BUSINESS PROCESS OUTSOURCING

KEY LESSONS FOR DEVELOPING COUNTRIES

Business and Trade Policy

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Acknowledgements

1. Introduction

Business Process Outsourcing lets companies from Europe and the US take full advantage of the realities of globalization by exporting certain business processes to developing countries, where local providers can do the work cheaper, faster and better. Advances in Information and Communication Technologies, together with the globalization of the world economy, have led to a rapid internationalization of Business Process Outsourcing (BPO).

An export-oriented BPO-sector offers many opportunities for developing countries. The purpose of this study is to provide a general introduction, especially for readers who are not yet familiar with this business sector. We will deal with several topics: what kind of business services can be offered? What are the specific advantages for developing countries? What are the critical principal success factors? What is the responsibility of a government? How can the BPO-service providers find clients in the rich countries?

The current economic and financial crisis has a severe negative impact on developing countries. They experience a decline in exports (e.g. in assembling, textiles, tourism) and a reduction in foreign investments. In addition, the remittances of migrant workers are declining fast. There might however be one exception: their exports of services in the field of Business Process Outsourcing could experience a growth. Companies in industrialized countries are now struggling to find ways to reduce costs, and sourcing services from the cheaper developing countries is an interesting option for them. The American consultancy Forrester predicted that by 2015, a total of 3.3 million American service jobs will have moved abroad, most of these in BPO, and to developing countries.

The BPO provider landscape is dynamic and competitive, with mergers and the ascent of new vendors. A large number of developing countries already have a BPO-export sector, including some of the poorest nations in the world, such as Ghana, Senegal, Bangladesh and Nepal. Other nations, such as Afghanistan, Myanmar and Rwanda, are making preparations to enter this industry.

Several BPO services have low entry barriers in terms of skills, scale, technology, managerial capabilities, or domain knowledge. This makes an export-oriented BPO-sector accessible to the least developed nations, and it has already become a cause for excitement, since these nations are all searching for the recipe to become the "next India."

India, once known as a land of poverty, is now a BPO-superpower. Major Western companies are using Indian providers on a large scale. India's independent firms now compete successfully with the top firms from the industrialized nations. According to the Indian association NASSCOM, BPO is one of the fastest growing segments of the industry and it employs more than 700,000 people. Its export revenues in 2009 were around US$ 12 billion and at its current momentum, it can reach around US$ 30 billion in export revenues by 2012.

Setting up an export BPO-sector is an option for smaller nations as well. An example is Surinam: with a population of only 500.000, it is becoming an important Latin-American location for Dutch-speaking contact centers. Companies from the Dominican Republic, Jamaica and Barbados are targeting the American market.

2. Business Process Outsourcing (BPO)

Over the years, the BPO industry has undergone rapid transformation and has expanded rapidly. It is not one homogeneous market -there are multiple ones- and service providers from developing countries are offering a range of business processes to clients in the developed world.

These business processes include contact centers, such as helpdesks, and various types of back office work, such as accounting, market research, tax preparation and airline and hotel reservations. They also include professional services in the field of data and content integration, such as medical transcriptions, data entry, digitizing, animation and multimedia.

Many of these information processing services are labour-intensive and involve small and repeatable tasks, such as processing a telephone call, or a single tax form, or a drawing. These routine tasks can be peeled away, since they do not require proximity, and then done in the developing country - cheaply.

Outsourcing of business processes to developing countries has been driven primarily by cost savings. While cost reduction is the primary strategic focus of most western companies, it is not the only strategic advantage. There can be other benefits as well: improved customer service, enhanced operational efficiency, speed, innovation, flexibility, and new revenues. The abundant supply of labour in developing countries gives companies greater agility: to assign a large number of staff and respond to a business need within days instead of months. Another advantage could be 'follow-the-sun', also known as 'round-the-clock': it exploits time zone differences to speed up project work. For example, a team in America can hand off its work at the end of its day to team members in India or China, who can then continue the work while the US team members sleep.

The provided services have one thing in common: they are substantially dependent on Information Technology (IT). Since an IT infrastructure is an important tool and enabler to perform this work abroad, in the developing country, some people prefer to use the generic term ITES (IT Enabled Services) in order to describe this diverse range of activities:

Contact center services
Contact centers (often referred to as call centers) where wages account for the majority of the costs, have been moved to developing countries on a massive scale. They involve customer interaction services: front-office activities, where employees are in direct contact with foreign customers. These services are mostly voice based, and sometimes through the web (E-mail support services, web chat services). Contact centers are currently the most important BPO activity to be performed in developing countries.

These centers perform a range of activities, both inbound and outbound, such as:
- customer services (answering queries, handling complaints)
- technical support (helpdesks)
- tele-marketing and leadgeneration
- chasing credit card holders who are late in paying bills, etc.

Growth is spurred by falling telecommunications costs. Today, it costs almost nothing to have an American or European client use a toll-free number to call India or the Philippines. As a result, thousands of call-center jobs have been transferred to these English-speaking countries. British Telecom opened its first large call center in India in 1999; in 2009 it employs around 5.000 staff in India. In 2010, all calls to Britain's National Rail Enquiries will be handled by Indian call center agents.

The Philippines has been very successful in BPO services and Manila itself has become the largest BPO center in the world. Because of the historical ties with the US, Filipinos have developed an English-speaking pattern that fits well with American customers. In 2008, the BPO-revenues grew to US$ 6 billion, and provided jobs for more than 500.000. Despite the global slowdown, the industry is expected to grow 20% in 2009. Filipino contact centers are used by major corporations, such as ChevronTexaco, American Express, Proctor & Gamble and Accenture.

Offering contact center services is an option for smaller developing countries as well. Jamaica is leading the Caribbean in the number of call centers and call center workers. The country has more than 13 call centers, providing more than 3.000 agents and seats. Non-English services can also be offered: American companies are serving their Spanish-speaking customers through call centers in Mexico, Nicaragua and Colombia. Japanese companies are looking at China for Japanese speaking skills. African countries such as Morocco, Senegal and Tunisia are hosting French speaking call centers, and are targeting France.

These examples show that language capabilities are important. Training is often needed, including accent neutralization training and familiarization with client regional accents (e.g. Indian staff is learning how to speak the accent in Texas). In addition, telephone etiquette and listening skills must be trained. Industry specific knowledge must be required, as is problem and objection handling.

A competitive price is important, but the quality of the service is an important factor as well. After receiving customer complaints, American computer company Dell had to stop routing technical support calls for two of its corporate computer lines to its overseas call center: the customers weren't satisfied with the level of support they were getting. Cultural issues can have an impact as well: the Dutch experienced that staff from Surinam are excellent for helpdesk and problem solving activities. Their customer-friendly attitude however was less useful for outbound telemarketing activities.

Administrative services (back-office services)
Various administrative services (also referred to as back-office services) are being done in developing countries. Different types of office work are included, such as in Financial & Accounting, or in transaction processing (e.g. airline and hotel reservations). Already in the 1980s several European airlines started using India as a base for back-office services. In 1996, British Airways began moving their back-office processes to India, setting up a separate company to carry out this work. It handled high-volume, low-value business processes for a dozen western airlines and a range of other big companies. The BA office was spun off in 2002 as a separate organisation, WNS Global Services. Credit card processing in India for American customers has been taking place for two decades (American Express began in 1993), though it has accelerated only since the early 2000s. Indian companies are strong in this field, with examples such as Genpact, Infosys and Wipro. India has the advantage of an English-speaking workforce and an accountancy system with similarities to that of the US and the UK.

