the fairness model* (Snowdon and Vane, 2002). *The labor turnover model* states that there is a negative relationship between quit rates and the real wage of workers, i.e., if the real wage paid to a worker increases he has less incentives to quit the job. Therefore, firms are induced to pay higher wages so that they can prevent workers from leaving their job and reduce the cost associated with labor turnover. Simultaneously, the presence of involuntary unemployment due to a wage above the market equilibrium wage acts as an incentive for people not to quit their job. *The adverse selection model* explains the connection between the workers' ability and the minimum wage, which incentivizes the workers to accept a job or not. In such conditions, firms get the most productive candidates but at the same time discourage them to quit. *The shirking model* sates that some workers may not show discretion regarding their work performance. This entails that a higher than equilibrium wage may increase worker's productivity by reducing shirking and at the same time it may lower the monitoring costs of a worker's performance imposed upon firms. Lastly, *the fairness model* suggests that one's productivity is positively related with his/her morale in working environment. An efficient wage will rise a worker's morale, who in turn will work harder increasing his/her own productivity.

4.2 Efficiency Wage Theory by firm size

Several studies regarding the relationship between the wage theory and firm size provide mixed evidence. One existing hypothesis is that type of industry as well as firm size have

noteworthy impact on wages i.e., human capital can partly account for wage differentials within an industry; however, it has a smaller effect regarding wage differentials by firm size (Xiaoying, 2016). On the other side, there is research showing that Efficiency Theory predictions hold true; entailing there are positive correlations between "wages and labor effort, schooling and longer job duration"; however, these findings are insufficient to account for a potential relation in between wage differentials and firm size (Alemida and Pessoa, 2014).

Methodology

The aim of this paper is to analyze the wage and productivity differentials in two service-providing industries in Albania, namely IT BPO and BPO. This is why both primary and secondary data are collected and analyzed.

1. Secondary Data

In order to find pertinent secondary data, I conducted a search in *INSTAT* and *Albanian Investment Council* databases, which are two of the most credible ones for Albania. The search was realized through the terms: outsourcing, IT, BPO, wage differentials, productivity, outsourcing businesses, number of outsourcing businesses, outsourcing data, outsourcing reports 2020, and highest paid outsourcing sectors.

Criteria selection consisted of credible and up to date statistics as well as any potential relevant official report and theoretical/empirical studies. However, considering the fact that the paper is focused on wage and productivity differentials, for analysis purposes, the empirical data were given top priority.

Considering that the available statistics and official reports did not include any specific information relevant for the paper such as the number of the companies operating respectively in business and IT outsourcing sectors, or a list of the total Albanian outsourcing businesses that operate in these two sectors, primary data gathering was necessary.

2. Primary Data

2.1 Interviews

Eight interviews were conducted with representatives of Albanian companies from both IT BPO and BPO. The first three interviews were held before the survey in order to help gain general knowledge and build the questionnaire, and the five remaining ones were held after the survey was conducted, in order to validate and gain deeper insights on the existing findings. Given that there is no official publication of operating outsourcing companies in Albania, a convenience sampling was used; all eight companies were identified based on personal experience.

For the ex-ante set of the interviews, four companies were chosen. In order to try to represent both sectors, an equal share of two companies per sector was taken. However, three interviews out of four companies were conducted, because one of the representatives interviewed was CEO and founder of two outsourcing IT companies that were considered. For the two remaining interviews, one was conducted with the manager of a call center and the other with the manager of human resources in a manufacturing & textile company. The ex-post interviews were conducted in five companies operating in Tirana, Albania. The interviewees occupied working positions as the following: English language supervisor of a call center, manager in a call center, supervisor and team leader in a call center, senior assistant in an audit, tax and advisory firm, and general manager of a shoe manufacturing company.

Given the COVID-19 situation and the prevailing restrictions in Albania, it was considered as the best solution for all the interviews to be held online. Days prior to the interview, each representative was provided with a consent form (refer to **Appendix 3**) as well as the interview questions that he/she was going to be asked (refer to **Appendix 4**). The interview consisted of six questions for the first three interviewees and seven questions for the remaining five. The questions were designed in a way to provide more insights regarding issues that affect the productivity of workers such as the maximum working hours per day, investment in human capital through trainings, the required education level of an employee, wage levels, and the relation between the firm size and Efficiency Wage Theory.

Specified details regarding the interviewees:

Interviewee A: Human Resource manager of a manufacturing textile enterprise specialized in shoe production and personal protective equipment, operating in Tirana, Albania for approximately 10 years. This company is a provider for the manufacturing process for several Italian clients.

Interviewee B: Manager in a middle-sized call center operating in Tirana, Albania. This company offers assistance for emergency service jobs such as plumber, electrician, door openers etc. for clients in Italy only.

Interviewee C: CEO and founder of two small enterprises in Tirana, Albania, which provide services such as software design and map digitalization for clients in Europe.

Interviewee D: English language supervisor in a big sized call center, operating in Tirana, Albania since 2008. This company provides offshore Customer Relationship Management (CRM) solution for countries such as Italy, England, Spain, France and Greece.

Interviewee E: Manager of a middle-sized call center, which provides trading signals and account managers for stock market operating in Tirana, Albania. This company operates with countries such as England, Canada, New Zealand, Australia, Belgium, and Sweden.

Interviewee F: Supervisor and team leader in a big sized call center operating in Tirana, Albania, part of the back office and costumer care department. This enterprise has been providing assistance in trading services for 13 years and has established working relations worldwide.

Interviewee G: Senior tax accountant in a big sized company providing tailored services in audit and accounting, as well as tax, financial advisory, consulting and legal services. This company located in Tirana, Albania provides such outsourcing services with countries of North America.

Interviewee H: General Manager in a big sized manufacturing textile company operating in Tirana, Albania for almost 16 years now. This is a manufacturing textile company

specialized in shoe production and has Italian clients only, specifically in the cities of Lecce, Macerata, and Verona.

2.2 Survey (Regression Model)

The survey was conducted in four outsourcing Albanian companies, namely company A (shoe manufacturing) and B (call center) in business sector and company C (software design) and D (maps digitalization) in the IT sector. The survey questionnaire consisted of 13 questions (refer to **Appendix 2).** I distributed the survey to all the above-mentioned companies, and managed to collect 119 responses in total, which helped to build a sample of 62 respondents for the regression model.

Limitations

When conducting interviews, there are two main weaknesses:

- Lack of official publications regarding the Albanian businesses operating in outsourcing IT and business industries. This is the reason why a convenience sampling is used instead of a random one.
- Furthermore, due to COVID restrictions, lack of interest, and unresponsiveness of some companies; the sample size of interviews conducted is small and insufficient to be considered representative.

The survey is based on convenience sampling as well. Therefore, this sample could be biased for the following reasons:

- The sample is not representative. Moreover, given the COVID-19 restrictions and the time constraints, it was impossible to attain representative data from all the businesses operating in these two sectors.
- The sample is not random. COVID-restrictions and partial lockdown in Albania made the whole process of data gathering even more challenging. In most of the cases, businesses were not willing to complete the survey for safety reasons. Given the above-mentioned constraints, only four businesses who accepted to share their respective data are included

in the econometric model. Even the businesses who agreed to be part of this research work through the survey, accepted to share the survey only to a limited number of workers; violating the randomness criteria.

- There are some data missing, because the respondents have decided not to respond to specific questions, which again leads to artificially higher or lower estimated coefficients.
- There may be omitted variables that I failed to include in the model that may increase bias and reduce variance. Refer to **Appendix 5** for some of those variables that I am aware of.
- There may be multicollinearity in between variables included in the model, which artificially reduces the statistical significance of a variable. However, in real life models, multicollinearity is impossible to be avoided. Furthermore, by omitting a specific variable in order to eliminate the multicollinearity we create the omitted variable bias, which may be a bigger problem.

