Business Process Outsourcing and IT-enabled services

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Workshop on Central Asia's Participation in Global Supply Chains and its Implications to Development Policies

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Introduction

Advancements in information and communication technologies

→ traditional service model replaced by remote, coordinated systems

→ offshore services industry: services conducted in one country and consumed in another

"By significantly reducing the cost and time required to generate, process, store and transmit information from remote locations (Lopez et al., 2008), this has enabled the separation of service production and consumption *(Sako, 2005)*."

The main motivation for firms in the developed countries to outsource some of their functions is the low transaction costs in developing countries.

Developing countries have an important role in providing services to advanced industrial countries, and the offshoring service industry has become a huge source of employment around the world.

Business Process Outsourcing (BPO)

The contracting out of operations and responsibilities for a specific business function or a business process to a third-party service provider.

Information Technology-Enabled Services (IT-ES)

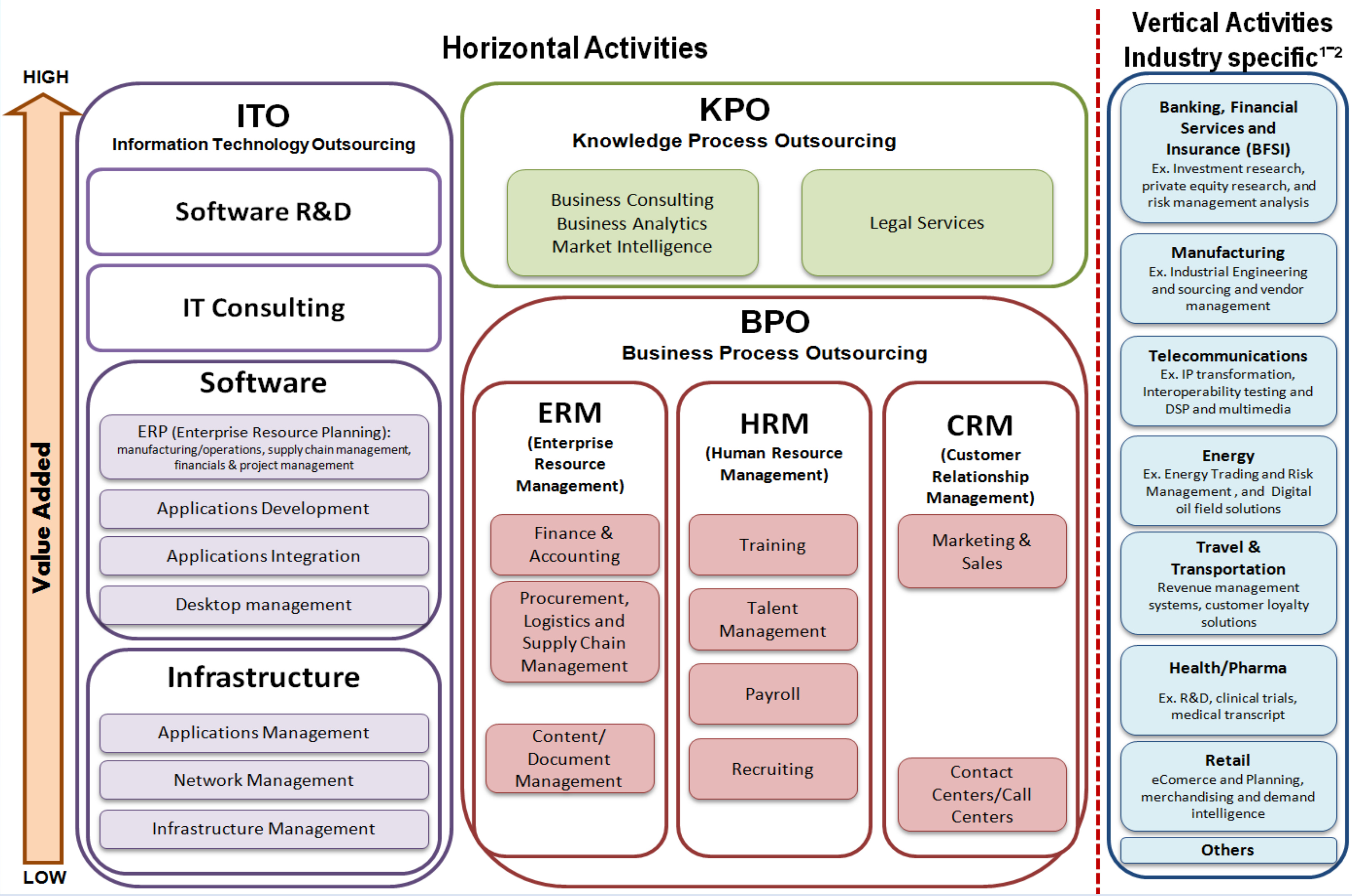
Comprise all services that can be provided remotely through cables, phones and computers (including BPO).

