Business Process Outsourcing and Digitalization in Albania: Challenges, Opportunities, and Strategic Directions

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***Abstract*—The rapid expansion of Business Process Outsourcing (BPO) has transformed the global services economy, and Albania is emerging as a competitive nearshoring destination in the Western Balkans. This study examines the intersection of BPO and digitalisation in Albania, exploring how technological innovation, artificial intelligence (AI), and cloud-based automation are reshaping service delivery, labour productivity, and competitiveness. This study is explicitly framed as a desk-based policy and analytical study relying exclusively on secondary data, without primary data collection based on secondary data from OECD, World Bank, IBM, and European Commission reports (2023–2025). Findings indicate that Albania's BPO sector benefits from low labour costs, multilingual human capital, and favourable fiscal policies, yet faces challenges related to technological capability, digital infrastructure, and talent retention. Through a PEST analytical framework, this study identifies the macro-environmental factors influencing BPO development and proposes strategic directions for enhancing digital readiness and regional integration. The study further expands its comparative analysis to include other Western Balkan economies, Kosovo, North Macedonia, and Montenegro, providing a broader perspective on Albania's position within the regional outsourcing ecosystem. This research contributes to the academic and policy discourse on digital transformation by presenting an integrated model aligning BPO growth with sustainable innovation and regional competitiveness.**

Keywords*—Business Process Outsourcing (BPO); digitalisation; artificial intelligence (AI); automation; PEST analysis; Western Balkans; Albania; strategic development

I. Introduction

The global landscape of Business Process Outsourcing (BPO) has undergone a significant transformation over the past decade, driven by advances in automation, artificial intelligence (AI), and digital connectivity. The integration of digital technologies into business operations has reshaped value chains, customer interactions, and operational efficiency across industries [2]. In this context, developing economies such as Albania are increasingly positioning themselves as emerging destinations for outsourcing, benefitting from cost advantages, multilingual human resources, and geographical proximity to Western Europe [21].

Digitalisation represents both a challenge and an opportunity for BPO development in Albania. On one hand, technological innovation enhances productivity, transparency, and competitiveness; on the other, it demands substantial investments in infrastructure, human capital, and regulatory adaptation [29]. The transition toward digitalised outsourcing requires an alignment between policy reforms, skills development, and corporate digital strategies [8].

Globally, the BPO sector has evolved beyond traditional back-office functions such as accounting and customer service. It now encompasses high-value processes like data analytics, IT consulting, and AI-driven automation [16]. This shift reflects the growing importance of digital ecosystems and knowledge-intensive services [5] [14]. The integration of cloud computing and robotic process automation (RPA) is enabling companies to achieve scalability, flexibility, and innovation in ways that were previously unattainable [13].

From a regional perspective, the Western Balkans are increasingly recognised as a promising nearshoring hub. Albania has leveraged its multilingual workforce, cost-effective labour market, and improving digital infrastructure to attract foreign investors [26]. Available evidence indicates that the BPO industry in Albania employs thousands of young professionals, primarily in customer relations, finance, and IT support, contributing to service exports and employment growth [21]. Nevertheless, the sector remains fragmented and heavily reliant on low-cost advantages, rendering it vulnerable to technological disruption and talent migration [29].

The concept of digital transformation within BPO goes beyond automation. It encompasses the strategic adoption of AI, data analytics, and cloud-based systems to enhance organisational agility and innovation capacity [1]. Digitalisation has become a decisive factor shaping competitiveness in global value chains [15]. In Albania's case, the challenge lies in harmonising business digitalisation with national policy reforms and workforce digital readiness.

The Albanian government has made progress through initiatives such as the Digital Agenda 2022–2026 and participation in the EU4Digital Western Balkans Initiative, which supports cross-border innovation, cybersecurity, and ICT skill development [9]. Similarly, fiscal incentives and EU pre-accession funds aim to foster entrepreneurship and investment in digital services [29]. Despite this progress, policy fragmentation and limited coordination between education, technology, and industry stakeholders continue to impede the pace of transformation [21].

At the global level, outsourcing is increasingly influenced by sustainability principles and responsible digital governance.

The growing focus on environmental, social, and governance (ESG) indicators in outsourcing contracts reflects the need for ethical and sustainable operations [11]. For Albania, aligning BPO development with these international standards will be essential for long-term integration into the EU's digital single market.

The COVID-19 pandemic accelerated the shift toward remote work and virtual outsourcing, reinforcing the need for robust digital infrastructure and flexible business models [25]. Globally, firms transitioned to hybrid structures, adopting cloud technologies and AI-based process management to ensure continuity [15]. In Albania, this shift coincided with the expansion of broadband networks, ICT education, and remote employment opportunities in call centres, accounting, and IT services [28].

From an academic perspective, studying BPO and digitalisation in Albania addresses an existing research gap in the Western Balkans. Most studies have focused on large economies or advanced EU member states, while small transitional markets remain underexplored [21]. This study fills that gap by analysing how digital transformation, institutional governance, and human capital collectively shape the development of Albania's BPO sector.

A. Research Problem

Despite the rapid expansion of the Business Process Outsourcing (BPO) sector in Albania, existing studies remain largely descriptive and fragmented, focusing primarily on labour cost advantages or general digitalisation trends without integrating institutional conditions, firm-level capabilities, and digital transformation dynamics. Limited attention has been paid to how institutional alignment, digital infrastructure, and human capital interact to shape sustainable BPO competitiveness in emerging economies undergoing EU integration [21] [30]. This gap constrains both theoretical advancement and evidence-based policymaking in the Western Balkan context [26].

B. Research Questions

To address this gap, the study is guided by the following research questions:

RQ1: How do political, economic, social, and technological factors influence the development of the BPO sector in Albania? [21]

RQ2: How do institutional conditions interact with firm-level resources to shape digital and AI adoption in the BPO sector? [9] [5]

RQ3: What strategic insights emerge from comparing Albania with other Western Balkan and Eastern European economies in terms of digital readiness and BPO competitiveness? [26] [30].