Thus, although the findings from this study would be hard to be generalized for the whole two sectors, they still provide insightful information on the BPO sectors in Albania and may serve as a starting point for future research.

Analysis of Results

1. Interview Results

Regardless of the limitations, the eight conducted interviews provided valuable insights in terms of the productivity of employees in both outsourcing sectors of IT and business. Furthermore, due to the existing literature gap, information collected through the interviews provided clarification when evaluating relationship of several factors with productivity differentials of employees. The main issues treated in these interviews revolve around the maximum of working hours per day, the importance of trainings, the required education level, and the effect of wage on productivity. Lastly, these interviews helped shed some light on the relationship between Efficiency Wage Theory and firm size, which to my knowledge has not been discussed before in the case of Albania.

1.1 Maximum working hours per day and worker's performance

The working hours constitute an important element when it comes to the employee's productivity. In Albania, the legal maximum working hours per week is 40 hours (five working days), and any additional hours should be paid. Overall, all the interviewees agreed that in most of the cases the working hours per day are eight and the official lunch break is one hour. However, there are cases when this working time can be exceeded due to the workload and there can be additional breaks besides the official one. Interviewee A claims that as long as eight hours is the maximal legal limit, the productivity is not affected. However, usually there are cases when employees work on Saturday as well but with a reduced schedule of five hours. Interviewees B, D and E clarify that working in a call center for eight hours is psychologically draining for employees, therefore; every two hours there is a 15 minutes mid-break and one-hour break after four consecutive working hours. Such a practice positively affects the mental and physical condition of the workers, resulting in a higher productivity level. Interviewee C agrees that due to work load there can be extensive working days. However, considering that the positions within the company are well-structured, workers usually do complete their products and services within the eight-hour period. In terms of the effect that such extensive working hours can have on the workers' performance, interviewee C suggests an interesting viewpoint. While it is well known that additional hours do negatively affect the productivity of the employee, they positively affect the workers' discipline, which itself increases the availability that the worker has to respond to the company's interests, resulting in financial profit and experience. Interviewee F claims that considering the type of work most of the colleagues he has worked with tend to be in their best working shape for a maximum of six working hours. Moreover, he adds that breaks are essential to help clear the mind and improve the workflow and productivity. Therefore, a 10-minute break in between every two hours is applied. Interviewee G suggests that in order to maintain the productivity, the best working hours per day would be seven, accompanied with several breaks from time to time. Lastly, interviewee H claims that beside the usual daily schedule of eight hours, the workers of this shoe-manufacturing firm have to accomplish 200 extra working hours along the calendared year. He evaluates this working practice as suitable in order to attain a good productivity level, characterized by normal consistency and concentration during accomplishment of several tasks when associated with a 30 minutes break after four working hours. Such findings were in accordance with the expectations, given the fact that such operating businesses are in the

private sector, and both the employer and the employee have interest to maximize their own profits, which is usually translated into extensive working hours.

1. 2 Investment in human capital

Investment in human capital is definitely an obligation that a company has towards its workers. However, given the fact that success of a company is directly affected by the quality and investments made upon its employees, such practices provide a symbiotic relationship for both the worker and the entrepreneur. While it is easy to assume that all the interviewees address the importance of trainings, implementation and the duration of such process is quite diverse, a thing, which is very understandable when considering different business profiles. Interviewees A and B claim that trainings are held for specialists only. For the former interviewee, such a thing is easily understandable by the fact that the shoe production requires handmade work and/or a combination of handmade and machineries' processes. Moreover, given the fact that there are not any professional schools about shoe production in Albania, nowadays the number of experts is relatively low and the newly employed ones learn by doing. Therefore, the learning process of such product's manufacturing necessitates the trainings. Interviewee B explains that in call centers the first training usually lasts one week only. It is mandatory since knowledge about this work cannot by gathered anywhere else besides the working environment. The training lasts in between two to four hours per day, and is held from Monday to Saturday. At the end of the first week, an exam is held where the best applicants are chosen. Those who pass the exam, continue training for two other consecutive weeks throughout which they learn by their respective mentor, who shows and explains them the details of work. Interviewee C explains that there are planned and unplanned trainings. The planned trainings are usually the ones held at the very beginning of the job, and their main goal is to increase employees' professional education. However, in the cases when the workload is relatively small, a part of the staff remains without any particular task. In order not to lose the value of the investments done at the current workers, the company does not fire any of the workers. Instead, it groups the workers for additional ongoing trainings that increase their professional capabilities. Interviewee D shares that several trainings are held before and during a specific project campaign, because it is necessary to be updated with the new requirements of an ongoing project, which happens almost every month. Such a thing is evaluated as important

because it eliminates the monotony in the working environment and positively affects the worker's productivity. Interviewee G claims that besides being updated with ongoing changes, trainings are important because they help in the creation of international network as well. Interviewee E also adds to the idea that trainings are a determinant factor for the employee's efficacy. The reason why, is because they are the only mean through which all the necessary knowledge with regards to the stock market can be obtained. Interviewee F believes that conducting trainings occasionally really helps the workers push their level of knowledge and makes them better at their job. A training habit that he applies among his employees is gathering every two weeks in a round table for a two-hour training led by him or other field experts.

1. 3 Required education level

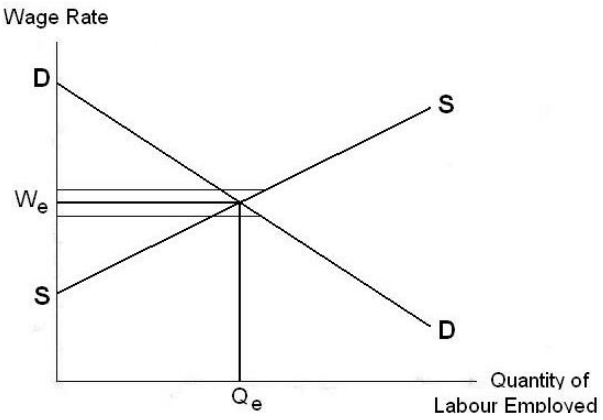
In today's labor market, education is becoming even more crucial in order to attain a good job. However, this may not be always the case. There are specific jobs that accept workers with their primary school degree only, while others request higher education levels. Such a thing is understandable and depends on the type of the skills that the job requires; sometimes such skills are gained only through the process of learning by doing, while others require some background knowledge as well. This being said, the responses from the interviewees were mixed. Interviewee A and H claim that the minimal required education level to work in a shoe manufacturing company is the primary school degree. The reason why is because practice is the main determinant of the product's quality, while education level somehow affects the worker's ability to gather information in the most efficient way. Such a thing holds true only for the people who are willing to work as shoe specialists, because for other categories such as management, administration, HR etc., an undergraduate degree is required. In the same vein, interviewee B, D, E and F accept that more important than education level is the discipline, willingness to work, and experience. Even though there are outliers, having a Bachelor of Arts (BA) or Master of Arts (MA) degree does not always imply a better working performance. In case of call centers, the minimum required education level is high school degree. However, interviewee C claims that in order to be part of an IT company, the education level is quite important. In other words, an undergraduate degree is a selective tool for better applicants. Nonetheless, the latter interviewee emphasizes the importance of working experience and specific abilities such as trustworthiness, responsibility, teamwork and

entrepreneurship. A combination of both, the education level of an employee and continuous professional education within the company is what differs in between workers that are going to be part of the company and those who will not. Besides the education level, the internal process within the company (internal audit for quality product test) that evaluates each produced product by employees before implementing it to clients is considered quite important as well. Interviewee G also adds up to the previous representative by confirming that almost all of the employees of an auditing and accounting company own a MA and additional national degree/certificate (accounting expert, legal auditee) as well as international certifications such as Association of Chartered Certified Accountants (ACCA).