Knowledge Process Outsourcing (KPO)

A form of outsourcing where knowledge-related and information-related work is carried out by workers in a different company by a subsidiary of the same organization.

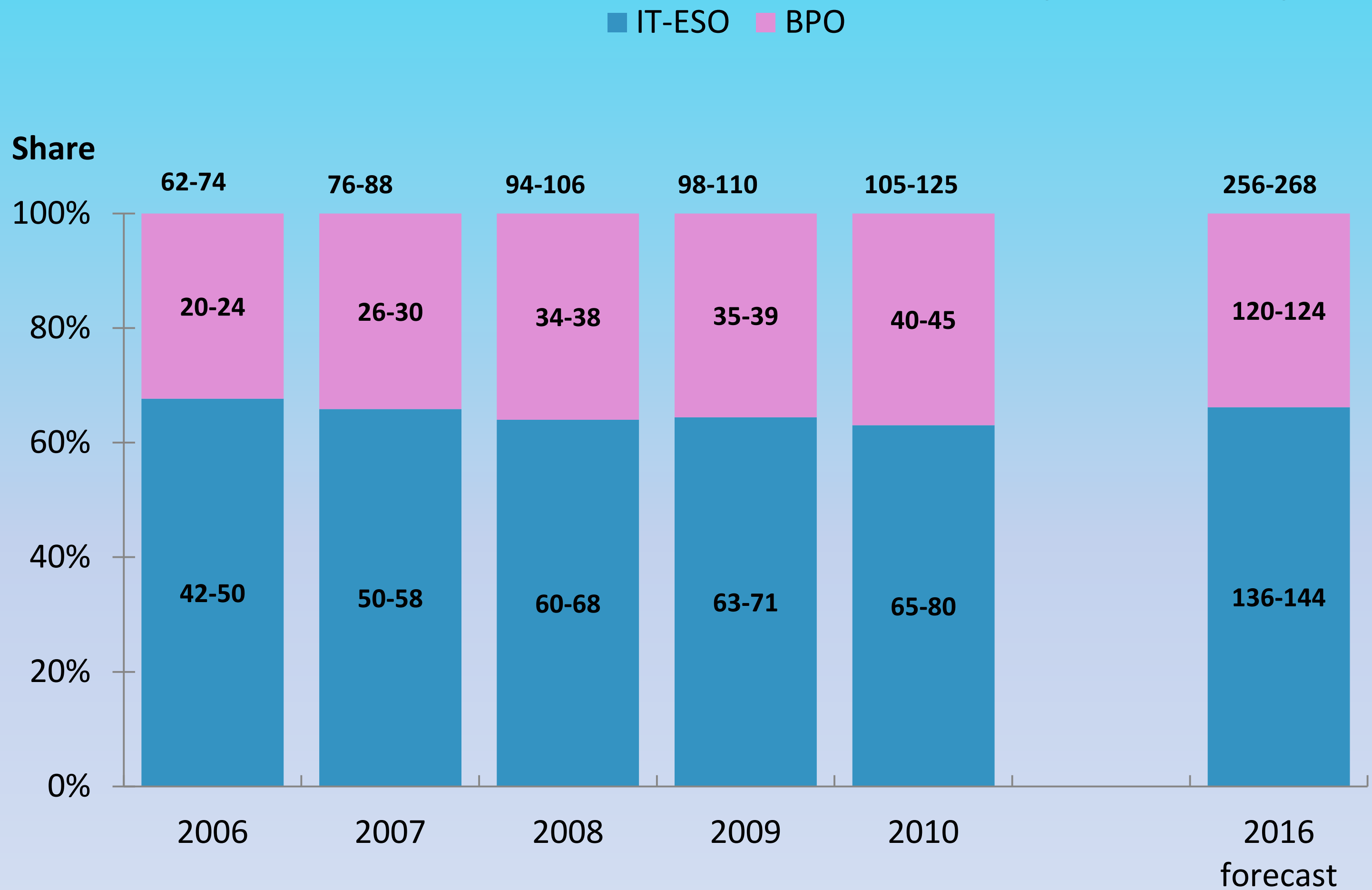
Source: International Institute for Sustainable Development