C. Research Objectives

The objectives of this study are to:

1) Analyse the macro-environmental determinants of BPO development in Albania using a PEST framework [21];

2) Examine how digitalisation, automation, and artificial intelligence contribute to productivity and competitiveness in the BPO sector through institutional and resource-based perspectives [5] [16];

3) Position Albania within the regional outsourcing ecosystem by means of comparative benchmarking with selected Western Balkan and Eastern European economies [26] [30].

D. Novelty and Contribution of the Study

This study contributes to the existing literature in three main ways. First, it offers a theoretical contribution by integrating the Resource-Based View (RBV) and Institutional Theory to explain digital transformation in the BPO sector of an emerging economy [21], [4], [5]. Second, it provides a methodological contribution by combining PEST analysis with comparative regional benchmarking and a digitalisation lens, moving beyond purely descriptive sectoral overviews [21], [18], [26]. Third, the study delivers practical and policy-relevant insights by proposing a conceptual model of digital BPO transformation that can be applied to Albania and other Western Balkan economies seeking to transition from cost-based outsourcing toward higher value-added digital services [5], [21], [26].

This study distinguishes itself from existing literature through a novel analytical integration of macro-environmental analysis, regional benchmarking, and digital transformation dynamics within the Business Process Outsourcing (BPO) sector of an emerging economy. While prior studies on BPO in the Western Balkans have predominantly focused on labour cost advantages or general digital indicators, this research advances the literature by explicitly combining PEST analysis with comparative regional benchmarking and an artificial intelligence (AI)–oriented digitalisation lens [21] [26].

Methodologically, although the study adopts a qualitative and descriptive–analytical approach based on secondary data, its novelty lies in the structured triangulation of institutional, technological, and human capital dimensions across multiple countries rather than in isolated national descriptions [21] [30]. This approach enables the identification of causal mechanisms and structural trade-offs, such as the tension between cost competitiveness and investment in high-skilled digital labour that are not sufficiently explored in prior regional studies [5] [26].

Theoretically, the study contributes by integrating the Resource-Based View and Institutional Theory to explain how institutional alignment functions as an enabling mechanism for firm-level capability development in a digitalising emerging economy. The proposed conceptual model advances existing research by illustrating how regulatory frameworks, digital infrastructure, and human capital jointly shape value-added BPO upgrading rather than acting as independent drivers [21] [5]. Empirically, the Albanian case offers original insights into how intermediate economies position themselves between cost-based Western Balkan peers and digitally advanced Eastern European outsourcing hubs, thereby enriching comparative BPO scholarship [30] [26].

Beyond the general policy and strategic implications discussed throughout the study, this study makes three explicit

and tangible contributions to the literature and practice of Business Process Outsourcing in emerging economies.

First, at the theoretical level, the study advances the academic debate by developing a conceptual model that explicitly links institutional alignment, digital infrastructure, human capital development, and firm-level capabilities to digital BPO upgrading. By integrating the Resource-Based View and Institutional Theory, the model moves beyond isolated theoretical applications and demonstrates how institutional conditions function as enabling mechanisms for resource accumulation in a digitalising emerging economy [21] [5] [30].

Second, from a methodological perspective, the study contributes by operationalising an integrated analytical framework that combines PEST analysis with comparative regional benchmarking and an artificial intelligence–oriented digitalisation lens. This configuration enables the identification of causal mechanisms and structural trade-offs, such as the tension between cost competitiveness and investment in high-skilled digital labour, that are not sufficiently captured in prior descriptive studies of the Western Balkans [21] [18] [26].

Third, at the practical and policy level, the comparative analysis of Albania with other Western Balkan and Eastern European economies generates transferable insights for policymakers and practitioners. Rather than offering a purely descriptive comparison, the findings highlight generalisable patterns regarding the conditions under which emerging economies can transition from cost-based outsourcing toward value-added digital BPO services. These insights provide actionable guidance for designing policies related to digital governance, skills development, and investment prioritisation in similar emerging market contexts [26] [30].

Accordingly, this study aims to:

1) Analyse the macro-environmental factors (political, economic, social, technological) influencing BPO growth in Albania through a PEST framework.

2) Evaluate how digital transformation and automation technologies enhance productivity and competitiveness in the BPO sector.

3) Compare Albania's performance with other Western Balkan and Eastern European economies to identify strategic directions for sustainable growth.

The remainder of the study is organised as follows: Section II reviews the existing literature on outsourcing and digital transformation. Section III outlines the research methodology and analytical frameworks. Section IV presents the findings, including a PEST analysis, regional comparison, and conceptual framework. Finally, Section V concludes with policy implications and recommendations for the sustainable development of BPO and digitalisation in Albania and the wider region.

II. Literature Review

A. Overview of Contemporary Research

Additional academic and professional studies further enrich the literature on digital transformation and outsourcing by addressing complementary, yet distinct dimensions of change in contemporary service industries. Research on AI-driven process optimisation highlights how automation and intelligent analytics enhance efficiency, accuracy, and scalability within outsourcing operations [3]. Related contributions on digital twins of business processes extend this perspective by demonstrating how virtual representations of workflows support process redesign, monitoring, and continuous improvement [12]. From a strategic viewpoint, the literature on the reconfiguration of outsourcing models emphasises the transition from cost-based arrangements toward digitally enabled, value-oriented outsourcing strategies [14]. In parallel, studies on workforce skills development and reskilling underline the critical role of human capital adaptation in enabling effective adoption of advanced digital technologies [20]. Finally, analyses of competitiveness dynamics in service industries provide broader insights into how institutional conditions, technological innovation, and skills upgrading jointly shape outsourcing performance across different market contexts [23].

In addition to peer-reviewed academic studies, institutional and industry-based reports provide important complementary perspectives on the evolution of outsourcing and digital transformation in emerging economies. These sources analyse recent global outsourcing trends, the reconfiguration of service delivery models, and the increasing role of sustainability and ESG considerations in shaping outsourcing strategies [6] [10]. Policy-oriented assessments further examine how digitalisation and artificial intelligence are reshaping global value chains and service-sector competitiveness, with particular emphasis on the implications for emerging and transitional economies [24]. Moreover, country- and region-specific institutional analyses highlight the role of regulatory reforms, governance capacity, and labour market dynamics in influencing outsourcing development and employment outcomes in the Western Balkans and comparable regions [7] [27]. Collectively, these contributions enrich the contextual and policy background of the present study, complementing firm-level and technological analyses of BPO development. Between 2023 and 2025, the academic and professional debate around Business Process Outsourcing (BPO) has shifted from operational cost optimisation to digital innovation and sustainability [2] [21]. Digitalisation and automation are now the core pillars of global outsourcing, enabling companies to achieve efficiency, agility, and strategic value creation [5] [16]. The latest literature emphasises the role of emerging economies, such as Albania, in integrating artificial intelligence technologies, data analytics, and digital governance frameworks to compete effectively in regional outsourcing markets [21] [26] [30].