1. 4 Strategy of paying workers an above the average wage

The Efficiency Wage Theory includes four different models and it is interesting to see whether they hold true in practice. One of the models of Efficiency Wage Theory, namely *adverse selection model*, claims that by paying a higher than equilibrium wage firms get the most qualified candidates, but at the same time this working practice discourages them to quit. Qualitative data from the interviews confirm the adverse selection model. Interviewee A agrees to the model, implying that a higher than average wage provides an opportunity to select and maintain workers with high potential. Such a thing has resulted beneficial for their company because workers with great potential lead to maximization of the quality. Interviewee C claims that the main objective of the company is to identify the main internal and external incentivizing factors for workers such as job security, good wage, discipline requirement, and good working conditions, as well as to create relationships driven by motivation, effort and accomplishment through an inner model of the company. This way, by understanding what stimulates worker the most, the company increases the possibility for potential future success. In the same line of thought, interviewee B explains that a good wage, entailing a higher than average wage, incentivizes employees to continue working, however, such a thing may make some workers lose their jobs involuntarily. In economic terms, this is very understandable (Please refer to Figure 4). When wage increases above the equilibrium wage level W_e, the quantity of employees demanded by firms is smaller than the

Figure 4: Effects of Higher Wages in the Labor Market



Source: John E. Floyd

quantity supplied by workers. In other words, workers become costlier for the firm. Therefore, given the same constraints of time, money, and capital, the firm is able to pay a higher wage only to some workers instead of paying all of them an average wage. During this selection process, it is normal to assume that the company will keep its best workers. This being said, paying high wages is considered as the main strategy to attract a more qualified pool of potential employees, as well as to incentivize the existing workers to increase their performance and reduce their turnover rate. Interviewees D, E, F, G and H claim that a higher wage would improve the workers' morale by making them feel more valued with regard to their work, which is in accordance with *the fairness model*. Moreover, they all confirm that providing a higher wage has reduced the overall quit rate, because employees have been incentivized to work longer within the company, as suggested by *the labor turnover model*. However, interviewee E suggests that besides a higher than the average market wage, provision of bonuses is another strategy they apply in order to improve the workers' morale and efficacy.

1. 5 Above the average wage and workers performance

According to the Efficient Wage Theory, paying workers an above the equilibrium wage positively affects their productivity. However, it is interesting to see application of such theory in practice given different types of outsourcing companies. The evidence from the interviews is rather mixed. Some interviewees claimed that there is no relationship between paying workers a higher wage and their performance. More specifically, interviewee A claims that there is not necessarily a causative relationship between an employee's performance and his/her wage. She suggests that data gatherings throughout the years within the company have shown that the main variables that may influence the worker's performance are socialization and equality. In other words, if the supervisor treats employees differently or if for the same working position different wages are

paid, employees remain unhappy and unmotivated, resulting in a lower performance. Interviewees B and D also present an interesting opposing approach. They suggest that if the starting wage level when being employed in the company is higher than the average wage, no productivity will be provided. Instead, bonuses throughout the working process, which add to the fixed monthly wage, play an important role in the employee's productivity.

Nonetheless, interviewee C agrees with the Efficient Wage Theory. According to him, experience within the company has shown that when there are high wages provided, the employee accomplishes his/her tasks successfully, is loyal and productive too. Therefore, the recruitment and education's strategy of the company uses higher than the average wage in order to motivate workers. Moreover, besides great wages, additional rewards are given to employees with outstanding performance. This method seeks to compensate to some extent workers who put a lot of effort during the working process as well as to differentiate contributions between those who show effort and those who do not. Interviewees E, F, G and H also agree with the Efficiency Wage Theory, because higher wages will incentivize the employee to put more effort and reduce shirking during working hours. Moreover, considering that Albanians have quite a competitive nature, the willingness to be the best-paid one within colleagues may also influence them to work harder.

1. 6 Efficiency Wage Theory and firm size

There have been few studies regarding the relationship between the firm size and wage levels. However, the literature is mixed so far and does not provide clear evidence. That is why it was quite interesting to see particular approaches of some representatives of Albanian outsourcing companies on this relationship. Interviewee A claims that there is no relationship in between the two above mentioned variables. Such a thing is explained by the fact that in the initial phase when a company analyzes the market and determines a wage level based on a cost and benefit analysis, the firm size is not taken into consideration. Moreover, she adds that production capacity may have influenced to some extent the number of employed workers instead of wage levels. Interviewee B and E support this approach as well, however the latter adds the argument that such a thing does not happen due to the rivalry of companies within the same industry, however, size of the company determines to some extent bonuses that workers get. Big enterprises pay approximately 250%-300% higher bonuses.

On the opposite end of the spectrum, interviewee C claims that there is a positive correlation in between firm size and wage levels. He explains that while the company has been increased in size by 10-15% annually due to greater profits, the human resource department has been increased by the equal amount as well. Every additional profit due to the accomplishment of several projects has initiated an increase in wage levels too. Interviewees D and H also add to the same argument. They claim that the size of the firm has a determinant effect upon employees' wages and the commodity that they have in their working environment. Working for a large company, increases the probability of being paid more than workers in smaller companies.

However, there are also more neutral approaches. Interviewee F suggests that big companies such as Apple sometimes tend to hire more workers in lower working positions who do the same job while paying them less. However, the opposite holds true in the case of managers or chiefs who tend to get higher wages in bigger enterprises. In the same line of thinking, interviewee G claims that it is partially true, entailing workers in bigger companies tend to be paid more but at the same time, they work more extra hours. Therefore, in order to evaluate the average wage level, a detailed analysis that considers the ratio of wage per working hours is recommended.

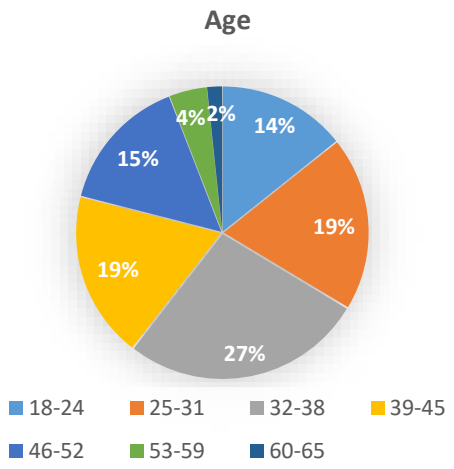
1.7 Gender inequality

All of the representatives unanimously claimed that there is no gender pay gap in their companies. Instead, the wage that every worker gets, regardless of his/her gender, depends on his/her performance and efficacy in the working place.

2. Survey Results

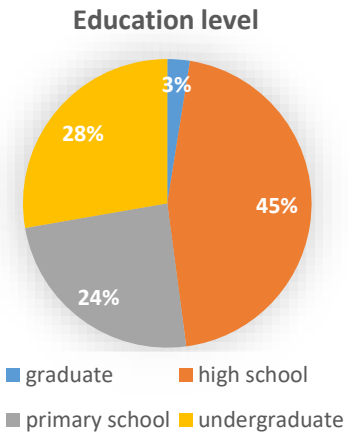
In order to provide more insights regarding the prevailing wage differentials in the IT and business outsourcing sectors operating in Albania, an analysis of the labor market in the respective operating companies is considered crucial. The survey conducted with 119 employees from four enterprises located in Tirana, which provide services for different European countries, yielded information regarding the demographics and job-related issues of workers employed in these two sectors.