Offshore Services Value Chain



Source: Center on Globalization, Governance & Competitiveness

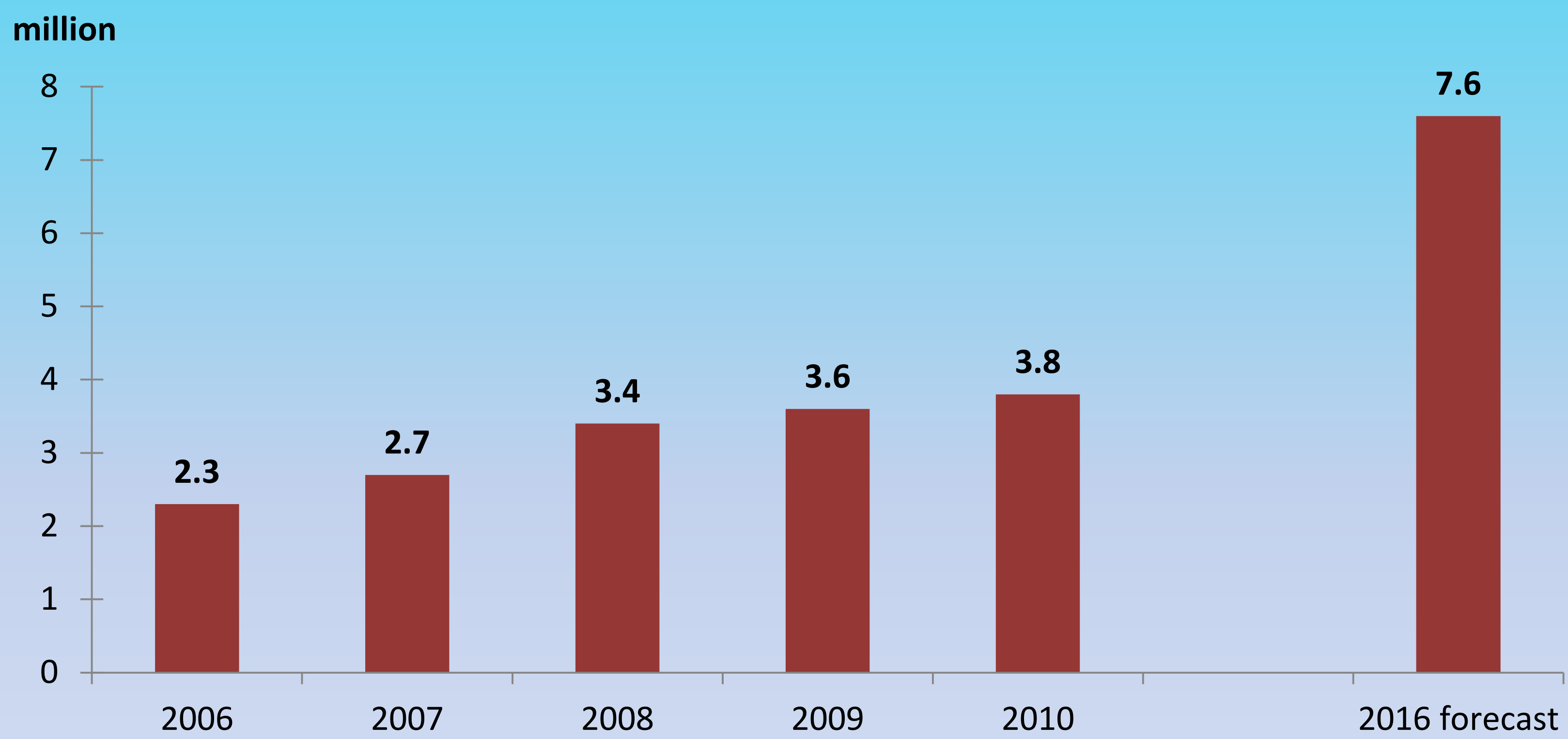
Global offshore services market, estimate (US$ billion)



Sources: Business Process Association of the Philippines, Everest Global and Outsource2Philippines