B. Digital Transformation in Global BPO

Digital transformation has revolutionised BPO operations globally [2]. Accenture identifies three stages of digital maturity: digitisation, digitalisation, and full transformation, each representing a deeper integration of technology into corporate strategy [2]. IBM notes that AI adoption and cloud integration can increase operational efficiency by up to 40 percent while reducing process errors by 25 per cent [16] [3]. Advanced automation increasingly incorporates digital representations of workflows and decision logic to optimise

service delivery and process design [12]. OECD adds that digital maturity across emerging economies correlates directly with their level of institutional reform and ICT investment [21].

UNCTAD reports that global demand for outsourcing services in the digital domain increased by 19% annually during 2023–2024, led by AI-based data analytics and virtual assistance [26]. Similarly, Gartner projects that automation-driven BPO will represent 60% of all outsourcing contracts by 2026 [13]. Albania, though still in its early stage of digital maturity, benefits from regional integration with the EU through the EU4Digital Western Balkans Initiative, which supports cross-border ICT standards and e-skills programmes [9].

C. Human Capital and Skill Transformation

Human capital development is the foundation of digital competitiveness [31]. Evidence indicates that 44% of the global workforce will require reskilling by 2025 due to the integration of artificial intelligence and automation technologies [31]. In Albania, demographic indicators show that a large share of the working-age population is under 35 years old, yet only a limited proportion possesses advanced digital competencies, creating both a constraint and an opportunity for the BPO sector [17].

Continuous professional training in data management, cybersecurity, and automation is therefore essential for sustaining competitiveness in digital outsourcing environments [32]. Recent studies emphasise that digital literacy must evolve into "digital fluency", whereby workers not only use digital tools but apply them strategically to improve productivity and service quality [19] [21]. Furthermore, hybrid education and training models that combine technical expertise with analytical and problem-solving skills have been shown to be particularly effective in enhancing employability and adaptability within AI-enabled BPO operations [15] [4].

D. Policy, Governance, and Regulation

Regulatory standards for digital service providers have been strengthened through the adoption of the Digital Services Act (DSA) and the AI Act, promoting accountability, data protection, and algorithmic transparency within the European digital market [8] [9]. Alignment with these regulatory frameworks is essential for countries such as Albania to ensure compatibility with EU data governance and cybersecurity standards [9].

Recent assessments confirm progress in Albania's e-governance systems and digital infrastructure, while also highlighting persistent fragmentation across public institutions [28]. Evidence further indicates that regulatory predictability and stable tax incentives are critical determinants for attracting foreign direct investment in ICT and BPO sectors [5] [11]. Although Albania's low corporate tax rate for IT and outsourcing services enhances cost competitiveness, the effectiveness of this policy depends on consistent enforcement and institutional capacity [21].

E. Regional Perspectives and Emerging Trends

A structured overview of the most relevant academic and institutional sources informing this study is summarised in Table I. Regional evidence indicates that Eastern European economies such as Romania, Bulgaria, and Serbia lead in digital BPO adoption, supported by targeted innovation policies and strong academic–industry collaboration [30]. By contrast, Albania, Kosovo, and North Macedonia are positioned as cost-effective but digitally emerging markets, with significant potential for scaling through deeper regional integration and skills upgrading [18].

Policy analyses further recommend intensified collaboration among Western Balkan economies within frameworks such as EU4Digital and the Regional Economic Area to harmonise digital standards and stimulate cross-border digital investment [21] [9]. Complementary assessments emphasise that nearshoring strategies and regional digital partnerships can collectively enhance the competitiveness of the Western Balkans relative to Central and Eastern Europe [26].

TABLE I. SUMMARY OF KEY LITERATURE (2023–2025)

Focus Area	Key Findings	Relevance to Albania	Author/ Source
Digital transformation	Defines three phases of digital maturity	Benchmark for Albania's progress	[2]
AI and automation	Increases efficiency by 40%	Technological roadmap for BPO firms	[16]
Intelligent outsourcing	Shift toward knowledge-based outsourcing	Policy relevance for sustainable BPO	[4] [5]
Digital transformation in emerging markets	Highlights need for institutional coordination	Framework for national strategy	[21]
Human capital and FDI	Links digital skills to outsourcing growth	Empirical policy insight	[29]
EU4Digital Western Balkans	Promotes cross-border ICT and e-skills	Foundation for regional cooperation	[9]
BPO in the Balkans	Analyses cost and skills advantage	Regional competitiveness benchmark	[18]
Digital economy and nearshoring	Growth of digital services post-pandemic	Context for Albania's export potential	[26]
Workforce reskilling	Stresses AI-based skill acquisition	Human capital policy guidance	[32]
AI adoption in SMEs	Provides framework for digitalisation	Adaptable to Albanian SMEs and BPOs	[22]

Source: [21] [29] [30] [16] [9].

In addition, implementation-oriented frameworks on artificial intelligence adoption in small and medium-sized enterprises provide structured guidance for digitalisation

pathways that are directly applicable to BPO providers operating in emerging market contexts [22].

F. Theoretical Perspectives and Research Propositions

The conceptual evolution from traditional cost-based outsourcing toward digitally enabled and AI-driven BPO models is illustrated in Fig. 1. This study is grounded in two complementary theoretical perspectives: the Resource-Based View (RBV) and Institutional Theory. The RBV posits that sustainable competitive advantage arises from firm-level resources that are valuable, rare, and difficult to imitate, such as advanced digital skills, artificial intelligence capabilities, and organisational knowledge [21] [5]. However, RBV alone does not sufficiently explain why firms operating in similar industries exhibit divergent digital transformation outcomes across different national contexts [21].