Firms in Jamaica started handling the reservations for large American hotel chains. Insurance claims processing is another service performed offshore, and loan processing is being done for banks. Other firms work for individual doctors and hospitals that pass on all relevant records through scanned images, where the offshore staff takes is responsible for handling all the paperwork. This work requires specific knowledge about the details of medical insurance. In some countries, including the US, doctors are required to create records of every visit of a patient. The conversion of these dictated voice recordings to paper

is a niche market for specialized offshore service providers. Understanding medical words and phrases is also required for medical transcriptions.

Document imaging allows offshore locations to perform finance and accounting services, such as processing accounts payable, accounts receivable, financial reporting, tax preparation or internal audit services. Procter & Gamble is conducting accounting services in the Philippines, where 650 employees complete P&G tax returns for its global operations. The Philippines has a large supply of accountants who are trained in US accounting standards (e.g. US GAAP and IFRS), and it produces 7.000 accounting graduates every year. American accountants are also processing tax returns in India. Dutch accountants are using India and South-Africa to perform routine tasks; a few Dutch companies are now exploring Surinam.

Besides contact center and administrative services, there are various other Business Process-related activities which can be preformed in developing countries. Examples are:

Digitization services
Digitizing is the process of converting texts, images, video or records into digitized forms. The advantages are long term preservation of the documents, archiving of all documents in one place, and easy access to the information. It is a labour-intensive activity, and ideally suited to be outsourced. The imaging is sometimes done on the clients' premises. In other cases, the original records, or copies, are shipped abroad. Manual data entry is required when data, which is stored on paper, needs to be converted into digital form, and scanning is not an option. In case the quality of the original documents is poor, or the documents need to be searchable and linked, data entry is also needed. This type of work requires the lowest level of computer literacy and does not require strong language or functional skills. It also requires very little interaction between the customer and the offshore provider. The quality is typically only one typing error per 10.000 strokes, but can be even better. An example of data entry is a Dutch dictionary, which consisted of four large volumes. When it was needed to be available on CD Rom, the books (500 pages in total) were sent to India, and keyed in twice by different groups of typists. The two data sets were automatically compared to find any differences, which were typing errors. The final results were excellent.

Anglo-Dutch publisher Reed-Elsevier has been digitizing all its scientific publications, printed over centuries, at SPi in the Philippines. In 2003, SPi converted 100.000 pages of 19th and 20th century Dutch language books into XML format. In 2008, it digitized into searchable PDF more than 25.000 hardcopy books, which approximates to more than 10 million pages. A Swiss newspaper is digitizing its historical publications at Dakor Company, in North-Korea. For European university libraries, staff at Dakor is also processing medieval Latin texts. In Cambodia, DDD (Digital Divide Data) has been offering data-entry services since 2001, and has offices in Phnom Penh, Battambang and Vientiane (Laos).

Geographical Information Services (GIS)
Geographical Information Services are increasingly used by firms and governments. Digitized maps are easy to analyze and to maintain. Information however is often stored on paper maps and needs to be converted into electronic format. A large proportion of the cost of a GIS is in data collection, interpretation and conversion, making outsourcing to a developing country a viable option. Users are found among gas, water and electric utilities, telecommunications and cable TV companies, and producers of car navigation systems. Rolta is the Indian pioneer is offering GIS services and has more than 2000 employees. It has grown into one of the top 3 global GIS players. Meiken, a Japanese company, is producing digital maps (also in 3D) in Nepal.

Animation services

There is a growing demand for animation and cartoons by film and television companies. These are very labour intensive to produce (even when computers are used), and several parts of the production process can be done in a developing country. This includes the production of a scenario, a storyboard, the drawing of character models and backgrounds. Also the intermediate process of making a layout, animation celluloid, scanning, colouring and composition can be done abroad. The final process, which includes the recording of music, sounds and characters' words, is mostly done at the customers' site. Countries such as India and the Philippines are well-known in offering animation services. North-Korea intends to be a premier source: SEK Studio in Pyongyang is with more than 1600 artistic staff one of the largest animation studios in the world. It produces for French, Italian and Spanish companies, and its animation work is noted as good as Disney's works.

Other services

There are a number of other activities possible as well, such as:
- Architectural services / vectorization / 2D and 3D animation
- Engineering services
- Pre-press services (Desk Top Publishing, photo editing)
- Personal Assistant-services (virtual secretarial services)
- 'Gold Farming': the production and real-money sale of virtual currencies, items and accounts made by playing online games. This is already big business in China and is mainly done by young people.

3. Related services: ITO and KPO

Offering BPO services from developing countries has many advantages. Since it is relatively easy to standardize and structure this work, communication with the client site is less complicated and results in fewer extra costs. The cost savings are easy to benchmark and can be high: cost savings of 40% and even up to 80% are reported.

Faced with declining passenger revenue and rising costs, US-based Delta Airlines launched a plan in 2003 to cut operating expenses by 15% in two years time. It moved part of its call center reservations operations to service centers in India, owned by Spectramind. This company is not independent: it is a subsidiary of Wipro, a major Indian IT-company. As a matter of fact, several Indian IT-firms are offering BPO services as well, such as Progeon (Infosys), Msource (MphasiS) and E-serve (HCL).

Many companies in developing countries do not want to limit themselves to offering BPO services. The most aggressive corporations offering BPO services to clients in the US and Western Europe also offer services in the field of Information Technology Outsourcing (ITO). Both service offerings are driven by declining connectivity costs and both are part of the new burst of international trade in services. BPO is closely tied to offering ITO in a number of ways: the providers are often identical, the clients are often the same, the facilities are often comparable, and the managerial know-how is somewhat similar.

ITO offers traditional BPO suppliers a way to reposition themselves so they can deliver potentially higher-margin opportunities. It also enables them to re-energize their business development activities and target a new buying audience. Gartner predicted that Indian vendors with inherent IT-skills have a better scope than pure-play Indian BPO players to succeed in the long run.

We will describe these ITO services briefly:

ITO (Information Technology Outsourcing)

Large developing countries such as India, China or Brazil have hundreds, and in some cases thousands, of firms exporting IT services. Even in smaller developing countries, IT services are being offered to clients in developed countries. These are software development services, such as programming various kinds of software (e.g. using programming languages such as Microsoft C++ or Java), testing of software or building websites, or programming computer games. Software development can involve building new systems from scratch (also referred to as Application Development), or application maintenance work (e.g. the Year-2000 work or the introduction of the Euro in the past).

The functional specifications of the software are made by the client. Most large American and European enterprises (e.g. airlines, banks, insurance companies, software producers) are already using IT staff in developing countries. Smaller and medium-sized firms are now exploring international IT collaboration.

Apart from software development, offering services in the field of Remote Infrastructure Management is also an option. By using modern communication devices, it is possible to provide support without physically visiting the location of the clients. Activities include managing the performance of an enterprise network environment; monitoring and reporting network traffic and intrusion detection; managing firewalls and Virtual Private Networks and optimization of Traffic. The French company Atos Origin is offering remote support (7 days, 24 hours a day) from its centers in Brazil, Poland and India. Interestingly, security cameras in some US car-parks are monitored remotely from the small West- African nation of Cape Verde.

The distinction between BPO and ITO service providers is more and more diminishing. Major Indian ITO services vendors such as TCS, Wipro, Infosys and HCL are all offering BPO services. The largest BPO firm Genpact earns about a fifth of its revenues from ITO service offerings. Wipro was the first among the large players to foray into BPO with the acquisition of Spectramind in 2002, and its larger rivals TCS and Infosys have managed to catch up. TCS, the latest to do an acquisition, bought the captive unit of CITI recently, which gave it significant scale and helped expand its delivery footprint. The acquisition of a Philips back-office unit, besides assuring steady revenues, helped Infosys enhance delivery capabilities in key geographies such as Poland and Thailand. TCS (Tata Consultancy Services) is India's largest services company. In 2009, it employs 143.000 staff and has more than 140 offices in 40 countries. The work is done from delivery centers in India and in 18 other countries.