From 119 respondents in total, approximately 35% were men and the remaining 65% were women. Moreover, 28.6% (34) of them were single and the remaining 71.4% (85) were married. When considering age, the largest share of the employees (27%) were in between 32 and 38 years old. Employees in this group are relatively young and have some considerable experience as well. The next two largest proportions (by 19%) are employees in the group age from 25 to 31 and from 39 to 45, followed up by group age 46-52 (15%), 18-24 (14%), 53-59 (4%) and lastly by employees in between 60-65 who constitute 2% of the total. While it is normal that the age group of 60-65 has the smallest number of employees, the presence of the youngest group age of 18-24 is relatively low in these IT and business outsourcing companies given that Albania is characterized by young population, able to actively participate in the labor market. Such a thing can be explained by the fact that this age group lacks experience, which makes them to some extent less desirable from entrepreneurs.



2.1 Education level

When considering the wage differentials, it was interesting to see if there is any correlation between education and wage for employees in outsourcing IT and business operating companies for Albania. While education is becoming an important requirement in today's labor market, there are cases when practice is just as crucial. Therefore, as long as the correlation of the above-mentioned variables remains uncertain it is of a great interest to analyze it. Surprisingly enough, approximately half of the respondents (45%) had completed high school only. Such results may be due to the larger share of the employees in the shoe factory in comparison with other companies included in the survey. The next largest proportion made up by 28% had accomplished their undergraduate studies. In the remaining part, there were also employees who had completed primary school only and still managed to work on these Albanian IT and business outsourcing companies. Lastly, there were only 3% of the respondents with a graduate degree.

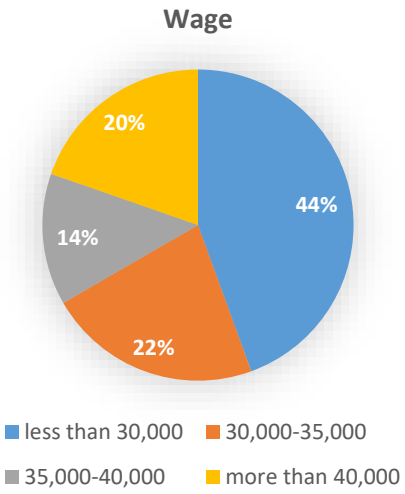


There are several implications from such findings. To start with, the workforce in these outsourcing companies turns out to be not so highly educated. However, employees with all types of education levels manage to find jobs in IT and business outsourcing companies operating in Albania. Such a thing can be considered positive because it provides additional employment opportunities for people who otherwise would remain jobless and maybe even out of the labor market if they were to find a job in accordance with their education level. For a developing country such as Albania where unemployment is at a considerable rate (12.33%), existence of outsourcing companies adds to economic growth and development. Finally, as suggested by majority of results, turns out that there is not a correlation between education and wage. Practice and trainings transpire to be a more important determinant instead.

2.2 Wage

One of the most important parts of the paper consisted on wage differentials present in these two sectors. Therefore, it was crucial to attain information about wage levels from the survey.

The results reveal large disparities between workers' wages. Almost half of the respondents, namely 44% of the respondents stated that their wage is less than 30,000 ALL. The remaining declared their wages as the following: 22% with a wage in between 30, 000 ALL and 35,000 ALL, 20% more than 40,000 ALL and 14% in between 35,000 ALL and 40,000 ALL. This variety of wage differentials can be potentially explained by different job occupations.



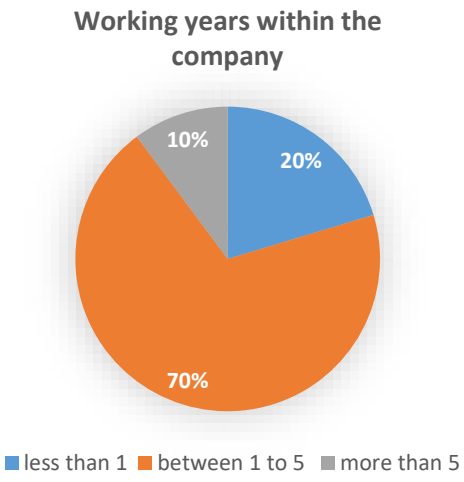
Considering that the average net wage in Albania is 52,815 ALL (INSTAT, 2020) and the minimum wage is 26,000 ALL, findings from the survey suggest that the wages prevailing in these IT and business-outsourcing companies are relatively low, regardless the fact that they are above the minimum wage. Moreover, majority of employees (74.8%) claim to work eight hours per day only, entailing that they have a fixed wage without any bonuses. Such a thing implies that their wages are relatively low when considering the standard of living in Tirana, Albania. Once again, this proves that outsourcing companies tend to produce the same/higher quality of a product/service in vendors with relatively low standards of living by maintaining lower costs. Given that wages make up for a considerable proportion of total costs, their effect is significant. Another plausible reason why there are such low wages in these sectors can be explained by the fact that overall workers tend to have low education levels and learn by doing in the workplace.

2.3 Working experience

When considering wage differentials, experience is theoretically an important indicator as well. The survey's findings suggest that the average working experience of the respondents is 9.4 years, which is relatively a long period. This is a great indicator, which shows that the workforce in these companies is relatively experienced. Besides education, the working experience is a crucial element that determines the success of the company and the quality of the product/service that is being offered. Moreover, experienced workers have a greater work ethic and are more productive.

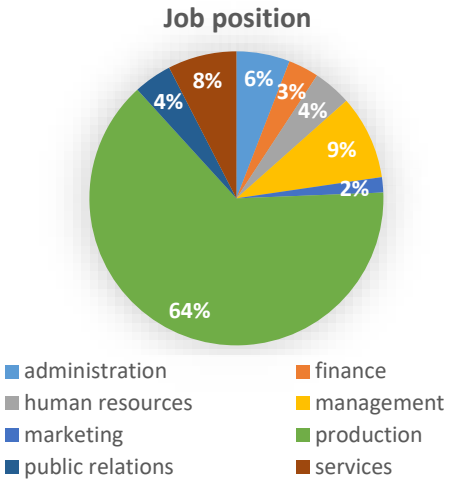
2.4 Employment duration

Duration of the employment detects whether a job is only transitional or not. Results from the survey suggest that 70% of the employees have been working within these four companies for one to five years, while 20% declared that they have stayed less than a year, and the remaining 10% for more than five years. These figures suggest that employment in these outsourcing companies for both the IT and business sectors is somehow desirable and not transitional. As mentioned previously, the fact that such companies accept employees with diverse educational levels makes them desirable for people who are more skilled in practical jobs. Furthermore, given the fact that these companies are part of the private sector, employment includes less rotation whenever the political parties change, which is a usual phenomenon in Albania. Another reason why such jobs are not transitional is that these companies provide additional employment opportunities for many people to join the labor force.



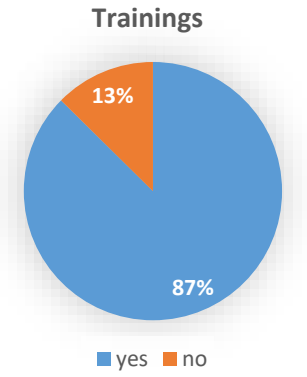
2.5 Job position

Besides the fact that such companies differ with each other in terms of the services/products they provide, even within the companies themselves there are different job occupations for specific departments. Findings of the study suggest that the majority (64%) of the respondents worked in production, followed up by management (9%), services (8%), administration (6%), public relations and human resources (4%), finance (3%) and marketing (2%). Such results can be explained by the fact that firms that manufacture products usually require more workers than middle or small sized companies. Furthermore, these findings do also intercept with wage differentials' findings. The fact that the biggest proportion of the respondents are part of the production department where the work practice is usually learned by doing and for which workers do not need any specific educational background, justifies why the majority of workers had relatively low wages.