Institutional Theory complements this perspective by emphasising the role of regulatory frameworks, governance quality, and normative pressures in shaping organisational behaviour and technology adoption [9] [4]. In emerging economies, alignment with supranational regulatory frameworks such as those of the European Union can reduce uncertainty and enable firms to invest in advanced digital technologies [9] [21].

By integrating RBV and Institutional Theory, this study advances the understanding of digital transformation in the BPO sector by explicitly linking institutional conditions to firm-level capability development. This theoretical integration advances existing literature by demonstrating that institutional conditions do not directly generate competitive advantage but instead shape firms' capacity to develop and deploy strategic resources. In the context of a digitalising emerging economy, such as Albania, regulatory alignment and governance quality function as enabling mechanisms that influence firms' absorptive capacity, particularly in relation to digital skills and AI adoption. This perspective refines the Resource-Based View by highlighting the mediating role of institutions and extends Institutional Theory by illustrating how firm-level resource heterogeneity conditions the outcomes of institutional reforms [21] [5] [30].

Accordingly, the following research propositions are derived:

P1: Alignment with EU digital governance and regulatory frameworks enables BPO firms to transform digital infrastructure into strategic firm-level resources [9] [21].

P2: Human capital availability and advanced digital skills mediate the relationship between institutional reforms and AI adoption in the BPO sector [17] [19] [31].

P3: Emerging economies that successfully combine institutional stability with firm-level resource development are more likely to transition from cost-based outsourcing toward value-added digital BPO services [5] [26].

The figure illustrates the transition from traditional cost-based outsourcing models toward digitally enabled and AI-supported BPO ecosystems, highlighting the progressive role of automation, cloud computing, and advanced digital capabilities in value creation.

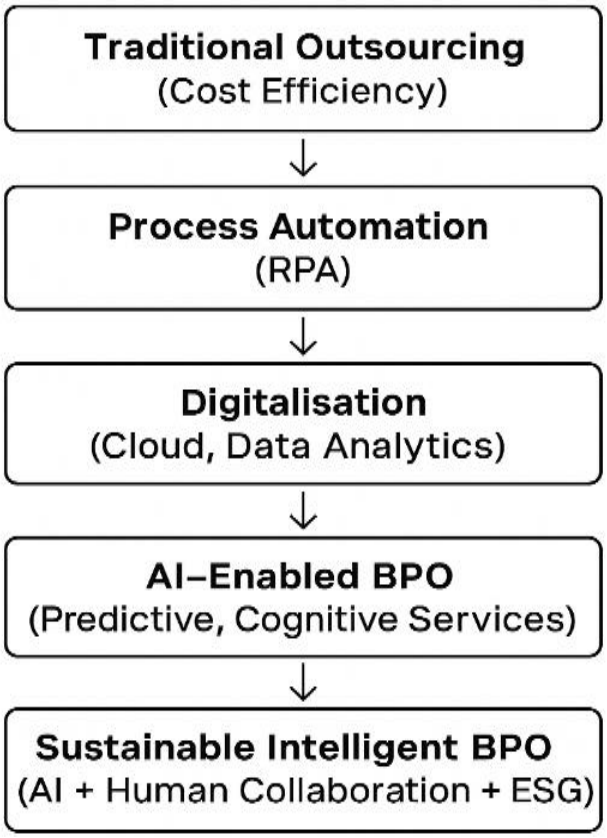

Fig. 1. Evolution of BPO and digitalisation (Conceptual overview). Source: author's conceptual illustration [2] [16] [21].

G. Research Gap and Contribution

The literature review indicates that most empirical studies on digital BPO have focused on large, mature economies, leaving smaller transitional markets such as Albania comparatively underexplored [30]. Moreover, relatively few comparative analyses examine the Western Balkans as an integrated region, particularly with respect to Kosovo, North Macedonia, and Montenegro. By incorporating a regional perspective alongside institutional analysis, this study addresses this gap and enhances understanding of how emerging economies leverage digital transformation to strengthen BPO competitiveness [21] [9].

III. Methodology

A. Research Approach and Design

This study adopts a *qualitative and descriptive–analytical approach* to examine how digitalisation influences Business Process Outsourcing (BPO) competitiveness in Albania and the wider Western Balkans. The study is explicitly framed as a desk-based policy and analytical investigation, relying exclusively on secondary data and without any primary data collection [21] [29] [30]. The qualitative orientation allows an in-depth exploration of institutional, economic, and technological factors shaping outsourcing development [21].

The research draws on secondary data from academic literature, institutional reports, and professional studies published between 2023 and 2025. This includes publications by the OECD, World Bank, European Commission, IBM, Accenture, KPMG, and UNCTAD. The combination of these diverse yet authoritative sources ensure triangulation, thereby enhancing the validity and reliability of the findings [29].

The analysis is structured around two complementary frameworks:

1) PEST analysis, to assess the macro-environmental dimensions political, economic, social, and technological affecting Albania's BPO ecosystem.

2) Comparative regional benchmarking, to evaluate Albania's performance against peer economies in the Western Balkans and Eastern Europe (Kosovo, North Macedonia, Montenegro, Serbia, Bulgaria, and Romania).

The study relies on recent institutional and industry reports published between 2023 and 2025, including sources from international organisations, consultancy firms, and technology providers. Reports dated 2025 are used explicitly as forward-looking policy and market outlooks rather than as peer-reviewed empirical evidence [21] [26]. These sources are employed to capture emerging trends in digital transformation, artificial intelligence adoption, and BPO restructuring, which are particularly relevant in rapidly evolving service sectors [16] [31]. To mitigate potential bias associated with corporate and consultancy reports, the analysis applies source triangulation by systematically cross-referencing findings from OECD, World Bank, European Commission, and UNCTAD publications [21] [29] [30] [26]. Consequently, forward-looking industry insights are used for contextualisation and scenario interpretation, while analytical conclusions are grounded primarily in internationally recognised institutional evidence [21] [30].

These frameworks allow a multidimensional understanding of digital transformation, integrating national and regional perspectives. The methodological framework and analytical tools applied in this study are summarised in Table II.