KPO (Knowledge Process Outsourcing)

The success in outsourcing business process operations to developing countries has encouraged clients to start outsourcing specific high-end knowledge work as well. For this kind of work, a new term has been introduced: Knowledge Process Outsourcing (KPO). And again, cost savings, operational efficiencies, access to a highly talented workforce and improved quality are underlying expectations. KPO is expected to reach US$ 17 billion by 2010, of which US$ 12 billion would be outsourced to India. An example of a KPO service provider is Evalueserve, with more than 2.400 employees, and with operation centers in India, China, Chile and Romania.

KPO delivers value to organizations by providing business expertise rather than just process expertise. The knowledge workers have advanced analytical and specialized skills and possess domain experience. Several types of work are possible, including:

- Research & Development
- Intellectual Property (IP) research (e.g. producing a draft of a patent application)
- Legal support services (e.g. legal documentation, research)

- Financial and investment research (e.g. using financial analysts for number-crunching work)
- Market research (including data analysis and data mining)
- Pharmaceuticals and biotechnology (e.g. contract research)
- Training (e.g. online learning, where the teacher is located in the developing country).

4. Outsourcing versus captive centers: offshore sourcing

So far, we have described the various sectors related to outsourcing: BPO, ITO and KPO. It must be noted that outsourcing has a certain implication: it means that tasks and processes are contracted to be performed outside the boundaries of the firm. Thus, the call center activities of Delta Airlines being done by a company in India are, indeed, outsourcing, because they are performed by a third party, Spectramind. On the other hand, the BPO-center of Accenture in India is a captive center: it is owned by Accenture and its employees are Accenture employees. Other multinationals like Bank of America, British Airways, Swissair, American Express, ABN Amro Bank, GE and Citibank have all set up captive facilities in India. GE alone has 12.000 people working in its many Indian BPO centers. IBM bought Daksh e-services, India's third largest back-office services firm, in 2004. In 2009, it operates from 25 delivery centers at nine locations in India and the Philippines.

As a matter of fact, in countries with less developed local supplier capabilities than India, the relative importance of foreign affiliates (captive or third party providers) is often considerably high. Even in a mature location such as the Philippines, foreign companies account for the bulk of BPO service exports. In South-Africa, more than half of all employees working with exports of business process services for the financial sector are employed by foreign-owned companies.

Also in many locations in Latin America and the Caribbean, foreign companies dominate. For example, a 2009 survey found their share of jobs related to the offshoring of business services to be 59 per cent in Honduras, 63 per cent in Saint Lucia, 82 per cent in Saint Vincent and the Grenadines and 90 per cent in El Salvador.

Joint-ventures are less common, but can be found. An example is Telenamic, a joint-venture between the Surinam telecom provider Telesur, and the major Dutch contactcenter Unamic.

Actually, this report deals with services which can be performed from a captive center, but they can also be outsourced to a third party. So, a better term to use, instead of outsourcing, is 'sourcing'. We can also use the term 'offshore sourcing', because organizations are using employees from developing countries, where the labour costs are much lower.

Large companies often source services not from a single country, but from multiple locations: multisourcing. An example of such a large user is HBSC, the UK-based financial services company. In 2003, it had 1.500 employees in China and 2.000 in India to provide secretarial processing and call center services. More than half of those employees in China and India service UK accounts. The firm also opened a new 500-seat processing center in Kuala Lumpur, Malaysia. In 2004, it announced plans to transfer thousands of jobs in the UK to India and Malaysia. It is also looking at Sri Lanka and the Philippines to mitigate country risks.

On the other hand, India's independent firms compete successfully with the top firms from the industrialized nations. They do not even limit their base to India anymore. For example, WNS Global Services saw opportunities in Sri Lanka and began call center and transaction processing operations. It is also setting up delivery centers in the US and Europe. In addition,

Indian firms are buying companies from developed countries. Examples are Wipro's US$ 600 million acquisition of New York based Infocrossing and Tata's US$ 505 million buyout of Citigroup's captive back-office arm. HCL runs a huge call center in Belfast, Northern Ireland where it employs 1.800 staff.

In 2009, Infosys BPO, the business process outsourcing subsidiary of Infosys Technologies, has signed an agreement to acquire US-based privately-held BPO service provider McCamish Systems for US$ 58 million. Earlier, in 2007, the company had acquired the captive BPO operations of Dutch electronics giant Philips in Poland, India and Thailand.

5. The advantages of a BPO-export industry

The low capital and high labour intensity of a BPO-export sector is attractive for low-wage, labour-surplus economies. It demonstrates the advantages of globalization without most of its negatives. The activities are relatively environment-friendly and do not depend on roads and harbours. Voice and data, unlike products such as textiles or automobiles, can be transported quickly and cheaply through digital channels. It is for this reason that Palestine is building a BPO-export sector, since these services are not affected by the Israeli isolation of the country.

Offering export services in the field of BPO have become a cause for excitement in developing nations. These are nations that are all searching for the recipe to become the "next India". India, once known as a land of poverty, has now become a BPO superpower. In this section we introduce some of the advantages of a BPO-export industry.

Job creation
Unemployment is a major problem for all developing countries and even acquiring a university degree is no guarantee of a job. An example can be found in Kenya, where 75% of all university graduates in Information Technology are not able to find an appropriate job. Due to unemployment, many countries experience labour migration, resulting in a brain drain. To address this situation, the promise of the BPO-export sector is job creation.

In India, the BPO-sector offers direct employment to more than 700.000 people. Employment in call centers in the Caribbean has grown fast, from 11.000 in 2002 to 33.000 in 2005. There are more hundreds of centers in South-Africa, offering employment to more than 80.000 people (including black Africans). Kenyan call center KenCall employs almost 500 employees and is actively targeting the UK market.

Mauritius welcomed its first outsourcing operator, a call center, in 1995. Fifteen years later, there are over 260 companies operating in this field, employing around 11.000 people. It is interesting to note that only four to five years ago, the number of people employed was just 3,500. The IT- and BPO-sector is expected to employ 25.000 people in 2013, contributing to around 12% of GDP.

An export-oriented BPO-sector can also provide jobs for people currently working in the public sector. In Surinam, the government has become interested in this topic, since it is planning to transfer staff from its large public sector to the private sector.

Revenue generation
Exporting BPO services is a source of foreign currency revenues, and India is again a spectacular example. Its BPO-export revenues in 2009 are around US$ 12 billion and at its current momentum, it can reach around US$ 30 billion in export revenues by 2012.

Regarding ITO: we can mark the beginning of the Indian software export sector in 1973, when TCS began exporting services to Burroughs. By 1983, the Indian software exports were estimated at a modest US$ 18 million. Twenty five years later, in 2008, the value of the Indian exports increased to US$ 43 billion. This enormous growth is already responsible for 20% of India's exports and projected to become India's single largest export industry within several years. An important part of the earnings, estimated at 55%, stays inside India. A software programmer can generate more than 10 times foreign currency than an employee working in the garments industry.

Improvements to the national business culture

Within a BPO or ITO-export industry, the larger companies offer exemplary working conditions in modern, air-conditioned offices. Employees have benefits such as meals and company-provided transportation. Indian software organizations tend to be flatter with more employee participative decision-making. Its offshore industry is an attractive white-collar sector, and popular among young Indians.

Especially the BPO-sector creates opportunities to young women who would have remained unemployed or would have settled for a less lucrative profession. In Indian call centers, the proportion of women is estimated at 38 - 68 percent. A job in this sector gives them new confidence and social empowerment, as has not been experienced ever before. It assures a woman, in her twenties, a quality of working life that is much better than what she could have had in traditional feminized occupations.