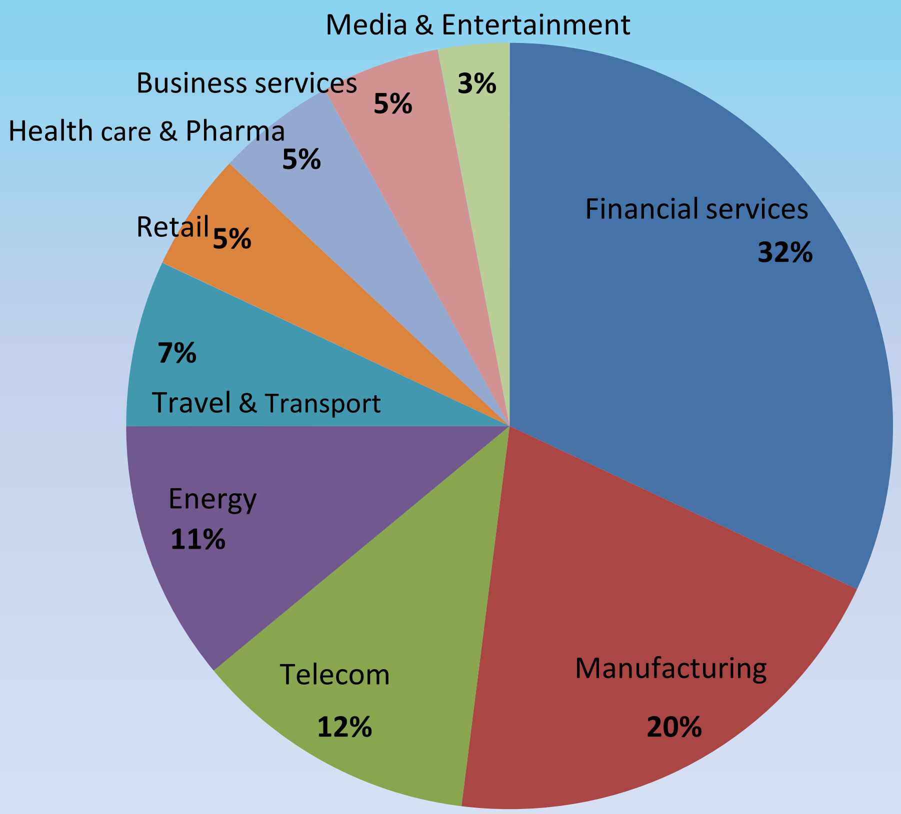
Note: **IT-ESO** is **Information Technology and Engineering Services Outsourcing**

Number of offshore jobs



Sources: Business Process Association of the Philippines, Everest Global and Outsource2Philippines

Industry Participation in the Offshoring Market



Based on a survey by contracts for over $25 million (Technology Partners International, 2008)