TABLE II. METHODOLOGICAL FRAMEWORK

Research Element	Description
Approach	Qualitative and descriptive–analytical research
Purpose	To analyse how digitalisation impacts BPO competitiveness in Albania and the Western Balkans
Data Sources	OECD, World Bank, IBM, Accenture, KPMG, EU Reports (2023–2025)
Data Collection	Desk research, document analysis, and synthesis of secondary data
Analytical Tools	PEST framework and comparative regional analysis
Geographical Scope	Albania, Kosovo, North Macedonia, Montenegro, Serbia, Bulgaria, Romania
Timeframe	2023–2025
Limitations	Reliance on secondary data; lack of primary interviews

B. Data Collection and Validation

Secondary data were selected for their reliability, accessibility, and relevance to the study's objectives. Inclusion criteria focused on three aspects: 1) credibility of the source, 2) thematic connection to BPO and digital transformation, and 3) the presence of recent (2023–2025) comparative data [21] [30].

The core datasets used in the analysis include major institutional publications addressing digital transformation and regional economic developments, complemented by industry-specific insights on technology adoption and outsourcing practices [21] [30] [9] [16] [2].

Triangulation was achieved through:

- Temporal triangulation: comparing multi-year data to detect trends (2023–2025) [21] [30].
- Source triangulation: was achieved by cross-referencing evidence from international institutions and regulatory bodies [21] [9] [30].
- Thematic triangulation: integrated academic, policy, and industry perspectives to ensure analytical coherence and reduce potential bias [5].

C. Analytical Process

The analytical process of this research followed five systematic stages, as illustrated in Fig. 2.

Fig. 2. Analytical process of the study. Source: author's elaboration [21] and [30].

D. Application of the PEST Framework

The PEST framework is central to this study's analysis, as it captures the macro-environmental conditions shaping BPO growth.

- Political Factors: governance, digital legislation, and EU integration policies [9].
- Economic Factors: GDP growth, FDI inflows, and fiscal incentives in outsourcing and ICT [29].

- Social Factors: workforce demographics, digital literacy, and migration [17].
- Technological Factors: broadband access, automation adoption, AI infrastructure [21] [16].

The relationship between digital infrastructure, automation, and BPO growth dynamics in Albania is further illustrated in Fig. 3. This framework provides a holistic perspective, identifying opportunities and constraints influencing Albania's competitiveness in digital outsourcing.

E. Comparative Regional Analysis

The comparative component benchmarks Albania against six economies Kosovo, North Macedonia, Montenegro, Serbia, Bulgaria, and Romania to assess its relative progress in digital readiness, labour costs, and AI adoption. The data from [21] and [29] provide comparable indicators across the region.

This dual analytical design (PEST + comparison) ensures depth and breadth, combining contextual insight with quantitative benchmarking.

F. Ethical Considerations

As the study relies exclusively on secondary sources, ethical risks are minimal. Nevertheless, all data have been cited accurately, and intellectual property rights respected in accordance with APA 7th referencing [21]. The author certifies that all interpretations are transparent, unbiased, and consistent with the original context of each source.

G. Limitations

While qualitative analysis provides rich interpretative value, the lack of primary data limits micro-level insights into firm-specific operations. Inconsistent data availability across Western Balkan states also constrains cross-country comparisons. However, triangulation mitigates these gaps by focusing on overlapping trends rather than absolute figures.

H. Summary of Methodological Contribution

This methodological framework bridges academic and policy analysis by linking macro-level reforms with sector-specific performance. The integration of PEST and comparative benchmarking enhances the explanatory power of the findings. This approach is particularly relevant for transitional economies where digitalisation, institutional development, and regional collaboration evolve simultaneously [29] [21].

IV. Findings and Discussion

A. Overview

The analysis of Business Process Outsourcing (BPO) in Albania and the Western Balkans shows that digitalisation has become a decisive factor for competitiveness in the post-pandemic economy. The application of the PEST framework and comparative benchmarking reveals a mixed but promising picture: political stability and EU integration reforms have facilitated industry growth, yet technological maturity, digital infrastructure, and skills development remain insufficient [21] [29]. The key political, economic, social, and technological factors influencing the Albanian BPO sector are summarised in Table III.

TABLE III. PEST Analysis for the Albanian BPO Sector (2023-2025)

Factor	Key Insights	Source
Political	Stable governance, EU integration reforms, improved digital legislation	[9]
Economic	GDP growth 3.2% (2025), increasing FDI, stable inflation (2.4%)	[29]
Social	Youth unemployment declining, multilingual workforce, brain drain challenges	[17]
Technological	Expansion of fibre-optic internet, early adoption of AI and RPA tools	[21]

Source: Author's synthesis [21] [9] [29].

B. Political Environment

Politically, Albania enjoys stability and an improving governance framework aligned with EU standards. The Digital Agenda 2022–2026 and participation in the EU4Digital Western Balkans Initiative have enhanced coordination in ICT and e-governance [9]. Institutional reforms have reduced administrative barriers and encouraged digital investment, but fragmentation and uneven implementation persist [21].

Comparative OECD assessments indicate that Albania demonstrates notable progress in digital governance reforms within the Western Balkan region [21]. Policy continuity and regional cooperation remain key to sustaining momentum [29].

C. Economic Factors

Albania's economy demonstrates steady growth and strong FDI inflows, especially in services and ICT. Recent economic indicators show GDP growth of 3.2% and foreign direct investment surpassing USD 1 billion, with 25% directed toward technology-driven sectors. Competitive labour costs, roughly 50% below EU averages, continue to attract BPO contracts in accounting, customer service, and data management [29].

Nevertheless, Albania's BPO market remains concentrated in low-value operations. In [18], the authors stress the need for diversification into analytics, AI integration, and financial services outsourcing. In [16], the authors observe that firms applying AI automation reduce operational costs by 20–30%, while achieving higher process accuracy. However, digital investment is mainly concentrated in Tirana, creating geographic inequality and limiting national capacity for expansion.

D. Social Factors

Social dynamics represent both strengths and weaknesses for Albania's outsourcing potential. A young and multilingual population provides a solid foundation for future digital development [17]. However, migration and skills mismatches persist, particularly in STEM-related fields. In [29], the authors report that 30% of ICT graduates immigrate annually to EU countries for better employment opportunities.