Services companies are professionalizing in other respects - by adhering to a myriad of international standards: international accounting standards (GAAP), professional corporate governance, professional marketing standards, and quality standards such as ISO 9001, CMM (Capability Maturity Model) or Six Sigma. With the rise of BPO, contact center firms have rushed to embrace its new standard COPC (Customer Operations Performance Center).

Other economic & social impacts

BPO- and ITO-export success has a positive effect on the domestic sector. It spurs investments to re-haul developing nations' antiquated communications infrastructure - which benefits other economic sectors. In addition, the industry creates demand in various services, such as transport, construction, accounting, hospitality and legal.

Demand for skills generates investments in general education, higher education and specialized training institutes. As a result, it is now possible to conduct advanced IT-training in countries such as India or Kenya. The tariffs (even including air travel and hotels) are much lower than in the developed country. Several large IT-companies from developed countries are already sending their staff to these countries for training.

Working on offshore projects is a form of knowledge transfer from the wealthy nations to the developing world: the technical and domain knowledge gained through working for foreign clients can be re-channeled and used for domestic projects. There is no need to find the knowledge in the developed country anymore.

The wealth created by the BPO- and related industries can make some locations more attractive by spurring arts and entertainment to flourish - these are improvements in the Quality of Life, which helps attract foreign clients. An example is Bangalore in India.

6. Key Lessons: the Principal Success Factors

When one examines the range of offshore nations, eight principal factors surface which explain national success in the BPO-industry. These eight factors make up the "Oval model", and labelled oval because of the shape of the national boundary depicted in Figure 1.

The eight factors in the Oval model are not independent of one another and tend to influence and interact with each other. Perhaps most important to note is that not all the Oval model factors need to be present to achieve some success; in fact in India, during its industry's formative period of growth, several of the factors were absent or weak.
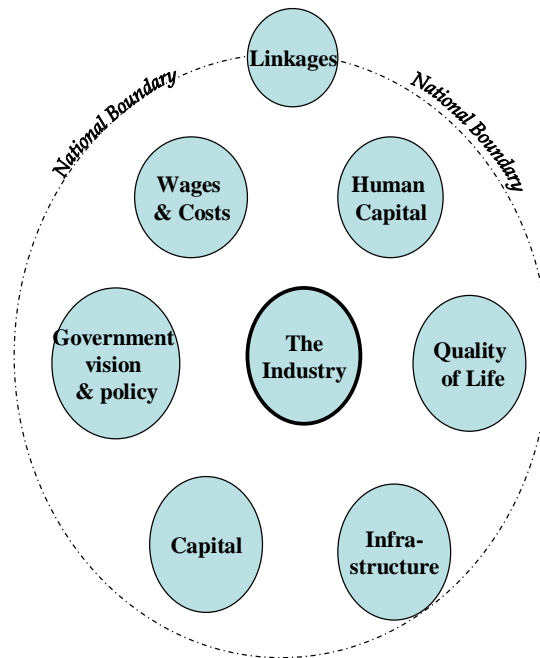
Figure 1: The "Oval model" depicting success factors for a national BPO services export industry

Government vision and policy

Governments in dozens of nations as diverse as Costa Rica, Iran, Kenya, South-Africa, Bangladesh, Vietnam, and China, are taking concrete policy steps to promote their BPO services industry. A government has influence on every one of the other factors in the Oval model. National visions have changed over the years. In the 1980s the fashion was to protect the industry as much as possible from international competition, rather than opening it up. The form and content of state intervention changed into that of a facilitator of private sector initiatives.

Government actions are most effective in areas where markets are "inefficient;" such as education. Investing in human capital, is the government's key long-term role for the services export industry. Investment in human capital will make the nation's industry more flexible and competitive in the long run. After all, competition in BPO is not just offering cheap labour; it's about low cost skilled labour. Human capital investment includes programs in science and technology at national universities, as well programs in specialized technical schools and vocational schools.

The government can also build and guide national infrastructure in two vital areas: technology parks and telecommunications. The Indian government woke up in 1999 to the need to reform its inefficient monopoly telecommunications system. A large number of private providers were allowed to enter the business. Results were dramatic and in the major cities, the quality and the cost levels of the telecommunication networks are now approaching the levels of industrialized nations.

The government of Sri Lanka embarked on an initiative to formulate a comprehensive national ICT development strategy called "e-Sri Lanka: ICT development road map." In addition to the usual national ICT components such as connectivity, legal reforms, and human resource development, the plan included some actions aimed at the BPO export industry.

The government of Mauritius is building a CyberCity, involving IT- and BPO-service providers in an effort to make this sector the fifth pillar of the economy, after sugar, textiles, tourism and the financial services sector.

The Kenyan government has identified BPO as a critical driver of Kenya's future economic growth. In its strategic plan "Vision 2030", BPO has been selected as one of the six main economic pillars. Kenya should become quickly one of the top 3 BPO destinations in Africa. The government goals for 2012 are to create 7.500 direct jobs in the BPO sector (of which 5.000 are to be located in new BPO parks). Kenya has certain strengths, such as a number of competent local companies, a large number of educated English speaking people, and an adequate time zone. In addition, mobile phones have penetrated the country and recently, new glass fibre broadband cables hit its coasts.

Governments can also provide marketing assistance for those firms already exporting. They can offer marketing assistance by funding trade shows, leading delegations, and setting up matchmaking projects (to facilitate finding clients in key target markets). The Indian government agency ESC (Electronics and Computer Software Export Promotion Council) organizes the annual Indiasoft conference and fair. It had a focus on ITO in the past, but the event is now also paying attention to BPO and KPO. The Egyptian government founded ITIDA (Information Technology Industry Development Agency (ITIDA). It intends to assist companies with the right tools to increase the ITO and BPO exports.

In addition, governments from several developing countries are operating Trade Promotion Organizations in major foreign markets. These TPO's sometimes fund trade missions, seminars, mailings and support national booths at trade fairs.

Human capital
Human capital is a nation's key resource. The term human capital is used to connote the knowledge and capabilities of the nation's workforce. Nations with poor educational systems and lacking in effective organizations and institutions (in which its citizens learn to work) may have many workers, but little human capital.

Offering BPO services is both labour- and skill-intensive. This is even more the case for ITO and KPO-related services. Thus an important aspect of related policy is concerned with provision of appropriately educated and trained human resources in sufficient quantity.

Organizational capital is also important: this is the skill of managers to execute and implement coupled with the skill of staff to operate effectively within teams and organizations. Organizational capital is acquired slowly over many years through relevant experience. In part it can be learned. The part that is learned is called managerial skills and can be learned in management and administration schools.

The workforce can come from a variety of disciplines. Graduates of colleges or universities are often widely available, although managerial experience is most acutely missing at the mid-level for project managers. This is even a challenge for India, which possesses many people with technical skills, but far fewer experienced project managers.

Being able to manage BPO-projects successfully is important. It must be noted that in some cases the risks are higher when offshoring BPO-work relative to offshoring ITO. When offshoring software development work, some projects get delayed because of unclear specifications or miscommunication. This can be irritating or even problematic, but it is usually not critical to the company: business carries on. This is different with BPO. When outsourcing revenue-generating processes offshore, such as contact centers, there is risk to an entire business process. Revenue can be lost if customers are frustrated with the offshore service provider. A widely published example is Dell, which decided in 2003 to redirect some customer service calls to helpdesks in the United States, rather than to its call center in Bangalore, India. Dell found that several of its business customers complained that Indian technical support workers relied too heavily on scripted answers and could not handle complex computer problems.

Finally, there is linguistic capital: the ability to speak the language of your client. The dominance of the English language places service providers in non-English speaking countries at a disadvantage in the global market. Countries with an historical relationship to the UK or the US, such as India, Pakistan, Bangladesh, the Philippines, Kenya or Ghana enjoy advantages in this regard. Others, such as China, Indonesia or Vietnam, have language difficulties and lose opportunities as a result. These nations are investing in language skills for their younger citizens.