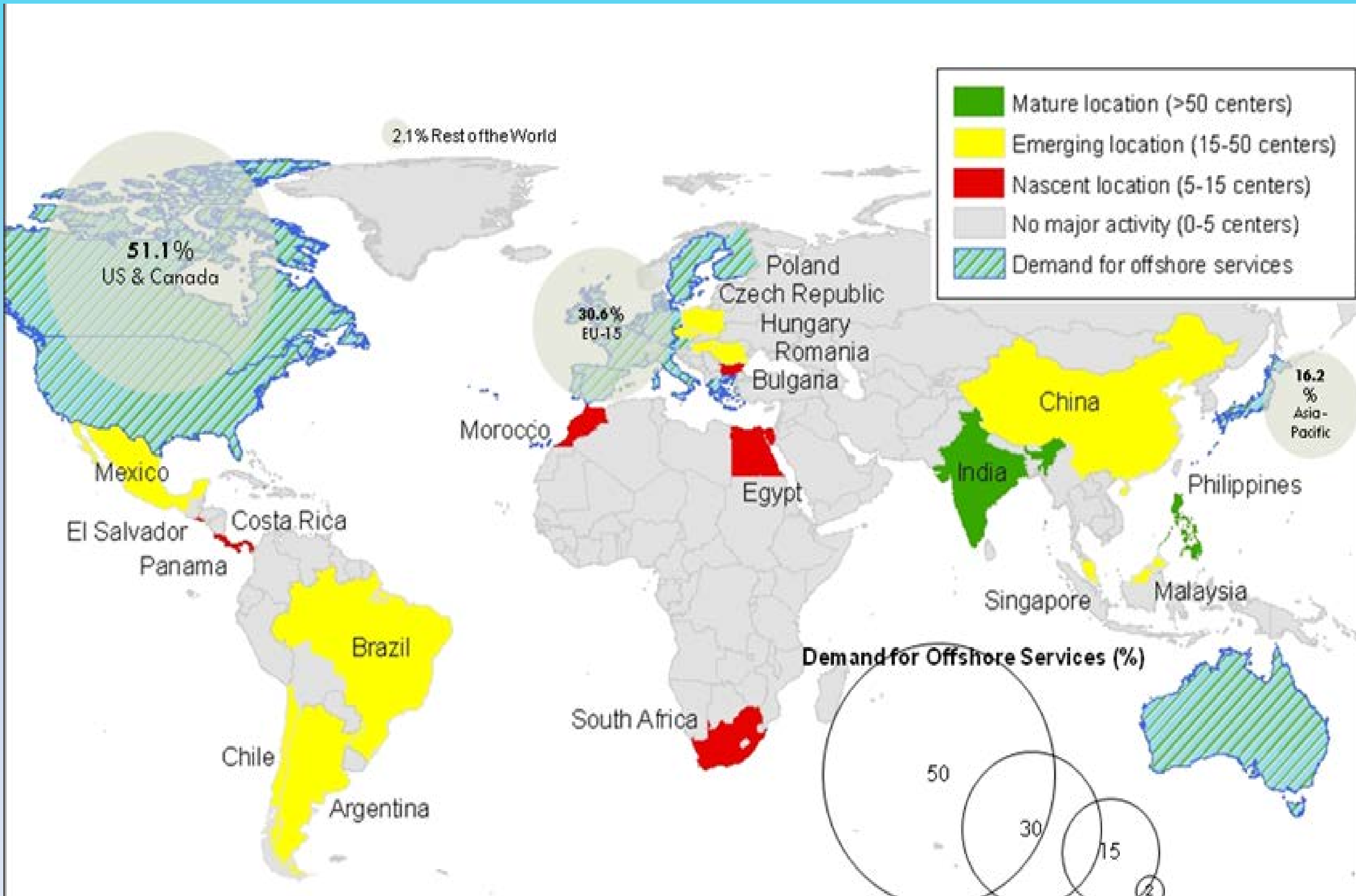
Source: Center on Globalization, Governance & Competitiveness

Top 20 Offshore Services Providers

#	Company	Total Employees	Total Services Sales 2008 (US$ Mil)	Main Services Activities
1	IBM – US	398,455	58,892	Consulting, IT services, application and outsourcing services
2	Accenture – US	177,000	23,171	Consulting, IT and outsourcing services
3	Electronic Data Systems Corporation (now HP Enterprise Services) -US	139,500	22,100	IT, applications and BPO services
4	Computer Sciences Corporation (CSC) - US	92,000	16,740	ITO (software management) BPO in CRM, supply chain management and KPO in legal matters
5	Capgemini- France	89,453	12,740	Consulting, IT and outsourcing services
6	Automatic Data Processing (ADP) - US	45,000	8,867	BPO (human resource, payroll, tax and benefits outsourcing)
7	Affiliated Computer Services – US	76,000	6,523	ITO and BPO in CRM and HRM, e-Government
8	Logica (Formerly LogicaCMG) – UK	39,525	6,320	Business consulting, IT and BPO services
9	Tata Consultancy Services – India	111,407	5,824	Consulting, IT, engineering and BPO (includes KPO) services
10	Infosys Technologies - India	105,453	4,533	IT, engineering, consulting and BPO services (knowledge and legal services)
11	Wipro Technologies - India	98,521	4,234	Consulting, IT and BPO services
12	CGI Group - Canada	25,500	3,673	Consulting, IT, BPO and systems integration services
13	Hewitt Associates - US	23,000	3,228	Human resource consulting and outsourcing
14	Cognizant Technology Solutions - US	68,000	2,816	Consulting, IT and BPO services
15	Convergys Corporation – US	75,000	2,786	BPO (Customer Care - Call Centers)
16	Perot Systems –US	23,100	2,779	Consulting, IT and BPO services
17	Teleperformance Group – France	102,186	2,605	BPO (Customer Care - Call Centers)
18	SITEL – US	66,000	1,700	BPO (Customer Care - Call Centers)
19	Ceridian Corporation - US	8,776	1,695	Payroll services & Human Resources management solutions
20	Genpact Ltd. - India	36,200	1,041	IT and BPO services
	TOTAL	1,815,519	192,267	

Source: Center on Globalization, Governance & Competitiveness based on OneSource, companies' websites and companies' annual reports.