The EU4Digital programme has introduced training initiatives that promote digital literacy and cross-border mobility [9]. These efforts aim to harmonise skills across the

Western Balkans and integrate them into EU labour markets. In [32], the authors highlight that targeted reskilling in AI and automation could transform Albania's workforce into a regional digital talent hub.

E. Technological Factors

Technological readiness in Albania has improved markedly in recent years, although it remains below that of regional technological frontrunners [21]. Available indicators show that broadband coverage reached approximately 94% in 2024, with pilot 5G deployments operational in major urban centres, reflecting progress in core digital infrastructure [21]. However, comparative DESI indicators suggest that Albania exhibits lower performance in innovation capacity and advanced digital connectivity relative to Bulgaria and Romania, indicating persistent gaps in higher-order digital capabilities [9].

At the firm level, artificial intelligence adoption among Albanian BPO providers is estimated at around 35%, compared with higher adoption rates observed in Romania, Bulgaria, and Serbia [16]. This disparity highlights constraints related not only to technological availability but also to institutional and regulatory factors. In particular, the absence of comprehensive AI ethics guidelines and fully developed cybersecurity frameworks limits the depth of AI integration within enterprise operations [11].

Notwithstanding these constraints, emerging public–private partnerships within the Western Balkans Digital Initiative are contributing to the gradual reduction of technological gaps through shared cloud infrastructure, cross-border digital services, and the development of regional data centres [29]. These initiatives suggest that regional cooperation may play an important enabling role in accelerating technological upgrading and supporting the diffusion of advanced digital solutions within Albania's BPO sector.

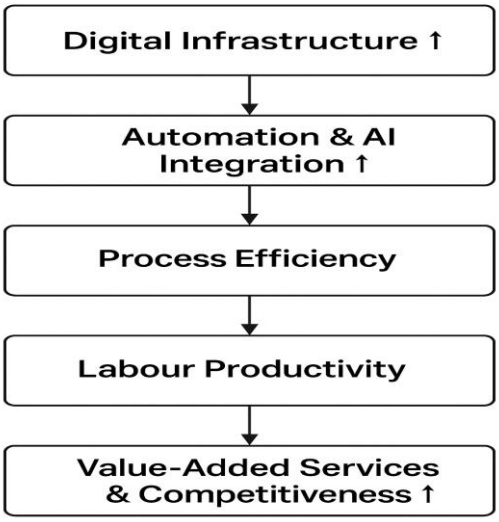

Fig. 3. Digitalisation impact on BPO growth in Albania. Source: author's conceptual model [2] [15].

F. Regional Comparison: Albania and its Peers

To assess Albania's relative position within the regional BPO landscape, a comparative evaluation was conducted across six neighbouring and peer economies: Kosovo, North Macedonia, Montenegro, Serbia, Bulgaria, and Romania. Table IV summarises key performance indicators related to labour costs, digital skills, foreign direct investment in BPO, and artificial intelligence adoption, providing a multidimensional perspective on regional competitiveness. A comparative overview of labour costs, digital skills, foreign direct investment, and AI adoption across Albania and selected regional economies is presented in Table IV.

TABLE IV. COMPARATIVE BPO PERFORMANCE INDICATORS: ALBANIA AND REGIONAL ECONOMIES (2024)

Indicator	Albania	Bulgaria	Romania	Serbia	Kosovo	North Macedonia	Montenegro	Source
Labour Cost Index	100	135	160	140	110	120	130	[21]
Digital Skills Index	68	74	77	70	63	65	67	[8]
FDI in BPO (USD m)	210	460	530	340	120	180	150	[30]
AI Adoption (%)	35	42	48	38	28	31	33	[16]

Source: [21] [30] [16] [8].

The comparative evidence indicates that Albania maintains a relative labour cost advantage compared to Bulgaria, Romania, and Serbia, reinforcing its attractiveness for cost-sensitive outsourcing activities [21]. However, this advantage is accompanied by moderate levels of digital skills and AI adoption, positioning Albania below the region's more technologically advanced BPO markets [16]. These findings suggest that cost competitiveness alone is insufficient to ensure long-term upgrading in digital BPO services.

Romania and Bulgaria demonstrate relatively higher levels of digital skills development and AI adoption compared to other economies in the region, supported by higher levels of foreign direct investment in the BPO sector [16] [29]. This combination reflects a more advanced transition toward value-added and knowledge-intensive outsourcing activities, consistent with later stages of digital transformation [21]. Serbia and North Macedonia occupy an intermediate position, combining moderate labour costs with improving digital skills and investment levels, indicating a gradual shift from cost-based to capability-driven BPO models [18] [26].

By contrast, Kosovo and Montenegro, despite maintaining comparatively lower labour costs, exhibit weaker performance in digital skills and AI adoption. This pattern highlights the limitations of cost-based competitiveness in the absence of sufficient technological capabilities and human capital development [30] [31]. The regional comparison therefore, reveals a structural trade-off: economies relying primarily on low labour costs face constraints in achieving sustainable BPO

competitiveness without parallel investments in digital infrastructure, skills formation, and innovation capacity [21] [5].

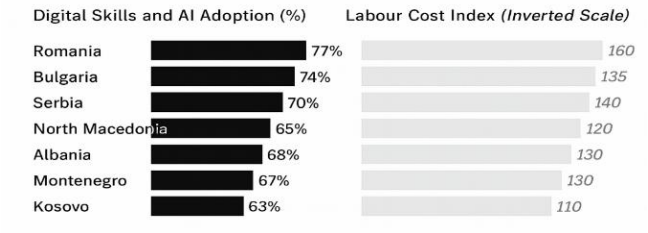

Fig. 4. Comparative digital readiness and cost competitiveness in the Western Balkans and Eastern Europe (2024). Source: [21] [30] [16] [8].

Fig. 4 complements the tabular analysis by illustrating the relationship between digital readiness and labour cost positioning across the region. The figure shows that economies with higher digital skills and AI adoption tend to be associated with higher labour costs, while lower-cost economies generally lag in advanced digital capabilities [21] [16]. Albania occupies a balanced but constrained position within this spectrum, with digital readiness exceeding that of Kosovo and Montenegro while remaining below Eastern European frontrunners [21] [29].