The availability of skilled staff can be a severe problem for smaller countries. In this case, education should be strengthened. Using staff from another country could be an option, but not without difficulties. For example, some Jamaican firms recruited programmers from India to conduct export-oriented projects, with limited success: the well-qualified Indian recruits could not be retained and left after a short period for the United States. South-Africa does not have a sufficient number of fluently Dutch-speaking staff, and are relying on people from Surinam, who are living and working in South-Africa for a couple of years. Surinam possesses a sufficient number of Dutch-speaking staff, although there is a shortage of IT-skills. When a Dutch company wanted to establish a firm in the field of software testing, the required skills were not available. Indian specialists had to be sent to Surinam, in order to train local staff.

Wages
Clearly, it is low wages that are a key factor in offshore nations' success. Especially in the current economic crisis, cost reduction is the main reason to offshore. We can even see a shift of work from India, where a heated market has been pushing up wages, to lower wage nations such as Vietnam and China. However, it is not always necessary to offer the lowest wages. An example is Surinam, which is not the cheapest country in Latin-America. However, since its wages are lower than in The Netherlands, its ability to offer Dutch-speaking services gives it unique business opportunities.

In the long run, the only way for a nation to escape a cost-driven spiral is to differentiate its services. Clients will return because of factors other than costs, such as quality, knowledge, specialization, and excellent service. A local BPO-sector must see an evolution from cost to quality, with attention to quality models such as COPC and ISO 9001. Closely related to quality is attrition: if employee loyalty does not exist (some Indian call centers saw attrition rates reaching up to 40 percent) then it is impossible to achieve quality. The reasons for a

high rate of attrition, such as salary, work timings and other career options, should be addressed properly.

The industry

The BPO-industry is a collection of individual firms that have certain characteristics that they share as a group. These characteristics can make for a successful exporting industry, and are: concentration, competition, and cooperation.

A concentration of firms is called a cluster and is quite familiar from Silicon Valley. In a cluster BPO (and/or ITO organizations) are close to one another, perhaps in a technology park, perhaps on the same edge of a metropolitan area, near universities or research institutes. Successful firms are often found in regions where many other similar companies are also located. Some clusters are government policy initiatives, such as the Multimedia Super Corridor in Malaysia, but other successful clusters seem to arise organically, without much government action.

The Indian BPO and ITO industry started in Bangalore, and other clusters developed later in Mumbai (e.g. Santa Cruz Export Processing Zone), Hyderabad, Chennai and Delhi-Gurgaon. A cluster can acquire a strong reputation in and of itself and becomes a geographic brand and gives international credibility, as in the examples of Hyderabad ("Cyberabad") and Bangalore ("the Indian Silicon Valley").

Cluster effects have a positive benefit on each individual firm in the cluster, independent of any other strength or weakness of each firm. The labour mobility within a cluster enhances the exchange of knowledge. Clustering creates competition, which spurs companies to innovate, to increase productivity, and differentiation. It also fosters cooperation, which spurs growth and facilitates the sharing of knowledge.

A nation's software export industry cannot succeed without a critical mass of companies; this number will vary by nation. In Ghana, Kenya or Nepal, companies of 100 people are considered large; in Senegal, this is the case for a firm with 50 employees. This implies that their BPO-export industries will not grow very much. Small firms cannot win large contracts and have limited financial means.

Companies can cooperate in a number of ways, but most importantly, at the early stages of a BPO exporting industry, is to cooperate in an effective national association. This is the organization that promotes the nation's industry abroad, which we will discuss in the next chapter. A national association can also provide services back to its member firms, such as supplying information about local and foreign markets. NASSCOM, the main trade group for Indian BPO and ITO companies, has about 1.200 members and has been very successful in branding India as an offshore destination and other industry associations are attempting to emulate this success. The Indian association has also been instrumental in lobbying the Indian government for favourable tax and regulatory changes. Many developing countries do not yet have effective industry associations.

Capital

An offshore industry needs capital in order to grow. Most companies in developing nations grow using their own capital, but this restricts their ability to grow and prosper. Outside capital for growth can come from either foreign or domestic sources. Sources include government funds, bank loans, venture capital, investment capital (FDI), equity offerings and foreign aid.

The large service providers had no problems raising capital. But smaller and younger offshore firms do not have such access to capital. For most services firms in developing countries, the difficulty of obtaining financing is a major obstacle. National governments can

play a role in a number of ways: they can provide financial assistance through grants and loans, they can guarantee loans and they can seed risk funds (venture funds). Separately, they can subsidize rents for promising companies. Some international organizations provide funding that targets high-tech growth.

Technological infrastructure

In much of the developing world electrical stoppages are a daily occurrence, requiring generators. In quite a few developing countries the telecommunication structure is still outdated and the costs of communications remain high.

Of course, BPO firms can tough it out and operate with poor infrastructure, but the industry will never thrive under such conditions. Firms need reliable connectivity and it must be affordable compared to international levels. For example, in the case of call centers, telecom costs can represent up to 40% of the total costs. Access to fiber-optic links is important for countries that seek to attract call center activities.

Many governments have already acted to upgrade their telecommunications, though some have not moved fast enough or moved to aid the BPO or ITO industry specifically. In situations where the infrastructure is absent on a national basis, technology parks or high tech office centers are alternatives. Technology parks can now be found in developing countries around the world. An example is Mauritius, a small island nation in the Indian Ocean. It is creating the new Ebene CyberCity, a combination of commercial, residential and enterprise infrastructure. The heart of the new city is a 12-storey Cyber Tower. With this center, the island is successfully attracting foreign BPO and ITO investments.

Smart Village, the Egyptian technology hub located in the suburbs of Cairo, offers facilities for more than 35-000 people and is home to a growing number of regional and international vendors. They can benefit from a fiber optic network and a multi-source power supply.

Linkages

Linkages emerge between individuals, between companies, and between nations due to geographical, cultural, linguistic, historical or ethnic connections. The effective use of linkages is one of the most important success factors for developing a BPO-export industry.

Linguistic linkages are illustrated by the success of India which is partly due to English fluency of its educated workforce. The Philippines has the advantage that Americans find it even easier to understand Filipino English speakers than Indians. African francophone countries such as Morocco, Senegal and Tunisia are working for French customers; companies from Vietnam are targeting France as well. Surinam, and also South-Africa, where a very old version of Dutch is spoken, is chasing Dutch clients for its call centers. Historical relationships also give clients a kind of 'familiarity' with certain developing countries.

Geographic linkages can be used in the case of "nearshore" outsourcing. Mexico and Colombia have an edge over India in terms of their proximity to the US. Indonesia or the Philippines are logical destinations for Australia.

Diaspora linkages have been a powerful success factor. Indians came to the US for advanced education, stayed and rose to influential positions in high-tech companies. They could be used by Indian BPO and ITO providers to create contacts, to gain initial sales contacts, or acted as marketing agents. These expatriates can also be helpful in order to understand the cultural differences when dealing with developing countries.

Quality of Life

The quality of life in a location helps attract foreign clients. Equally important, it will also help keep the best employees from moving away or emigrating. The American professor Richard Florida calls these people the "creative class" and argues that locations need to have quality of life in order to draw them or keep them. Locations with high measures of quality of life have several common characteristics: quality of place (natural, recreational, and lifestyle amenities), an abundant supply of labour market, and high levels of environmental quality. In this field, Surinam has specific advantages and a growing number of Dutch businesspeople are now living in Surinam; some are setting up BPO-related enterprises.

7. Intellectual Property and other legal issues

In 2009, a criminal gang selling stolen UK credit card details has been exposed by an undercover BBC News investigation. It is believed the stolen data (names, addresses and valid credit card details) were provided by an agent working at a BPO-company.