2.6 Trainings

Besides formal education, one of the most important components in the labor market are the skills accomplished by trainings in the workplace. Trainings are beneficial for both the employee and the employer. For the employee in particular, training programs provide the opportunity of reinforcing skills that he/she is lacking. Furthermore, trainings do also create a sense of equality in terms of skills and knowledge in between workers. Such a thing facilitates the processes within the firm, especially when their functioning depends on several working departments. When being asked whether they had undergone any trainings in the workplace, majority of respondents (87%) confirmed such a thing, as opposed to 13% who answered with no. These figures, in accordance with the above-mentioned claims, suggest that training programs in outsourcing IT and business firms are considered crucial considering that most of the employees lack high education level.



About the duration of such trainings, the evidence is mixed. Besides 37.9% of the respondents who did not accept to answer this question, 55.4% of those who responded claimed that their trainings have lasted less than a year while 6.7% claimed they had undergone trainings for a period longer than one month. Even though trainings are not long in duration, findings suggest that they are evaluated as an important practice in these outsourcing companies. When being asked whether employees consider training programs as important, 94.1% answered with yes, entailing they are conscious about the necessity of this investment in human capital.

3. Regression model

To complement the qualitative information collected from the interviews, a regression analysis was conducted (refer to **Appendix 1**) on a small-scale sample of 62 respondents out of 119 who were part of the survey. After determining the description of variables (refer to **Appendix 6**), and deciding on a 95% confidence interval, the regression model was run. When interpreting the results (refer to **Appendix 7**) turns out that only three out of all variables considered are significant to wage levels, specifically gender, education level and employment duration within the company (Refer to Table 2). In other words, these results imply ceteris paribus, if the employee is a woman, her wage will be 0.225 ALL lower compared to a man, contrary to the interviewees' findings. In terms of education level, ceteris paribus, on average, if an employee's education level is undergraduate or graduate, his/her wage will be 0.579 ALL higher compared to an employee with a primary or high school degree. Lastly, when considering the employment duration within the company, ceteris paribus, on average, if an employee has worked for more than five years in the company, his/her wage will be 0.389 ALL higher compared to an employee who has been employed for five or less than five years.

Table 2: Regression Model

Source	SS	df	MS	Number o =		62
				F(11, 50 =		7.9
Model	9.83828	11	0.894389	Prob > F =		0
Residual	5.66172	50	0.113234	R-squared =		0.6347
				Adj R-squ =		0.5544
Total	15.5	61	0.254098	Root MSE =		0.3365
wage1ifm	Coef.	Std. Err.	t	P>t	[95% Conf	Interval]
gender	-0.22475	0.09375	-2.4	0.02	-0.41305	-0.03644
age1ifbel	-0.0692	0.128897	-0.54	0.594	-0.3281	0.189699
edu1ifgrad	0.579637	0.141646	4.09	0	0.295134	0.864141
ifmarried	-0.09047	0.133695	-0.68	0.502	-0.35901	0.178062
whpd1ifm	-0.08494	0.421823	-0.2	0.841	-0.93219	0.762317
nowyc1ifn	0.389854	0.147001	2.65	0.011	0.094594	0.685113
exp	-0.01041	0.009695	-1.07	0.288	-0.02989	0.009058
effort1isy	0.035057	0.385966	0.09	0.928	-0.74018	0.810293
jobpos1if	0.079313	0.160219	0.5	0.623	-0.2425	0.401121
training1i	(omitted)					
durtrain1i	0.090459	0.161328	0.56	0.577	-0.23358	0.414496
ifimportar	0.040875	0.189801	0.22	0.83	-0.34035	0.422101
_cons	0.434674	0.391271	1.11	0.272	-0.35122	1.220565

Source: Matlab Regression Results, January, 2021

Discussion

1. Productivity Differentials

The conducted interviews have provided some interesting insights regarding the productivity differentials for workers in Albanian outsourcing companies in IT and business sectors regardless the existing limitations. The findings explained how specific variables such as maximum working hours, investment in human capital, education and wage levels, might affect the workers' productivity.

Overall, the interviewees agreed that working eight hours per day does not affect productivity when associated with additional breaks. The most applicable break by all companies is the one-hour lunch break. However, there is mixed evidence regarding the extra working hours. One approach suggests that productivity is negatively affected as the number of working-hours increases more than eight. Such a thing can be explained by the law of diminishing returns; continuously adding variable factors (working hours) over a fixed variable will cause the marginal returns, in this case productivity, to decrease at some point. The opposing approach claims those extra working hours are paid more, entailing more economic benefits for the worker. Therefore, he/she is incentivized to work more and be more disciplined, resulting in a better performance. However, regardless of these two conflicting viewpoints, all the interviewees agreed that additional breaks beside the official one, are important to improve the mental and physical condition of employees during a working day. Different combinations of breaks usually 10 to 15 minutes are held in between a couple of hours, depending on the type of the job.

Another issue, which was supported by all the interviewees, was the importance of trainings. By investing in human capital, enterprises better their workers' capabilities, resulting in a higher performance. However, given the different job profiles, implementation of trainings differed in time and duration. While all the interviewees agreed that planned trainings, those at the beginning of employment within the company, are a necessary working practice that determine the performance and productivity of workers; holding additional unplanned trainings throughout the employment within the company was not always the case. Again, this is partly explained by the business strategies that a company purchases and at the same time it depends of the changing requirements that a buyer has with regard to the service/product offered.

On the other hand, there were also some conflicting views such as the effect of education level to worker's productivity. Most of the representatives of operating companies in the BPO, particularly call centers and garment manufacturing companies claimed that practice, discipline and willingness to work affected the worker's productivity instead of education, which was the case for two IT and the audit/accounting company. Such a thing can be explained by the fact that the necessary knowledge is mostly gained in the working environment in the case of call centers and/or in manufacturing firms. Learning by doing principle provides the worker with the possibility to start from scratch without necessarily having an undergraduate educational background. Moreover, such a thing is also due to the divergences in the nature of the function that a company operates; basic with higher-level ones.

2. Efficiency Wage Theory

Findings suggest that three out four models of the Efficiency Wage Theory hold true. Majority of interviewees claim that paying workers a higher than average wage is a great strategy to attain highly qualified workers and reduce their turnover as well. However, there are interviewees that suggest the *adverse selection model* is partially true, because when increasing the wage levels the firm will be obliged to fire some workers given the increasing costs; resulting in involuntary unemployment. Furthermore, interviewees confirm the *fairness model* as well. They argue that a higher wage would improve the worker's morale, because they feel more appreciated in terms of their contribution in the working environment. Lastly, data obtained from these interviews does also support the *labor turnover model*. Is logical to assume that when getting paid a higher than the market average wage, your incentive as an employee is to continue working as long as possible in that company, reducing the possibility to quit significantly.

When being asked regarding the Efficiency Wage Theory in particular, there are again confronting viewpoints. Three out of eight company representatives claim that there is no causative relationship in between a higher than the market equilibrium wage and the employee's productivity; they even suggest that paying a relatively new employee such a wage deters him/her to put a lot of effort. In contrast with this view, the five remaining representatives claims that this relationship is positive. The main argument provided to support such a stance is that presence of high wages incentivizes the worker to accomplish his/her tasks successfully, be loyal and

productive. Additional arguments presented are the provision of bonuses, which differentiate contributions between those who show effort and those who do not, as well as the competitive nature of Albanians.