This intermediate positioning suggests that Albania has the potential to function as a regional bridge between cost-oriented Western Balkan economies and digitally advanced Eastern European outsourcing hubs, provided that sustained investments in human capital development, institutional coordination, and digital infrastructure are pursued [31] [26]. Overall, the regional evidence reinforces the argument that long-term BPO competitiveness increasingly depends on the alignment of institutional conditions, digital readiness, and firm-level capabilities rather than on cost advantages alone [21] [30]. These comparative insights feed directly into the conceptual framework presented in Fig. 5, which links institutional reform, digital investment, and human capital development to sustainable BPO growth.

G. Conceptual Integration

Fig. 5 synthesises the empirical findings and theoretical arguments of this study into an integrated conceptual framework that explains how digital BPO competitiveness emerges in an emerging economy context. The framework depicts a sequential and interdependent relationship between institutional alignment, digital infrastructure and innovation investment, artificial intelligence adoption in BPO operations, and human capital development, culminating in sustainable and value-added BPO competitiveness. By explicitly linking macro-level institutional conditions with micro-level firm capabilities, the model operationalizes the interaction between Institutional Theory and the Resource-Based View [9] [21] [5].

From an institutional perspective, political and regulatory alignment, particularly with EU digital governance frameworks, functions as an enabling condition that reduces uncertainty, strengthens enforcement capacity, and improves the predictability of the business environment [9] [21]. These institutional conditions influence firms' strategic decisions to invest in digital infrastructure and advanced technologies, including AI-enabled automation and data-driven service delivery [16]. In line with the Resource-Based View, such technological investments only translate into sustained competitive advantage when they are internalised as firm-specific capabilities, supported by organisational learning and skilled human capital [5] [31].

Fig. 5. Conceptual framework for the integration of business process outsourcing, artificial intelligence, and digital transformation. Source: Author's elaboration based on [21] [2] [15].

The framework further highlights the mediating role of human capital development in the digital transformation process. Investments in AI and digital infrastructure generate productivity gains and service upgrading only when firms possess the absorptive capacity to integrate these technologies into core business processes [31] [21]. This insight reinforces the argument that digital competitiveness is not driven by technology adoption alone, but by the interaction between institutional conditions and firm-level resource development [26].

Importantly, the conceptual framework moves beyond a descriptive representation by specifying directional and causal relationships that can be empirically examined. Institutional alignment is modelled as an exogenous enabling variable, digital infrastructure and AI adoption as intermediate mechanisms, and firm-level capabilities and BPO competitiveness as outcome variables. These relationships provide a clear basis for operationalization and hypothesis testing in future quantitative or mixed-methods research, for example, by examining the impact of regulatory alignment on AI adoption rates or the mediating effect of human capital between digital investment and BPO productivity [21] [30].

Finally, the conceptual relationships illustrated in Fig. 5 are fully aligned with the research propositions (P1–P3) developed in Section II(F). Together, the framework and propositions offer a transferable analytical lens for analysing digital BPO upgrading in other Western Balkan and emerging economies, while also providing practical guidance for policymakers and practitioners seeking to align institutional reforms, skills development, and technological investment in support of sustainable BPO growth [21] [26].

H. Discussion Summary

The integrated application of the PEST framework with the Resource-Based View and Institutional Theory reveals well-

defined causal mechanisms underpinning digital BPO competitiveness. From an institutional perspective, political alignment with EU digital governance frameworks reduces regulatory uncertainty and enhances enforcement capacity, thereby lowering barriers to the adoption of advanced digital technologies such as artificial intelligence and cloud-based systems [9] [21]. This institutional stability enables firms to commit resources to digital infrastructure and to transform technological inputs into firm-specific strategic assets, consistent with the logic of the Resource-Based View [21] [5].

From an economic standpoint, the findings demonstrate that although low labour costs continue to attract outsourcing activities, they do not constitute a sustainable source of competitive advantage when considered in isolation [21]. Instead, institutional reforms and targeted fiscal incentives interact with technological conditions by shaping firms' incentives and capacity to invest in automation and AI adoption [4] [16]. Social factors—particularly the availability of skilled human capital and advanced digital competencies—play a mediating role in this process by determining whether technological investments can be internalised as organisational capabilities rather than remaining operational tools [17] [19] [31].

A central insight emerging from the analysis is the structural trade-off between maintaining cost competitiveness and investing in high-skilled, and therefore more expensive, digital and AI-related human capital [5] [21]. While cost advantages facilitate entry and short-term expansion within global outsourcing markets, long-term digital upgrading increasingly depends on firms' ability to absorb higher labour costs associated with advanced skills, organisational learning, and innovation capacity [16] [31]. This tension underscores the limitations of a purely cost-based outsourcing model and highlights the need for a strategic transition toward capability-driven growth supported by institutional alignment and sustained human capital investment [9] [26] [30].

Importantly, technological factors do not emerge as independent drivers of competitiveness, but rather as outcomes of interactions between institutional conditions and firm-level resource development [21]. Political and regulatory reforms (PEST–Political) create the conditions for firms to accumulate digital and AI-related capabilities (RBV–Technological), while economic and social factors influence the speed and depth of this transformation [5] [26]. This interaction explains why economies with broadly similar cost structures can experience markedly different digital transformation trajectories within the BPO sector [21] [30].

From a theoretical standpoint, the Albanian case provides evidence that institutional alignment alone is insufficient to generate sustainable competitive advantage in the absence of firm-level absorptive capacity. This finding refines the Resource-Based View by emphasising the mediating role of institutions in shaping the value and deployability of firm-specific resources in emerging economies. Simultaneously, it extends Institutional Theory by demonstrating how governance frameworks interact with firm-level heterogeneity to produce divergent digital upgrading outcomes, even under comparable regulatory conditions [21] [5] [30].