There are several criteria that require extra care when using services from companies from developing countries. Examples are infrastructure, international experience, language skills, employee retention and turnover and company culture. They also include legal issues, such as Intellectual Property (IP) protection, privacy and data transfer restrictions and contractual issues, such as the SLA (Service Level Agreement).

Intellectual property protection

In most of the target developing nations, enforcement of IP breaches is rare, while theft of software code or ideas (trade secrets) leaves the aggrieved party little practical recourse. Two recent examples illustrate these perils, but they also illustrate the emerging regime of remedies and enforcement. The first case, in China, occurred when one of the leading technology companies, Huawei, used some of Cisco's code, complete with comments and errors, in its own products. Huawei has become a direct competitor of Cisco in China and in emerging markets. The case was settled by mutual agreement by the two parties in 2004.

The second case is of SolidWorks, a US software product firm which outsourced to an Indian provider, GSSL. A software engineer working on this software was fired from GSSL and copied the software code before he left. He then contacted several competitors of SolidWorks in an attempt to sell them the stolen code. He was caught by a sting operation conducted by the US FBI and the Indian Central Bureau of Intelligence.

Especially for small firms, the intellectual property risk can be so severe as to lead to the company's downfall. Most businesses rely on a combination of law and contract to protect their intellectual property. Software that is written in India is subject to different laws than software that is written in the United States. For example, software and business method patents are not recognized in many jurisdictions, such as India or China. Rules governing ownership in developed technology and "works made for hire" often differ. In the US, a customer may rely on the "work made for hire" doctrine to become the exclusive owner of developed technology, but in other countries, no similar right exists.

The laws protecting intellectual property rights vary from country to country. Some countries do not protect trade secrets (e.g., unlike the US, where the Industrial Espionage Act which makes it a criminal offense to steal trade secrets, there is no statutory protection against theft of trade secrets/confidential information in India). Software piracy is rampant in most offshore countries. Some international treaties and conventions, such as WTO-TRIPs Agreement, and the Paris and Berne Conventions, establish minimum standards for intellectual property

protection in their member states. The degree to which governments enforce these standards varies widely.

Service providers from developing countries should address these issues themselves by adopting rigorous security measures, including training in information security. For example, in some call centers, staff is not allowed to take electronic devices, memory sticks, pens or pencils to their desks. Internet and email access is also banned.

Privacy and data transfer

Recent developments in privacy laws worldwide have created some complications for offshoring transactions. Privacy and its close cousin, data security, are emerging as key new topics that present both legal and business risks. Failure to consider and plan for privacy issues can bring unwanted consequences such as bad publicity, official enforcement actions, fines and penalties, and private lawsuits. Even more damaging is the loss of public trust that can result from privacy problems.

Increased attention to privacy concerns regarding personal, individual data began first with the European Union (stemming from its 1998 Directive) and more recently in the US.

The business community will likely need to devote greater attention to this topic, particularly for the BPO sector (in one case, a Pakistani subcontract worker threatened to post US patient medical data on the internet if his financial claims were not met).

A particularly critical area covered by EU privacy laws is the transfer of data to countries outside the EU - even if you (or your offshore provider) are just transferring your own internal data from your EU operation to another operation. The EU privacy laws limit the export of regulated data to countries that do not offer "adequate protection". In such a case, an alternative is not to transfer the data, but to access the data remotely by using a separate terminal (while the data is still stored on the computer in Europe).

Service Level Agreement (SLA)

The main agreement will deal with issues like intellectual property, confidentiality, warranties, price, payment, limitations of liability, and other basic terms. There are a number of direct and indirect measures of service quality that may be appropriate to include in the contract. They include financial levels and performance milestones for provider compliance. They also include statements regarding compliance with recognized industry standards, such as CMM and ISO certifications.

Service levels are perhaps the most important and widely recognized measure of service quality. Defining service levels is critical because service levels represent the objective standard used to measure the provider's performance. The SLA assigns to the customer rights and remedies if the provider fails to achieve specified performance levels.

What is measured? Service levels are defined ways of measuring a provider's performance. A service level is a measure of the quality, speed, availability, capacity, reliability, user-friendliness, timeliness, conformity, efficiency, or effectiveness of services. For example, an availability service level for a computer system might be the percentage of the relevant time when the computer system is capable of performing a specific task. Service levels for a software development project might include measuring whether the project is done on time, within budget and within a tolerance for defects and errors. The SLA for a call center could include the response time for incoming calls and the number of customers being serviced.

A good service level is designed to align the incentives of the provider and the customer. For example, a fixed price contract may force a provider to cut costs (and quality) in order to increase profits. The SLA for a fixed price contract should focus on quality and timeliness.

How is it measured? The parties must define the service level with precision. For example, is a computer system "available" if its CPU is working, or do the databases and telecommunications systems also need to be working? Does it need to be "available" to the end user, who may not be able to access that computer system because of a local area network failure? Is it "available" when the operating system is working, even if the application program has failed?

For each service level, you need a process for measuring provider's performance. For example, you could measure a computer system's availability in several different ways: by installing a resident monitoring program within that computer system, through periodic polling by another computer system, by user complaints about downtime, or use of a monthly user satisfaction survey asking about perceptions of downtime. The measurement process will affect the results.

You also need to consider the measurement period over which you will measure the service level. Typically, the measurement period will be a month or quarter. Longer measurement periods give the provider more opportunity to make up for bad performance. Shorter measurement periods give the provider a "fresh start" more often. Longer measurement periods mean that more is at stake during any one measurement period. The measurement period may exclude excused "downtime" due to scheduled maintenance, acts of war or terror, or other events beyond the provider's reasonable control.

Dispute resolution
Disputes are inevitable. In outsourcing arrangements, particularly offshore outsourcing arrangements, it is critical that the parties have a process in the agreement for quickly handling the many disputes that could arise. This process may include informal discussions between the primary contacts at the customer and the provider, followed by escalations to more senior members of each organization after certain periods of time. If such escalations do not resolve the issue, other more formal actions may be taken, such as binding or non-binding mediation, arbitration, or bringing a claim in the applicable court or tribunal. These formal actions should only be used after informal processes have failed. The parties should not dash off to court every time they have a disagreement. Unlike games, where there is often a winner and a loser, successful outsourcing relationships acknowledge the need for mutual benefit of the provider and customer. This mutual benefit requires that the parties cooperate, and when appropriate, compromise. Formal dispute proceedings, while useful and necessary at times, do not necessarily facilitate cooperation and compromise. The parties should recognize that use of formal dispute resolution may signal the end of the relationship. Outsourcing is like a marriage; the parties need to know how to fight fairly, discuss issues rationally, and where appropriate, compromise, keeping in mind that both parties need to benefit overall from the relationship for it to be a success.

In developing countries, legal disputes may take longer to resolve, may be subject to corruption, or favour the local company over the foreign company. This risk can be mitigated by contracting with a company from the developing country that has legal standing in the target market, such as in Europe.

8. The marketing of BPO services

In the current financial and economic situation, it is expected that outsourcing to developing countries will grow. Competition however is strong, and there are thousands of companies trying to capture a piece of the offshore market. A handful of these service providers, mainly Indian, have grown into huge and powerful multinational enterprises. These global Indian

firms are competing with firms from the industrialized nations and are successfully attracting large customers. For small- and medium-sized Indian companies however, growth has proven to be more difficult.

The marketing of BPO services is even more challenging if the offshore provider is not from India. While potential clients from most industrialized nations are well aware of the "India brand," providers from other nations are at a disadvantage. They are not known abroad as potential offshore destinations, and country branding will be an important task. This is a responsibility of a local government and the association.