Lastly, when analyzing the relationship of the Efficiency Wage Theory with firm size evidence is mixed and there are three approaches. Three out of eight interviewees claim that there is no relationship in between these two variables for several reasons. When determining the wage level, a company considers the benefit cost analysis rather than the firm size. Moreover, the production capacity may influence to some extent the number of workers but not the wage levels. On the opposing approach, the main argument is that whenever there is an increase in firm size due to increased profit, such a thing will be translated into increased wage levels as well. However, there is also a neutral perspective, which appears to be quite interesting. It suggests that this relationship may be true for big companies only in the case of high job positions such as managers/chiefs while for the lower working positions, the company does not mind employing more workers to do the same job in order to continue paying them lower wages. The second argument for this approach suggests that while it may be partially true, workers in big companies tend to work more additional hours, therefore, in order to value the accuracy of prevailing wage levels, an analysis of the ratio of wage with working hours should be considered.

3. Wage differentials

When considering the wage differentials, findings from qualitative and quantitative primary data are quite appealing. Employees in these companies tend to have below the average wages, which are considered relatively low when compared with the living standard of the capital city of Albania. According to the regression model, an important variable concerning wage differentials was gender. Findings from the latter source suggested that other things being equal, women tend to be paid less than males in both IT BPO and BPO sectors. However, such a claim contradicts with the findings from the interviews that confirm that there is no gender-based discrimination prevailing in outsourcing Albanian companies for none of the sectors. Furthermore, given the limitations of the survey it is normal to assume that the econometric model will be biased, resulting in artificially higher coefficients.

Another significant factor for prevailing wage levels was education level. Qualitative data from the survey show that, even though employees with varying educational backgrounds work in these companies, majority of the workforce owns a high school degree only. This is an indicator that outsourcing creates new employment possibilities, in this case particularly for people who would otherwise remain jobless given the today's labor market requirements in Albania. However, the qualitative analysis (through interviews) shows that employees with an undergraduate or graduate degree tend to have higher wages compared to employees that own lower educational degrees. Such findings explain that low wage levels were present given the fact that the majority of employees in the survey had high school degree only.

When considering the number of working years within the company, findings from the regression model suggest that employees who had had a longer employment duration within the company have higher wages. Such a thing can be explained and reinforced by the qualitative data too, which suggests that an employee who has been working in the company for a relatively long period is costly for the company for several reasons. Investment in human capital done by the firm is considerable; therefore, the entrepreneur would incur great costs if this employee was to quit the job. Moreover, the earned experience makes such an employee more productive, which adds to the success of the company. Given the above reasons, the main way through which the firm incentivizes these particular employees to stay is by paying them a higher wage then the new employees.

Besides the three above-mentioned variables, working experience as well as trainings are important too when it comes to wage levels. As implied by the qualitative data, experience is a skill that all companies acquire to find in their employees. It does not really matter whether the company provides low functions or services with an added value, an experienced worker is more beneficial for the firm for several reasons. Firstly, as mentioned in the previous paragraph, given his/her experience, the employee does not need much investment in human capital and he/she tends to be more productive and efficient, which again generates more profits for the company. Lastly, in terms of the trainings, both the qualitative and quantitative data suggest that they are important. Survey results show that 87% of the respondents have confirmed being trained in the existing company. At the same time, interviews with several representatives have also provided the importance of such working practice from the employer's perspective as well.

Conclusions and Recommendations

The aim of this thesis was to analyze wage differentials in Albania, specifically in the IT and business outsourcing sectors, evaluate how such wage differentials vary by firm size and see how implications of such findings affect productivity of workers.

One of the main findings of this thesis is that majority of employees in both these service providing industries tend to have below the average wages. When considering the wage differentials, results suggest that education level, employment duration within the company, experience and trainings are significant factors. In terms of gender differences, the findings are inconclusive. While findings from the interviews suggest that these service-providing industries value the employees based on their performance rather than gender, the regression results say otherwise. Even though the latter show that the gender gap is only 0.225 ALL, which is relatively low, they align with the International Labour Organization (ILO) findings, that suggest that women still get payed less (approximately 20%) than men worldwide ("Women in Business and Management: The business case for change", 2019). In terms of productivity differentials, findings show that when working eight hours per day, applying continuous trainings, and including breaks during additional working hours, productivity is not negatively affected. Moreover, the interview results support the applicability of the *adverse selection, turnover, shirking and fairness* models in both these sectors. However, regarding the relationship of Efficiency Wage Theory with firm size, results are inconclusive. An underlying issue that should be considered in this case may be the fact that this current analysis focuses on companies of different sizes.

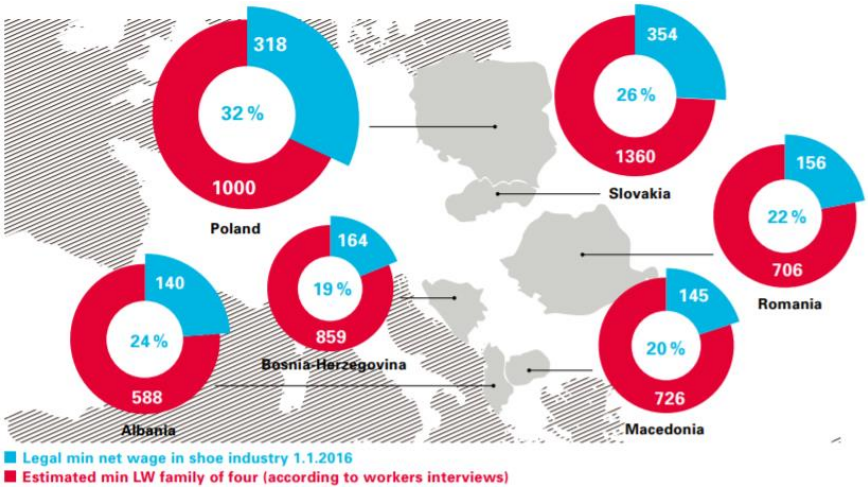
However, the collected information shed some light into problematic issues prevailing in these two outsourcing sectors. The first issue has to do with the extra working hours. In most of the outsourcing companies considered in this thesis, working additional hours is a usual practice in order to deal with the workload. While some representatives claim that extensive working-hours can reduce the mental and physical wellbeing of the workers, (based on the law of diminishing returns), others claim that when additional working hours are paid, the employee is more motivated to work and be productive because he/she will be paid more. Another argument to be considered is the fact that in some companies the employee can decide how much additional working hours he/she wants to work, while in other ones, additional working hours are decided by the employer. Even though it is understandable that entrepreneurs want to maximize their profits by keeping the

costs as low as possible, implementation of several breaks during the working process besides the lunch break are suggested, depending on the type of the job.

Furthermore, in order to attain the goals that firms have while not surpassing the legal working hours, investing more in human capital is recommended. Findings of the thesis show that trainings are considered as an important component in Albanian IT BPO and BPO market, however most of the companies do not include such practices longer than two weeks to one month at the very beginning of employment. Continuous and unplanned trainings are recommended for these companies in order to reduce the turnover rate (as per *the shirking model*) but at the same time to upgrade the skills of workers, resulting in additional profits for the company. Moreover, acquiring more skills would make them even more productive and eligible for higher wage levels.