V. Conclusion

A. Summary of Findings

The findings of this study offer important theoretical implications for understanding digital transformation in the BPO sector of emerging and transitional economies. By integrating the Resource-Based View and Institutional Theory, the analysis demonstrates that sustainable competitive advantage does not arise from cost efficiency alone, but from the interaction between institutional alignment and firm-level capability development. From a Resource-Based View perspective, advanced digital skills, organisational learning, and innovation capacity emerge as critical intangible resources that determine firms' ability to upgrade toward higher value-added BPO services [21]. However, the Albanian case shows that these resources cannot be developed or leveraged effectively in the absence of supportive institutional frameworks.

Institutional Theory further explains how regulatory alignment with EU digital governance frameworks, policy coherence, and enforcement capacity shape firms' incentives and absorptive capacity for adopting artificial intelligence and automation technologies [5] [9]. The evidence from Albania refines existing theoretical debates by illustrating that institutional reforms function primarily as enabling mechanisms rather than direct sources of competitiveness. In digitally transforming emerging economies, institutions condition the extent to which firms can convert technological investments into strategic resources, thereby mediating the outcomes predicted by the Resource-Based View [21] [29].

From a practical and policy perspective, the study provides actionable insights for policymakers and practitioners seeking to foster sustainable BPO development. The results indicate that reliance on low labour costs and fiscal incentives, while effective in attracting initial outsourcing activity, is insufficient for long-term competitiveness without parallel investments in digital skills, innovation ecosystems, and governance capacity [29]. Strengthening vocational and higher education programmes in AI, data analytics, and cybersecurity, alongside improving institutional coordination, is therefore essential for enabling firms to move up the BPO value chain [17] [32].

Moreover, the comparative regional analysis highlights the importance of positioning Albania within a broader Western Balkan digital ecosystem. As an intermediate economy between cost-oriented peers and digitally advanced Eastern European markets, Albania has the potential to act as a regional bridge if national digital strategies are aligned with regional integration initiatives such as EU4Digital and the Regional Economic Area [9] [29]. The conceptual model proposed in this study (see Fig. 5) offers a transferable framework for other Western Balkan economies, providing guidance on how institutional reforms, human capital development, and technological investment can be jointly leveraged to support value-added BPO growth and regional convergence [21] [26].

B. Strategic Directions

Based on the analysis, six strategic directions are recommended to advance Albania's BPO and digital transformation agenda:

1) Enhance digital infrastructure and regional connectivity: Accelerate broadband and 5G deployment beyond Tirana through public–private partnerships, focusing on regional cities and cross-border ICT projects [29].

2) Institutionalise digital governance: Establish a central Digital Transformation Authority to coordinate policy implementation and monitor progress under EU-aligned digital frameworks [21].

3) Develop and retain human capital: Integrate AI, data analytics, and cybersecurity into university curricula. Strengthen vocational training programmes and provide fiscal incentives for companies investing in workforce upskilling [9].

4) Promote Research and Innovation: Create Digital Innovation Hubs in cooperation with Horizon Europe and regional universities to foster applied research, start-up growth, and knowledge transfer [18].

5) Foster regional collaboration: Expand cooperation with neighbouring Western Balkan economies (Kosovo, North Macedonia, Montenegro, and Serbia) through joint AI hubs, shared cybersecurity networks, and regional outsourcing consortia [26].

6) Align BPO development with sustainability and ESG standards: Introduce green outsourcing incentives and include sustainability metrics in national digital strategies. Aligning with the EU Green Deal will ensure environmentally responsible and socially inclusive BPO growth [11].

C. Theoretical and Practical Implications

The integrated application of the *Resource-Based View and Institutional Theory* provides a coherent analytical lens for interpreting Albania's digital transformation in the BPO sector. From a Resource-Based View perspective, sustainable competitive advantage is derived from the accumulation and effective deployment of intangible firm-level resources, including advanced digital skills, organisational knowledge, and innovation capabilities [21]. Institutional Theory complements this view by explaining how governance structures, regulatory alignment, and normative frameworks condition firms' ability to develop and leverage such resources, thereby facilitating or constraining digital adoption and upgrading processes [5].

From a practical and policy-oriented perspective, the findings demonstrate that digital transformation can function as a catalyst for socio-economic development in transitional economies when institutional alignment and human capital development progress in tandem. The conceptual model proposed in this study (see Fig. 5) offers a transferable analytical framework that can be applied across the Western Balkans to guide policymakers and practitioners in designing strategies that align national digital agendas with regional integration initiatives. By linking institutional reforms to firm-level capability development, the model provides actionable insights for fostering value-added BPO services and strengthening regional digital competitiveness.

D. Limitations and Future Research

While the qualitative research design provides rich analytical insights, the exclusive reliance on secondary data constrains empirical validation at the firm level. Future research could adopt mixed methods approaches by incorporating surveys and semi-structured interviews with BPO managers, policymakers, and industry stakeholders to test and refine the proposed conceptual relationships. In addition, longitudinal analyses extending beyond 2025 would enable systematic assessment of post-transformation dynamics, including the evolution of AI adoption, productivity gains, and organisational capability development [29].

Further research could also expand the social dimension of digital BPO transformation by examining issues of gender inclusion, workforce diversity, and job quality in digitally enabled service sectors. Existing evidence suggests that inclusive digitalisation enhances innovation capacity and supports more equitable labour market participation [26]. Finally, comparative studies involving EU candidate and Western Balkan economies could provide deeper insights into how regional cooperation, regulatory convergence, and shared digital initiatives influence competitiveness and economic convergence across emerging markets [26] [30].

E. Concluding Remarks

Albania's BPO sector stands at a strategic crossroads. While political alignment with EU frameworks, cost competitiveness, and a growing digital ecosystem provide a solid foundation for development, the sustainability of this trajectory depends on decisive investment in education, advanced digital skills, and effective governance structures [9] [21]. Without such coordinated action, the sector risks remaining locked into low-value outsourcing activities despite favourable macroeconomic conditions [5] [30].

The findings confirm that digital transformation in the BPO sector is not a purely technological process, but a structural evolution shaped by the interaction between institutional alignment, human capital development, and firm-level capabilities [21] [5]. By fostering innovation-oriented policies, strengthening regional partnerships, and prioritising skills upgrading, Albania can transition from a cost-based outsourcing destination toward a digitally integrated, value-added BPO hub, contributing to long-term national competitiveness and regional economic resilience [26] [30].

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