Global Supply and Demand for Offshore Services



Source: Center on Globalization, Governance & Competitiveness based on data from Everest and Datamonitor.

Key determinants of investment attractiveness when selecting regions to locate and expand services

- ❑ Macro-economic conditions
- ❑ Investment policies
- ❑ Foreign Investment Incentives
- ❑ Tax rates
- ❑ Skills
- ❑ Infrastructure in host economy
- ❑ Patent regime
- ❑ Geographical location
- ❑ Subsidies
- ❑ Transparency

Source: : International Institute for Sustainable Development

Key determinants of investment attractiveness when selecting regions to locate and expand services

Macro-economic conditions

- Income of skilled workers
- Size of the host economy
- Liberal trade and payments regimes
- Economic and political stability
- Requirements around environmental-impact assessment
- Stable rate of inflation
- Low restrictions on FDI
- Performance requirement

Investment policies

- Non-discriminatory incentives
- Domestic/regional trade integration and targeted investment policies
- Low restriction on FDI
- Flexibility between mandatory and discretionary incentives

Source: : International Institute for Sustainable Development

Key determinants of investment attractiveness when selecting regions to locate and expand services

Foreign Investment Incentives

- Fiscal incentives
- Financial incentives
- Regulatory incentives

Tax rates

- Corporate income tax rates and related concessions

Skills

- Size and demographics of skilled labour pool
- Investment in graduate education
- Western language-speaking capabilities
- The number of advanced education establishments offering programmes in key subjects such as mathematics, IT and engineering
- Labour laws

Source: : International Institute for Sustainable Development

Key determinants of investment attractiveness when selecting regions to locate and expand services

Infrastructure in host economy

- Condition of physical infrastructure
- Telecommunications and broadband capabilities
- Reliable and cost effective electricity supply
- Programmes for energy management and efficiency
- Focus on energy-efficient buildings and the wider priorities on “green infrastructure”
- Ongoing infrastructure improvements and property developments

Patent regime

- Provisions and protection provided by intellectual property rights regimes

Geographical location

- Proximity to client markets
- Time zones that allow for a 24-hour working day across global delivery locations
- Historical and cultural ties with client economies

Source: : International Institute for Sustainable Development

Key determinants of investment attractiveness when selecting regions to locate and expand services

Subsidies

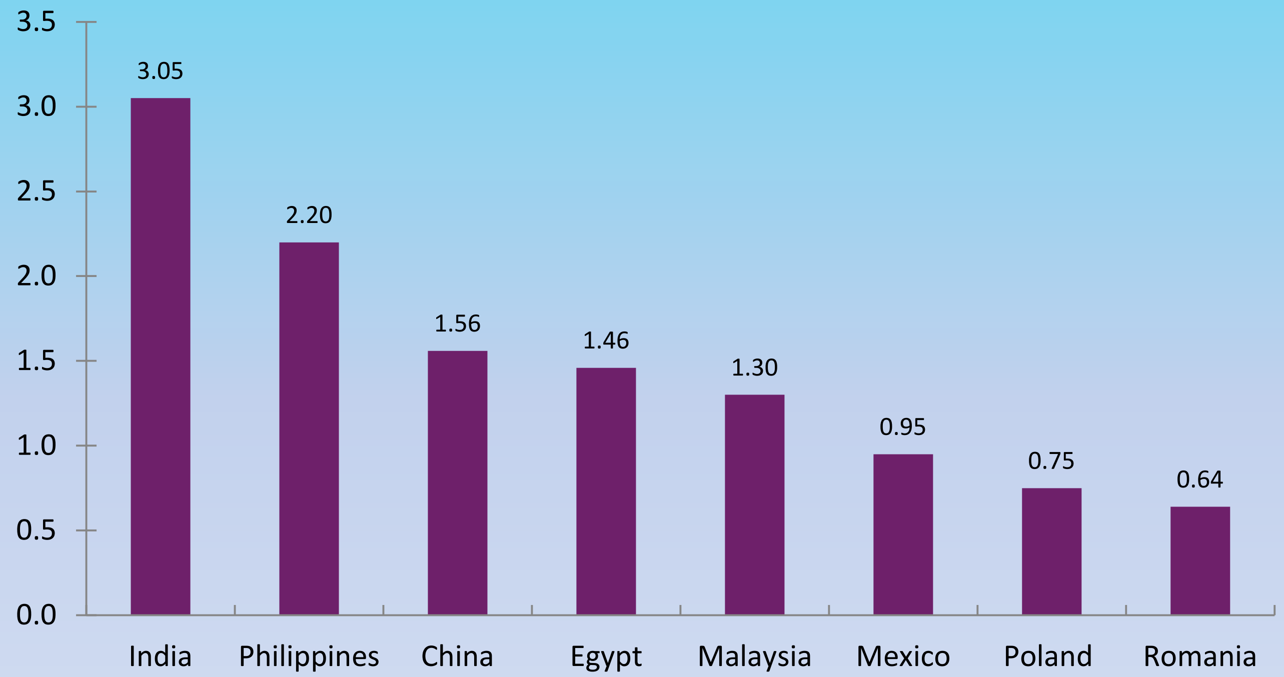
- Subsidies on office infrastructure and utility costs
- Subsidies of employment and recruitment costs
- Subsidies or cost participation in workforce training
- Assistance provided by investment-promoters such as reduced red-tape and administrative delays