The paradox of marketing a service, such as contact center services, is that the quality of the service can only be judged after the service is consumed by the client. This makes the marketing of services both different and more difficult than the marketing of products. Products can be described in technical terms, samples can be sent, and they can be inspected and tested. It is much harder to describe the quality of BPO services. Hence building relationships of trust with potential customers becomes even more important, since the trust becomes somewhat of a proxy for quality. But building this trusting relationship requires considerable efforts.

BPO service providers seeking new international clients face a challenging marketplace: potential clients take time to make a decision, they have many offshore providers to choose from, but occasionally still need to be educated about the offshore option. Some firms were lucky when venturing into foreign countries without any market knowledge, perhaps because they had a first-mover advantage. However, the marketplace has matured rapidly, requiring newer providers to carefully prepare their marketing efforts.
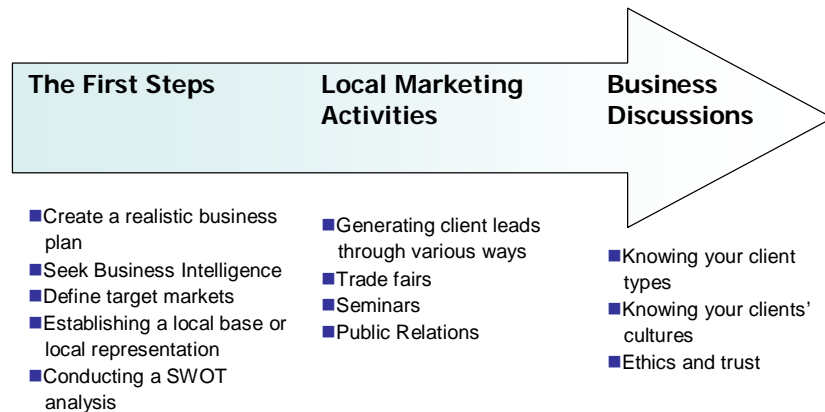
The First Steps	Local Marketing Activities	Business Discussions
■Create a realistic business plan ■Seek Business Intelligence ■Define target markets ■Establishing a local base or local representation ■Conducting a SWOT analysis	■Generating client leads through various ways ■Trade fairs ■Seminars ■Public Relations	■Knowing your client types ■Knowing your clients' cultures ■Ethics and trust

Figure 2: Major phases when exploring new foreign markets

The first steps

First, the firm must "know themselves." Several questions should be asked, such as the following: is the management sufficiently experienced internationally? Can the staff communicate effectively in English or in another language of the client country? Is the company culture client-responsive? What can the company do to be accessible during the clients' working hours many time zones away? Is the staff technically experienced in critical areas? Are the project managers experienced, or can they learn? How can the firm convince potential customers it is capable of offering quality BPO services?

The answers to these questions should spur some internal actions. To these actions the firm needs to add actions related to professionalism. Clients will not give serious consideration to

your firm if it does not appear to be professional. Two of the factors that create the image of a "professional" firm are quality standards and, separately, a professional website. The website should describe the services in detail, give examples of successful projects, and lists some of the major foreign clients.

In parallel to these early actions, the first steps include the creation of a business plan, seeking business intelligence, defining potential markets and discussing market entry strategies. In addition, working through a SWOT analysis is useful in order to assess the strengths and weaknesses of the company in relation to the opportunities and threats in the foreign market.

Breaking into new markets requires a strategic approach and detailed preparation. Therefore, it is essential to develop a business plan, which considers major marketing factors and tasks within realistic budget constraints. Given the long lead time before any successful international sales are made, the business plan needs to include a harshly realistic assessment of financial resources. Companies are often too optimistic about their sales predictions and the length of time they will need to generate significant contracts.

As part of your business planning activities, gather business intelligence on competitors from your own country and those from the dozens of other offshore destinations. Besides visiting their websites, make a trip to attend seminars on offshore sourcing or IT trade fairs in one of the target countries. In these venues you will have the chance to assess the strengths and weaknesses of the marketing strategies of other providers from up close. Trade fairs also provide an opportunity to do market research, to meet people, exchange ideas and open up future channels.

No provider will succeed by trying to market to all countries at once. The exporting company needs to carefully consider its first target markets. A factor is market size, and the US and the UK are the largest markets for offshoring. These large markets are also crowded with many competitors. Small countries can be attractive because competition is less fierce. The marketing factor that has proven most successful for many offshore firms is the use of linkages. As described in the previous chapter, these linkages result from linguistic, historical, ethnic, geographic, or emigration-related reasons.

A local base is desirable

It is almost impossible for service providers from developing nations to find clients if these are located on another continent, thousands of kilometres away. The most effective way for a company to achieve proximity to markets is to open its own sales offices abroad, ideally with local staff. If it is not financially possible to establish a sales office, the offshore provider needs to consider other means of local representation. For example, working with a local representative or agent. A capable local representative offers market knowledge and has a network of contacts.

The offshore provider should also try to establish contacts with intermediaries. These are consultancies and research firms that provide expertise and services to firms seeking offshore work. Some of these intermediaries, especially in the US, have amassed enormous influence.

The next step is to conduct a range of marketing activities. Market research is needed to decide on the actual target group of potential clients (and note: large companies work prefer to with large vendors). Telemarketing, E-mailmarketing and networking will be required, in order to arrange for business meetings. Additional activities should be conducted as well, such as contacting the press, sending out press releases, writing articles and White Papers

and organizing local seminars (on your own or in cooperation with other organizations). It will also be useful to invite potential customers by organizing studytours to your country.

Web 2.0, as the various new ways for communication on the Internet have been described, offer additional opportunities to increase visibility and to come in contact with new people. Social networking sites such as LinkedIn can be used to take part in online discussions and to create networks. Some companies are exploring the use of Twitter.

This marketing work is time-consuming and it is not unusual to contact hundreds of companies, before the first client can be found. This means that a long-term approach is needed, with a sufficient marketing budget.

THE LOCAL MARKET

Various marketing activities to meet potential clients

Trade Shows

Seminars

Public Relations

Will result in many business contacts

Only a small number will be potential clients

Business discussions with the most promising contacts

The result:
one final client

Figure 3: Many activities are needed in order to find foreign clients

Country branding
The image of most developing countries is often negative (e.g. poor, uneducated, with a bad infrastructure), which is obviously a weakness from a marketing point of view. Other nations might be better known because they are holiday destinations (e.g. Jamaica, Cuba, Kenya or Indonesia), but their BPO capabilities are yet invisible.

South-Africa is a prominent player and has several key advantages for European users, such as cultural similarities, common time zones and political stability. Its call center industry suffered from underexposure in the international marketplace, and aggressive marketing overseas is now taking place.

National associations can play a role in building the country branding. Industry associations have been formed in various countries, such as the BPO Services Association Unlimited (BSA/U) in the Philippines and the BPO & Contact Center Society in Kenya. In Egypt, there is the IT Export Community (ITEC).

Associations can offer their member firms tangible benefits. They can organize member participation in conferences and exhibitions in foreign markets. They can organize training

(e.g. on export marketing, quality or project management). They can be a useful source of business intelligence. Some industry associations host exhibitions on a regular basis which present the country's capabilities in a good light. They can also produce a website and high quality promotional material with information on actual business and investment opportunities, and conduct international promotional seminars.

International assistance

A surprisingly large number of outsiders are eager to help offshore providers from developing countries make the important and expensive first steps in exporting their services. Support can be sought from governments of wealthy nations and international agencies. National aid agencies from the US, Japan, Germany, Denmark, Switzerland, and The Netherlands, among others, have all become interested in helping developing nations move forward by growing their BPO and ITO export industries.

USAID is involved in a range of countries, including Palestine, Jordan and Afghanistan. It assists hosting delegations, it funds firms participating in foreign IT exhibitions and helps to attract venture capital. It gives assistance in developing business plans, and offers training to strengthen marketing skills. USAID also supports various local associations, including those of Palestine and Jordan.