Besides the above-mentioned issues, the prevailing wage levels in the four companies considered for the survey remain concerning. Most of the workers in these sectors are paid less than 30,000 ALL. However, it is important to emphasize that this may be due to the type of the sector, e.g. shoe industry. According to a research report, in addition to Albania, shoe industry workers in Bosnia-Herzegovina, Macedonia, Poland, Romania and Slovakia are paid below the poverty line wages, accounting for approximately 25% to 35% of a minimum living wage (Luginbühl & Musiolek, 2016). This prevailing wage deficit in these Eastern European countries is to some extent comparable and/or more extreme than the shoe industry in China (Refer to Figure 5). Moreover, besides low wage levels, some of these above-mentioned countries allow a lower

Figure 5: Gap between legal minimum wage and estimated living wage



Source: Luginbühl & Musiolek, 2016

than the standard legal minimum wage for the textile and shoe industry given the seasonality of these jobs. For instance, the share of national minimum wage above the full legal minimum wage in this industry varies as the following; Macedonia 89% and Bosnia-Herzegovina 71% (2016). However, this is not the case with the wage levels in the IT BPO sector. When considering data for the IT outsourcing sector in the Balkans, the average monthly wage specifically in Albania, Montenegro and Serbia remains relatively high in the value of 88,100 ALL/month, 319,600 ALL/month and 134,341/month, respectively (Stefanuk, n.d.). While it is true that such jobs are paid less in Albania than in the neighboring countries due to the lower standard of living, in absolute terms, the IT BPO sector not only provides above the minimum wage levels but at the same time is one of the top paid sectors in Albania (Refer to Table 1).

Such data imply that Albania together with low-wage European countries are considered as "cheap peripheries" for labor-intensive production in the international supply chain. Therefore, jobs in Albanian shoe/textile industry are undervalued and such a thing may be associated with several reasons. To start with, lack of professional school systems makes individuals who are willing to work in these jobs less qualified. Another potential reason could be the payment for extra working hours or the bonuses included. Regardless the fact that there are some articles of the constitution that regulate these issues, it remains ambiguous how much the additional working hours are paid and if they are compensated by days off, what is the number of days. Furthermore, paying lower wages is understandable from the vendors' perspective because such a strategy reduces the production costs and at the same time attracts foreign investors in the highly competitive market with regards to Asia, Central America and Africa. However, from a social stability perspective; even though many of these workers that do not have an undergraduate or graduate degree would have remained unemployed, still they do not obtain a decent standard of living with such prevailing wages that go beyond the poverty line.

Therefore, the government should pay particular attention to creation of new fields of study in professional school systems, which are already missing in Albania. Such a thing would make workers in professional oriented jobs more skilled and competitive in both the IT BPO and BPO labor market, regardless of the prevailing wage levels. Increased productivities would eventually lead to higher wages and reduce the existing wage discrepancies.

Regardless the lack of a representative and random sample for both the qualitative data and regression model, this thesis addresses the existing literature gap and may serve as a reference point for future research work. Considering the findings, future studies comparing wage and productivity differentials in between the two respective sectors, studies about the prevailing labor market issues in business and IT Albanian outsourcing companies, as well as studies that analyze the relationship of Efficiency Wage Theory with firm size in small, middle and large enterprises are recommended.

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Appendices

Appendix 1: Econometric model

$$Wage=\beta_1+\beta_2 GEN+\beta_3 AGE+\beta_4 EDU+\beta_5 MARR+\beta_6 WHPD+\beta_7 EXP+\beta_8 NOWYC+\beta_9 EFFORT+\beta_{10} JOBPOS+\beta_{11} DURTRAIN+\beta_{12} IMPORTRAIN+u_t$$

Appendix 2: Questionnaire

Questionnaire for Capstone Project: Wage and productivity of employees in service providing industries in Albania

I am Sindi Rryta, a last year student at RITK (A.U.K). I am working on my Senior Capstone Project. The goal of this thesis is to provide an analysis of wage differentials in both IT and business sectors due to factors such as hours of working, education, experience, gender, age and labor effort; evaluate how such wage differentials vary by firm size and analyze how implications of such findings affect productivity of workers.

You will be asked to answer eight questions, which should not take you longer than five minutes to complete.

Your participation in this survey will be confidential and the results will be used for study purposes only. Participation is voluntary and you can withdraw from the questionnaire at any time. By completing this survey, you are confirming that you are 18 years or older. If you agree to take part in this survey by accepting to provide the information required, please proceed.

1. What is your gender? / Cila është gjinia juaj?

a) Female / Femër
b) Male / Mashkull
c) Other / Tjetër

2. How old are you? / Cila është mosha juaj?

a) 18-24

b) 25-31
c) 32-38
d) 39-45
e) 46-52
f) 53-59
g) 60-65

3. What is your education level? / Cili është niveli juaj i edukimit?

a) Primary School Degree / Diplomë e shkollës fillore
b) High School Degree / Diplomë e shkollës së mesme
c) Undergraduate Degree / Diplomë universitare
d) Graduate Studies / Studime postdiplomike

4. Are you married? / A jeni i/e martuar?

a) Yes / Po
b) No / Jo

5. Under which category does your wage fall? / Në cilën kategori bën pjesë paga juaj?

a) Below 30,000 ALL / Nën 30,000 ALL
b) 30,000 ALL- Below 35,000 ALL / 30,000 ALL- Nën 35,000 ALL
c) 35,000 ALL-Below 40,000 ALL / 35,000 ALL- Nën 40,000 ALL
d) 40,000 ALL or more / 40,000 ALL ose më shumë

6. How many hours per day do you work? / Sa orë në ditë punoni?

a) Less than 8 hours / Më pak se 8 orë
b) 8 hours or more / 8 orë ose më shumë

7. How many years of working experience do you have? / Sa vite eksperiencë pune keni?

_____

8. For how long have you been working in this company? / Prej sa kohësh punoni në këtë kompani?

a) Less than a year / Më pak se 1 vit

b) 1-5 years / 1-5 vite

c) More than 5 years / Më shumë se 5 vite

9. Do you try to maximize your effort while working? / A përpiqeni të jepni maksimumin gjatë punës tuaj?

a) Yes / Po
b) No / Jo
c) Somewhat / Deri diku

10. Under which of the following categories does your actual working position fall? / Në cilën prej kategorive të mëposhtme bën pjesë pozicioni juaj në kompani?

a) Management / Menaxhim
b) Public Relations / Marrëdhënie me publikun
c) Human Resources / Burime njerëzore
d) Production / Prodhim
e) Services / Shërbime
f) Administration / Administratë
g) Marketing / Reklamim
h) Finance / Financa
i) Other (Specify) / Tjetër (Specifikoni) _____

11. Have you undergone any trainings in the company where you are actually working? / A keni zhvilluar trajnime në kompaninë ku jeni momentalisht të punësuar?

a) Yes / Po

b) No / Jo

If the answer of question 11 is yes, continue with question 12. Otherwise, continue with question number 13. / Nëse përgjigja e pyetjes numër 11 është po, vazhdoni me pyetjen numër 12. Në të kundërt, vazhdoni me pyetjen numër 13.

12. How long has the training lasted? / Sa ka zgjatur periudha e trajnimit?

a) Less than a month / Më pak se një muaj

b) More than a month / Më shumë se një muaj

13. Do you consider workers' trainings as important for their future skill development? / Mendoni se trajnimi i punonjësve është i rëndësishëm për zhvillimin e mëtejshëm të aftësive të tyre?

a) Yes / Po
b) No / Jo

If you have any additional comments that you want to share, please write it down below. / Nëse keni ndonjë koment shtesë që dëshironi ta ndani mund ta shkruani në hapsirën e mëposhtme.

_____

_____

_____

_____

Thank You! / Faleminderit!

Appendix 3: Consent Form

Informed Consent Form for Social Science Research

RIT Kosovo

Title of Project: *Wage and productivity of employees in service providing industries in Albania: a close look at IT and Business sectors*

Principal Investigator: Sindi Rryta, RIT Kosovo (A.U.K) Student

+355 68 502 7687; sindir@auk.org

1. Purpose of the Study: This study seeks to provide an analysis of wage differentials in both IT and business sectors due to factors such as hours of working, education, experience, gender, age and labor effort; evaluate how such wage differentials vary by firm size and analyze how implications of such findings affect productivity of workers.

