



---

**EXECUTIVE FORUM ON  
NATIONAL EXPORT STRATEGIES**

**EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?  
IMPLICATIONS FOR STRATEGY- MAKERS**

**5-8 October 2005  
Montreux, Switzerland**

**Business Process Outsourcing – A New Name for Old Business**

**A paper contributed by  
Mr. Paul Halpin  
Halpin International Ltd.  
Mauritius**

## **Introduction**

Business Process Outsourcing and Offshoring represent the greatest opportunity for developing nations to transform their economies – availing of the redistribution of work and wealth that comes with the movement of work.

The movement of work from high-cost to low-cost countries offers developing nations an unprecedented opportunity for their people to work at office jobs that were previously only available in developed countries. The significance of this movement is that countries will no longer lose their educated people to emigration, because the work will come to them. Well, that is the theory. What is it like in practice?

### **1 Welcome to the Offshore BPO Community**

If a nation and its government wishes to consider itself to be a member of the offshore outsourcing community, it needs to understand the needs and the workings of that community.

Firstly it is necessary to understand the current structure of the international BPO community.

The provider community is divided between offshore and domestic providers. Offshore providers are located close to the resource supply. Domestic providers are located close to the source of work. Both types of providers have an important role to play in developing and satisfying demand for outsourced services.

International providers, such as IBM Global Services and Accenture, are hybrids in the sense that they have integrated domestic and offshore capabilities to provide their clients with a truly global choice of location.

Buyers of outsourced services, on the other hand, are divided into the following categories:

- Global
- International,
- Domestic
- SME's

Global and International buyers are already fully familiar with the outsourcing community; and they know what they want in terms of services, skills, technology, infrastructure and location. Domestic buyers, operating in a single geographic market, have begun to outsource, but have not got sufficient knowledge of the BPO community to be able to buy successfully without assistance. SME's will feel competitive pressure that will cause them to outsource in pursuit of core competitive cost bases, or skills and technologies that are not normally available to them.

### **2 Make vs Buy**

The "issue" as defined in the paper before the Executive Forum implies that offshore outsourcing is equivalent to a decision to "buy" rather than make. Whilst I agree with the overall concept, I would describe the actions of the enterprises who buy outsourced services as decision to "rent" rather than "buy".

This fact must be understood by aspiring new entrants and by strategists in developing nations, because of the investment risk that is associated with being a provider. Buyers want to "rent" access to infrastructure, skills, technologies and more flexible work practices. In financial terms they do not wish to use their capital for technology, premises and other infrastructure that is required to provide the services. They want a variable cost base and a flexible contract duration.

The capital to support the contractual arrangement must come from the offshore provider; and the term of the contract, and any termination clauses, must take account of the investment risk and desired return.

The investment risk for the new entrant must be understood by the strategist in devising incentives for private sector enterprises to provide the infrastructure to meet the demand. In very rare circumstances the buyer will pay for the technology, but in most cases the contractual arrangement will put that burden on the provider.

### **3 The Proposition before the Executive Forum**

The proposition is that enterprises in developing countries can only develop in this BPO world by developing world-class solutions. I completely agree; and on a practical level I would urge strategists not to “reinvent the wheel”. World-class in the offshore services sector has already been defined in India, Ireland and the Philippines. The providers in those countries must be enticed to locate in developing countries so that they can create jobs and transfer knowledge.

### **4 Keys steps in developing a BPO strategy**

Within this community of buyers and providers lie opportunities for the visionary and organised nation that wishes to develop a successful BPO sector.

The key steps that need to be taken are:

1. Develop a vision.
2. Test the vision with key stakeholders in the public and private sector.
3. Engage an international BPO advisor to evaluate the vision and accelerate the finalisation of the vision document and to prepare an initial action plan.
4. Establish a BPO unit in the office of the Head of Government.
5. Appoint a local leader for the BPO unit – someone who is credible in the public and private sectors.
6. Appoint a team to work on supply-side and demand-side activities.
7. Review and re-orient Foreign Direct Investment (FDI) Strategy.
8. Re-train the FDI team, the diplomatic representatives and any other outward-facing national representatives
9. Develop a supply-side strategy for the development of People and Infrastructure:
  - a. People: strategy should deal with skills development, education, labour laws, demographics, investors, business developers, BPO managers, Operatives and the attraction of experienced overseas people.
  - b. Foreign Direct Investment: this can help to create world-class supply-side capabilities.
  - c. Infrastructure: in the areas of telecoms and IT, the strategy should address competitiveness in price and bandwidth, resilience and reliability, back-up to cable (eg. Satellite) and reputation/financial stability of the national telecoms provider.
  - d. Competitor awareness: the strategy should be formulated so that it responds to the offerings of other nations.
  - e. Risk: the new entrant should acknowledge international assessments of risk associated with living and working in the country. If your ranking is poor, do not attempt to seek BPO work before addressing the risk ranking. BPO is all about trust and transparency.
10. Develop a demand-side strategy:
  - a. The vision needs to be led by the Head of Government (if it is to be a national priority).
  - b. All national representatives in the public and private sectors should promote the vision and be equipped with a detailed understanding of the supply-side strategy.

- c. Create a compelling offering to attract demand. (eg. Sustainable cost bases, taxation and employment incentives; and incentives to attract credible and experienced professionals from overseas)
- d. Attract pilot schemes.
- e. Learn from the pilots and adapt the offerings to retain them.
- f. Facilitate overseas operators by rapid responsiveness and attention to detail.