Transparency

- Level of enforcement of commercial and cooperate laws
- Evidence on the ease of doing business – low incidences of red tape and administrative delays
- Anti corruption practices
- Transparency and in public procurement and lending

Source: : International Institute for Sustainable Development

BPO cumulative talent competitiveness index

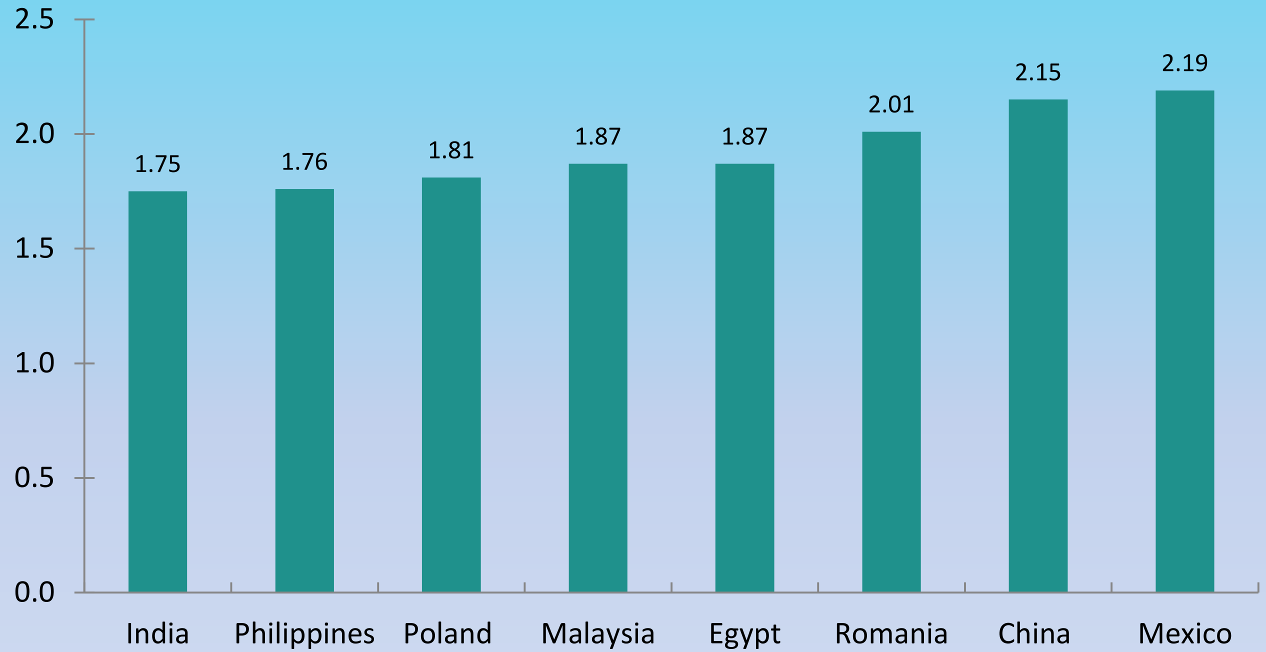


Sources: Everest analysis, Business Process Association of the Philippines

Note: Index is based on scalability, experienced talent pool, quality of English accent (cultural affinity with US), and share of graduate pool.

Greater competitiveness is indicated by a higher score.