2. Procedures to be followed: You will be asked to answer six questions during this interview.

3. Duration: It will take about 15-20 minutes to complete the interview.

4. **Statement of Confidentiality**: Your participation in this research is confidential. The data will be used only for this specific RIT Honors Project, which will be published at the RIT scholar works.

5. Voluntary Participation: Your participation in this research is voluntary. You may decline to participate at any time prior or during the process without any penalty. You are free to refuse answering any specific questions you do not wish to answer.

You must be 18 years of age or older to take part in this research study. If you agree to take part in this research study and the information outlined above, please sign your name and indicate the date below.

You will be given a copy of this form for your records.

_____ _____

Participant Signature Date

_____ _____

Person Obtaining Consent Date

Appendix 4: Interview Questions

1. What is the maximum of working hours per day (extra working hours included) a worker in your company does? How does this affect his/her level of productivity?

2. How do you invest in the worker's human capital during the working process in your company? Why do you think this is important?

3. What is the required level of education a potential worker is required to have in order to work for you company? Does the level of education directly affect the quality of the produced good/service that your company offers or do you consider learning by doing as more crucial?

4. Do you think paying workers a higher than equilibrium wage is a good strategy for your company? Why?

5. Do you believe that the level of wage you pay a worker in your company affects his/her level of labor effort?

6. Do you think that firm size determines to some extent the wage you pay your workers? How does the firm size and wage relationship apply in your company?

7. Do you consider that there is gender inequality in terms of wages that employees get in your company? If yes, why? (Additional question for the five ex-post survey interviews)

Appendix 5: Omitted variables

One omitted variable is labor unions membership. Employees, who are part of unions, may receive higher wages (Dynarksi, 2018). Non-members, who do not have collective bargaining power, do not negotiate for their wages and as a result have lower wages (2018).

Another omitted variable is IQ of employee. According to Vox, people with a higher IQ have a higher probability of being better workers (Resnick, 2016). Such a thing serves as an incentive for employers to pay them higher wages compared to people with lower IQs. This entails that ceteris paribus, on average, the level of IQ and the wage of a person are positively correlated.

Appendix 6: Description of variables

Variables	Description of variables
Continuous Variables	
EXP	Employee's working experience in years
Dummy Variables	
Wage	1 = If the wage is more 35,000 ALL 0 = otherwise
GEN	Gender 1 = Female 0 = Male
AGE	1 = If the employee is below 39 years old 0 = otherwise
EDU	Employee's education 1 = If the employee has an undergraduate or graduate degree 0 = If the employee has a primary or high school degree
MARR	Marriage 1 = If the employee is married 0 = If the employee is single
WHPD	Working hours per day 1 = If the employee works 8 or more than 8 hours per day 0 = otherwise
NOWYC	Number of working years within the company 1 = If employee has worked for more than 5 years within the company 0 = otherwise
EFFORT	Employee's effort 1 = Yes 0 = No/Somehow
JOBPOS	Employee's job position 1 = If the job position is management 0 = If the employee works in other job positions
TRAIN	Trainings 1 = Yes 0 = No
DURTRAIN	Duration of the training 1 = If the training has lasted less than 1 month 0 = otherwise
IMPORTRAIN	Importance of trainings 1 = If trainings are considered as important by employees 0 = otherwise

Appendix 7: Regression and Interpretation of results

Variable	Coefficient	P-value	Interpretation
β_{EXP}	-0.01	0.288	Ceteris paribus, on average, if the employee's experience increases by one additional year, his/her wage will decrease by 0.01 ALL. The p_{ca}=0.288 is greater than p_{cr}=0.05; therefore, we do not have sufficient evidence to reject the Ho; this means that the impact of experience on an employee's wage is statistically insignificant.
β_{GEN}	-0.225	0.02	Ceteris paribus, on average, if the employee is a female her wage will be 0.225 ALL lower compared to a male employee. The p_{ca}=0.02 is lower than p_{cr}=0.05; therefore, we do have sufficient evidence to reject the Ho; this means that the impact of gender on an employee's wage is statistically significant.
β_{AGE}	-0.069	0.594	Ceteris paribus, on average, if an employee's age is below 39 years old, his/her wage will be 0.069 ALL lower compared to an employee who is more than 39 years old. The p_{ca}=0.594 is greater than $p_{c}r$=0.05; therefore, we do not have sufficient evidence to reject the Ho; this means that the impact of age on an employee's wage is statistically insignificant.
β_{EDU}	0.579	0.0001	Ceteris paribus, on average, if an employee's education level is undergraduate or graduate, his/her wage will be 0.579 ALL higher compared to an employee with a primary or high school degree.

			The p_{ca}=0.0001 is lower than p_{cr}=0.05; therefore, we do have sufficient evidence to reject the Ho; this means that the impact of education on an employee's wage is statistically significant.
B_{MARR}	-0.09	0.502	Ceteris paribus, on average, if the employee is married, his/her wage will be 0.09 ALL lower compared to an employee who is not. The p_{ca}=0.502 is greater than p_{cr}=0.05; therefore, we do not have sufficient evidence to reject the Ho; this means that the impact of marriage on an employee's wage is statistically insignificant.
B_{WHPD}	-0.085	0.841	Ceteris paribus, on average, if an employee works 8 or more than 8 hours per day, his/her wage will be 0.085 ALL lower compared to an employee who works less than 8 hours. The p_{ca}=0.841 is greater than p_{cr}=0.05; therefore, we do not have sufficient evidence to reject the Ho; this means that the impact of working hours per day on an employee's wage is statistically insignificant.
B_{NOWYC}	0.389	0.011	Ceteris paribus, on average, if an employee has worked for more than 5 years within the company, his/her wage will be 0.389 ALL higher compared to an employee who has been employed for 5 or less than 5 years. The p_{ca}=0.011 is lower than p_{cr}=0.05; therefore, we do have sufficient evidence to reject the Ho; this means that the impact of number of working years within the company on an employee's wage is statistically significant.

B_{EFFORT}	0.035	0.928	Ceteris paribus, on average, if an employee puts effort while working, his/her wage will be 0.035 ALL higher compared to an employee who does not. The p_{ca}=0.928 is greater than p_{cr}=0.05, therefore, we do not have sufficient evidence to reject the Ho; this means that the impact of effort on an employee's wage is statistically insignificant.
B_{JOBPOS}	0.079	0.623	Ceteris paribus, on average, if an employee's job position is management, his/her wage will be 0.079 ALL higher compared to an employee working in any other job position. The p_{ca}=0.623 is greater than p_{cr}=0.05; therefore, we do not have sufficient evidence to reject the Ho; this means that the impact of job position on an employee's wage is statistically insignificant.
$B_{DURTRAIN}$	0.09	0.577	Ceteris paribus, on average, if the training has lasted less than 1 month, the employee's wage will be 0.09 ALL higher compared to an employee whose training has lasted longer than that. The p_{ca}=0.577 is greater than p_{cr}=0.05; therefore, we do not have sufficient evidence to reject the Ho; this means that the impact of training's duration on an employee's wage is statistically insignificant.

$B_{IMPORTRAIN}$	0.041	0.83	Ceteris paribus, on average, if an employee considers training programs as important, his/her wage will be 0.041 ALL higher compared to an employee who does not think so. The p_{ca}=0.83 is greater than p_{cr}=0.05; therefore, we do not have sufficient evidence to reject the Ho; this means that the impact of training's importance on an employee's wage is statistically insignificant.
Adj. R^2	55.44%		The adjusted R^2=55.44% suggests that the independent variables explain 55.44% of the variation in the dependent variable.