11. Work ethic. Study the work ethic of the countries/investors you wish to attract; and adapt.

### **Can Any Country be Successful in providing BPO Services?**

Yes, any country can be successful if they meet certain criteria. These criteria include:

1. Capability to provide the services (with appropriate skills and technology)
2. Cultural adaptability
3. Competitiveness
4. Low-risk
5. Time-zone suitability
6. Professionalism of the national foreign direct investment team,
7. Access to government
8. Flexibility of labour and unions
9. Strong commitment within the public and private sector

### **5 Looking for a Compelling Reason for BPO to be Successful**

As a broker of outsourcing deals, I look for a compelling reason why the location must be successful as an outsourcing location. Given the competitiveness of the marketplace, there has to be a driver or a compelling reason for countries to be successful.

For example, in Mauritius, the impending demise of the sugar and textiles sectors provides the government with a compelling need to create jobs for the next generation.

In Ireland, 20 years ago, persistent failures within the manufacturing sector and the low value added by the distribution sector, caused successive governments significant pain; and the successful strategy of creating a services-based economy was conceived.

Once the compelling reason has been found, the country's government has to commit resources that will be competitive in their approach to the market, collaborative in their working relationship with the private sector and, above all, facilitative in their attitude. This type of activity will convince brokers to seriously consider the location.

For example, in Ireland the government's development agency, the IDA, was the most successful development agency in the world for all of the 1990's. It overwhelmed the competition, because they were so committed to changing the image of Ireland; and they got the private sector working with them. The private sector – the banks, accountancy firms, legal firms and other domestic services providers saw the potential and invested in the effort.

In overall terms, the government drove the effort and took initiatives to ensure adequate people supply, world-class infrastructure and telecommunications. For example in the education sector, the needs of employers were prioritised in third level education institutions, and new courses at degree and diploma level were introduced in consultation with employers. Major investment in telecommunications moved the country into the first division; and new transport and office infrastructure ensured adequate availability of accommodation.

The growth in the sector was assisted, initially by the introduction of incentives to encourage job creation, and ultimately the reduction in Corporation tax rates from 40% to 12.5% and a reduction in

Capital Gains Tax rates from 40% to 20%. One major factor was the focus on job creation initially (through the employment grants) and wealth creation subsequently (through the tax strategy).

Whilst these factors were critical in enhancing the attractiveness of Ireland, economic growth in the services sector would not have been achieved if the team that marketed the country overseas had been less good than their competitors. They managed to convince foreign investors and their advisers that Ireland was serious about being successful. For a small country like Ireland that took a lot of tenacity and commitment; and others can follow this example.

## **6 Can a BPO Supply Capacity Be Developed; or Does it Evolve?**

Through careful strategic planning and focused active management, it is my view that a BPO supply capacity can be developed. It is very good fortune if it evolves without being deliberately developed.

If it can be developed, what, and where, are the opportunities?

However, where your opportunities lie will depend partly on where your people skills lie; where you are on the development curve; and partly on the providers who are interested in setting up in your country.

For those countries that are only starting off in the BPO space, the opportunities lie in the generic services, such as call centres and accounting centres. I disagree with the proposition that developing countries should avoid large-scale call centres and BPO operations (because the investment is high) and that they should focus instead on specialised services that add more value. In practical terms, a broker will not send high value-add services to a new entrant location, if it has not proven that it can perform generic services. Secondly, generic services provide a shop window for the national capabilities. Thirdly, aversion to large-scale operations because of the size of the investment required is not a good signal to the buying market. To be successful one has to take risks. Fourthly, to cut oneself off from large-scale operations would restrict the impact on the economy of the aspirant country.

Initially I would recommend investing in a small call centre which has capacity for up to 100 seats, with the possibility of expanding in due course. In size terms, the initial deals will be small (10-15 seats), until the location proves itself. That type of activity is a good way to get into the market, because it provides reference sites for later opportunities.

## **7 What Constitutes International Competitiveness in BPO?**

International competitiveness is largely defined by:

1. Cost
2. Skills and demographics
3. Telecommunications infrastructure
4. Cultural flexibility, including social and labour practices
5. Political and economic stability

Other factors such as the following are important, but do not rank as highly:

1. Time zone
2. Geography
3. Work permit requirements for expatriate workers
4. Regular and Direct flights from major cities

## **8 How are linkages between buyer and seller usually secured?**

Linkages are created by familiarising brokers/advisers and providers with the national BPO offering. Brokers and advisers are typically found in three locations

1. Corporate Finance advisers in banks and accounting firms

2. Process improvement or risk management consultants
3. Lawyers specialising in outsourcing

Providers are easier to find, through online searches, such as Google. Going directly to potential buyers of outsourced services is more difficult, because they will tend to rely on their advisors to find the best fit for their needs.

## **8 Conclusion**

In conclusion the key ingredients for success in the Public Sector are:

1. Careful planning of people and infrastructure supply;
2. Understanding the needs of the buying community, by communicating with brokers and providers;
3. Developing a world-class foreign direct investment strategy.

The key recommendations for the Private Sector in developing nations are:

1. Join with the public sector in marketing the country overseas, because the services sector will provide a good return;
2. Participate in the development of the national strategy;
3. Consider the entry into the services sector as a long-term investment, because of the investment required.