Denmark for example supported Bangladesh, and arranges matchmaking activities. The German Development Cooperation (GTZ) is involved in several projects. It started EITSC, in order to promote IT- and BPO-cooperation between Europe and the Philippines. The IGEP (Indo-German Export Promotion Project) is an activity together with the Indian Ministry of Commerce.

Finally, various international organizations have helped companies in developing nations: the United Nations Development Programme (UNDP), the United Nations Industrial Development Organization (UNIDO), and the World Bank. The World Bank has been subsidising telecommunications costs for BPO-companies in Kenya until the undersea cable is in place.

Since 2006, the International Trade Centre UNCTAD/WTO organizes 'Bridges Across Borders' outsourcing conferences in Africa (e.g. Ghana, Nigeria), with a focus on BPO. It is also involved in other activities in order to create exporter competitiveness.

9. BPO and the WTO General Agreement on Trade in Services (GATS)

Some WTO Members have commitments in the General Agreement on Trade in Services (GATS) on BPO-related services. It is important to keep in mind that the Schedules, many dating from 1994, do not always reflect the reality on the ground. Many companies in the industrialized world are outsourcing back-office functions, even if no bound commitments exist in the GATS. A group of WTO Members have made requests of others during the Doha trade negotiations to seek improved commitments on the cross border trade in BPO and other services that are more commonly outsourced today.

Definition and Classification

BPO is not a sector in its own right in the GATS classification (W/120). This is in part because the BPO activities can be performed on behalf of many different services and industries and in some cases would fall under commitments in the sector concerned. Also, commercial trends (streamlining and downsizing companies) and new technologies have opened possibilities for international trade in these services that were not common at the time the GATS and UN classifications were first elaborated in 1991.

Keeping this in mind, the most amenable part of the GATS sectoral classification is "Other business services". This is a broad sector encompassing many different activities, from advertising to convention management to packaging and photographic services.

Cross border trade

Outsourced BPO services often use the Internet, Internet-enabled technologies (such as VOIP networks for call centres), private corporate networks, satellite links or a combination of these to send and receive the services. While GATS cross border supply (mode 1) is most relevant, consumption abroad (mode 2) may also be involved in a BPO services transaction. This is because it may be difficult to distinguish between supply by modes 1 and 2. As a result, both modes should be consulted for such services. In fact, in the Doha negotiations, Members are seeking similar or at least consistent levels of commitments on both modes. Trade in an outsourced activity probably does involve transactions that involve both mode 1 and mode 2. Put simply, the firm that outsources the activity to a foreign country may be "consuming abroad" while the foreign firm that performs the outsourcing contract would then deliver the service across borders to the client.

Commercial presence and outsourcing

The rapid growth of opportunities in BPO outsourcing have also inspired foreign companies including both developed and developing countries to establish a base of operations in client countries. This way, they can also take advantage of contracts awarded domestically. When they do so, the activities would be trade covered by GATS commitments on commercial presence (mode 3). In some cases, companies establish a commercial presence abroad to supply BPO services in countries where foreign outsourcing has become popular. Once established, they will usually export these services from the foreign base. For example, an Indian firm with expertise in managing call centres has set up an operation in Mexico to supply Spanish-language call centre services to the U.S. market. In such a case, a mode 3 commitment of Mexico would relate to the ability to establish the firm, but mode 1 & 2 commitments of the United States would govern whether the firm is entitled, under GATS, to supply the service from Mexico to the U.S. client.

Home market regulations

Common features of services with a high probability for outsourcing include:

- no face-to-face servicing requirement;
- high information content;
- the work can be delivered or performed electronically;
- access to affordable, high quality telecom and ICT services;
- wage advantages with similar occupations in the client country;
- low set-up barriers for the creation of new firms or affiliates and obtaining any necessary licenses; and
- streamlined procedures for obtaining investment approval, approvals and licenses, where applicable.

These features imply that to successfully participate in exports of BPO, services providers often need to take into account their own government's regulatory policies to determine if the basic ingredients are in place. For example, before setting up a call centre that would use VOIP technology, you may first need to find out how complex any licensing process might be, if high bandwidth communication links are available, or whether or not VOIP is legal in your country.

Export market regulations

GATS rules concern the regulatory conditions or requirements you may face in the country where your client is located. As a relatively new trend, BPO often faces few formal regulations. Nevertheless, it can be affected by measures in related industries. For example, cross border BPO services that use VOIP or private networks may run up against restrictions on use of these telecom services or requirements that the transmission may be terminated only on monopoly networks. This can raise the cost of performing cross border BPO and reduce its feasibility. Alternatively, to set up a commercial presence to supply BPO, companies will need to deal with regulations and costs associated with establishment, investment and incorporation in the foreign market, as well as local labour laws.

What will you find in GATS schedules?

Due to cross border trade having only recently become more feasible, restrictions are not common. Therefore, mode 1 commitments tend to reflect a country's openness (or caution) toward open markets, than they do a specific legal framework in place for cross border supply. This is why many schedules indicate either no limitations, by listing "None" or "Unbound", meaning no commitment. Sometimes entries may state "Unbound*", meaning not possible due to lack of technical feasibility, even though new technologies have now made the supply possible. Where cross border supply is "Unbound" or "Unbound*", there is no GATS guarantee on cross border delivery of the service, although in reality market access might be possible.

Less commonly, some commitments include a limitation on cross border supply that says a "commercial presence is required". In these instances, it is not always clear whether it means that cross border supply is not committed or not possible, or whether it means it is possible to supply the service cross border (e.g. from your parent company) so long as a subsidiary or representative office is established. Suppliers will need to confirm such details with the authorities. As in other sectors, commercial presence commitments may include limitations such as a joint venture requirement or foreign equity limits.

Restrictions on government procurement

In recent years, perceptions in some countries about jobs lost to foreign outsourcing have led to laws prohibiting the outsourcing of public contracts, or government procurement of services to foreign firms abroad. Such laws may also prevent domestic companies from sub-contracting portions of their government contracts to firms abroad. However, a foreign company with a subsidiary in the country concerned may still qualify to bid on government contracts.

Bear in mind that government procurement is not covered by the GATS (Article XIII). Thus far, no such legislation has extended the ban beyond government procurement to include contracts by private companies to outsource their own back office functions.

Scheduling elements to bear in mind

BPO is an example of a sector where transactions may require attention to how both cross border supply and consumption abroad (modes 1 & 2) are scheduled. To avoid confusion, the ideal would be that the entries for both modes are the same or consistent with one another. For example, it is difficult to be certain of your legal rights, under GATS, to take advantage of a commitment with no limitations on cross border supply, if the entry for mode 2 (the ability of your client to contract the services abroad) indicates no commitment, i.e. "unbound".

Also, since many types of BPO services are often not explicitly listed in schedules, to determine if your service is committed, you may need to examine the coverage of W/120 and UNCPC classifications in greater detail. A particular activity might actually fall within the underlying definition of a certain service listed in a schedule or might be covered by the catch-all "other" sub-sectors included in the GATS classification, if "other" is scheduled.

Outdated classifications

Another scheduling issue can arise when the terms or technologies described in the CPC definition are out of date, making it unclear whether it is relevant to the services you are offering. For example, the GATS classification "1.F.t. Other business services: other" lists its CPC definition as 8790. CPC 8790 includes "telephone answering services". It might be possible to argue, for lack of a better alternative, that call centre services are covered here. However, the 1991 CPC definition tends to imply services like those of a "receptionist", making it difficult to assume with certainty that the commitment might cover call centres that handle services such as reservations or claims processing.

In the Doha negotiations, a group of WTO Members has proposed using a portion of the 2002 UNCPC in schedules. This version of UNCPC more clearly indicates some of the business support services. It remains to be seen whether some governments will agree to adopt this approach, which would not be obligatory.

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