Risk index for English BPO

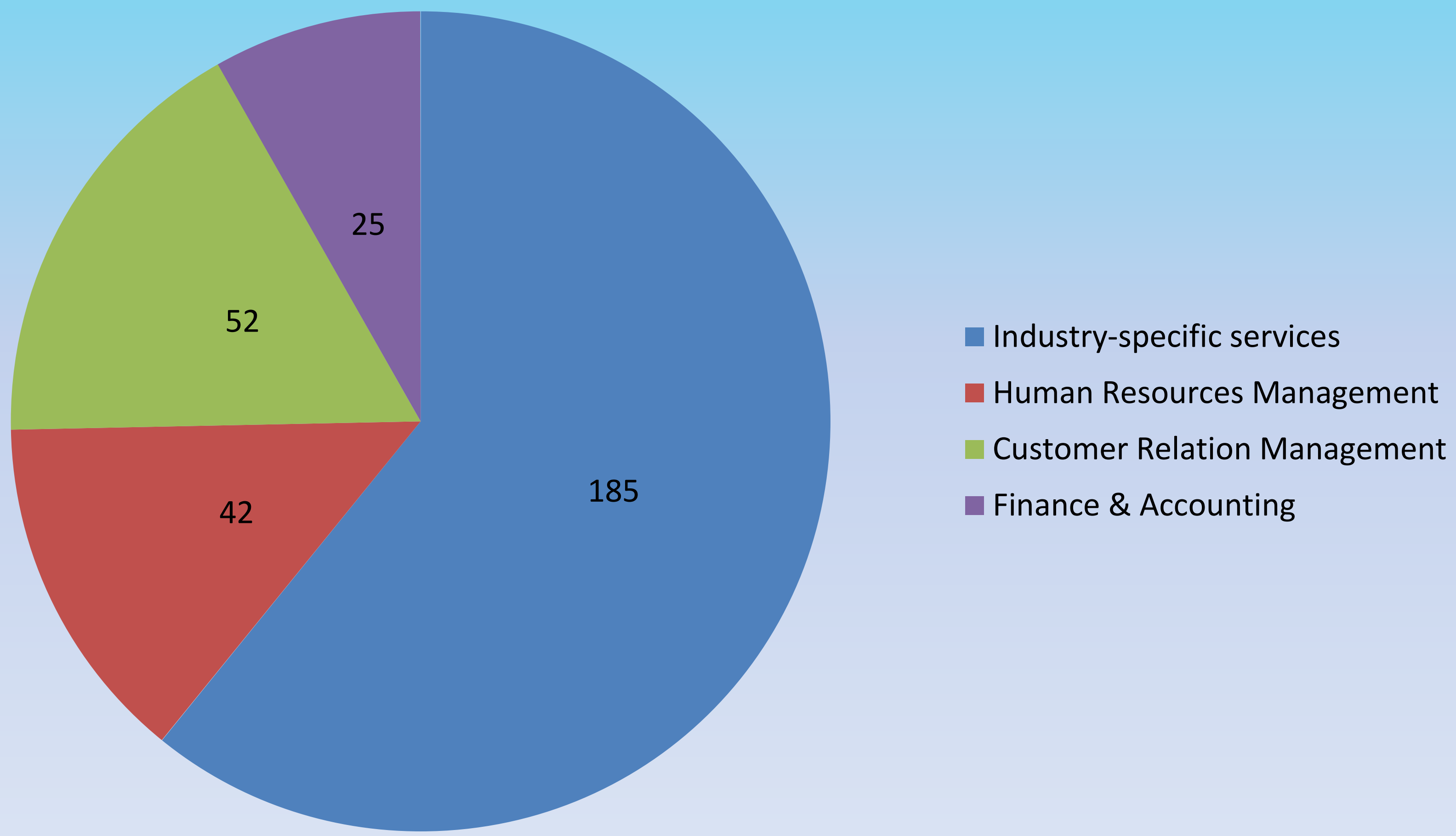


Sources: Everest analysis, Business Process Association of the Philippines

Note*:* Index is based on skilled English-speaking talent availability, vulnerability to natural and man-made events, investment climate, physical and social infrastructure

Higher risk is indicated by a high score.

BPO industry market size, estimate for 2013 (in billion US$)



Source: BPO Outcomes based on projections from Hfs Research

“In this new knowledge era, developing countries can play a significant role in the international division of labor as they supply a cheaper, yet talented workforce to provide offshore services to customers in developed countries. This allows these countries to increase their employment and also improve social conditions in the service sector.”
(Barrientos et al., 2008)

Thank you!