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Export of Services: Hype of High Potential? IMPLICATIONS FOR STRATEGY-MAKERS

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Sri Lanka’s Experience in Promoting Professional Services in the International Market

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SRI LANKA’S EXPERIENCE IN PROMOTING PROFESSIONAL SERVICES IN THE INTERNATIONAL MARKET

Understanding the Necessity – Muscles or Brains?

In this paper I would like to share with you Sri Lanka’s pioneering efforts in promoting “Service Exports”. The planning process, interactions had with private and state sector stakeholders and the problems encountered during the process, as I believe, would be worthy insights for other developing countries who are longing to promote their services in the international market place.

In the past 40 years, the focus of international trade promotion was mainly towards facilitating the trade in goods. More recently, the integration of telecommunications and computer technologies has made virtually all services painlessly tradable across borders. Export of services is exceptionally a challenging task. As services are intangible and the service is not actually created until it is delivered, there is no proof of the service quality. Therefore it is critical for service providers to develop a good profile and credibility in new markets,

Services make up a major portion of world economies, including developing countries, ranging from 39 per cent of gross domestic production (GDP) in a country like Nigeria, to 89 per cent in economies such as Hong Kong (China). Service industries are already increasing in importance in most developing countries and particularly in least developed countries (LDCs), and usually contribute to at least 45 per cent of the GDP. In general, the service sector is expanding faster than other sectors such as agriculture or manufacturing. For efficient value-added primary industries, services usually make up one-quarter of inputs.

My organization, the Sri Lanka Export Development Board (commonly known as EDB) has been actively involved in the development and promotion of goods and services from Sri Lanka in the international market and is the apex body in Sri Lanka for International Trade Promotion. As a TPO which is in operation for more than 25 years, EDB’s experience, expertise and competency were more in the area of goods exports. With these years of experience EDB has realized that achieving successful performance in international arena in a sustainable manner is not an easy task within the context of the increasing turbulence of the market with raging competitive forces. As a result of revolutionized ICT, fading geographical boundaries of markets, falling trade barriers and rising people's mobility, the international market is undergoing a paradigm shift. Classical theories such as “comparative advantage” are becoming obsolete and new suppliers are emerging from unexpected regions in the world, particularly among the developing nations. Transition of “Price conscious” and “Brand conscious” consumer towards a “Value conscious” consumer has completely changed the ground-rules of the game. Contemporary strategists argue that winning the market share is simply not adequate for a long-term success in the current international market but winning the “Mind share” and “Heart share” of the consumers are rather critical.

There was a time that Sri Lanka could successfully compete in the international market based on low-cost resources and foreign direct investments (FDI). Nevertheless the threatening competitive pressures on local businesses are increasing, most significantly from low cost nations such as China, Vietnam, Bangladesh and some African countries. In this context there is no way out other than developing new and improved added value products and services, processes and ways of doing business. In many countries policy makers see a powerful and important link between knowledge based business and economic growth. Knowledge based industries are constantly generating a high demand for high-skilled, competent professionals and rely on brainpower rather than muscle-power. In this context EDB realized that promoting professional services is of paramount importance. Our first challenge was to identify, prioritize and plan out “what and where to begin with” and to set up a “special group or unit” within the EDB to work with this new sector.
How It Began

In the year 2003 The EDB requested technical assistance from the Commonwealth Fund for Technical Cooperation (CFTC) to initiate a programme to improve the competitiveness of the Professional Services Sector in Sri Lanka. CFTC assistance was sought to develop a services policy and strategic programme for the expansion and diversification of exports of professional services. The programme was envisaged to have a practical focus with clear supportable recommendations that will assist the Government in streamlining and focusing its activities in the promotion of exports of professional services.

The key objective of the project was to formulate policies and devise strategies to assist in the expansion and diversification of the professional services sector in Sri Lanka.

The proposed project planned to be carried out in 5 major phases:

1. Initial review of the sector, existing mechanisms and support systems followed by a work plan development (May 2005).
2. Supply Survey - Evaluating the level of professional services offered in Sri Lanka in the selected sub-sectors and assessing, through interviews and a survey (May to August 2005).
3. Overseas market surveys in UK (June 2005) and UAE (August 2005)
5. Conducting of a series of working sessions, workshops with key stakeholders and EDB staff to assess the implications of implementing the recommendations and where necessary adjust against the resources and capacities available for feasible implementation.

Missing Numbers!

The fundamental problem EDB faced in assessing the real potential of service export was lack of information, which is a very common problem even in developed countries. Emphasis is on the export of products and therefore little information was available for effectively addressing the commercial opportunities available to, and the related needs of, the local services industry. Trade statistics available on service exports were minimal or understated and were practically of no use. Service-specific professional and industry associations are largely focused on domestic issues rather than "going global". They had no idea of international issues or possibility of exporting their services.

There was no way of getting ‘real time’ market information which is much more important issue in services than in most product sectors. The services trade environment is very fluid and, as most services cannot be patented and can be easily copied, the window of opportunity is quickly closed. Traditional forms of market research and information therefore seemed less useful to service firms. Export strategies needed continuous updating.

Picking the Brains of Stakeholders

Therefore it was very essential to start a dialog with professionals and professional organizations and other organizations with regard to policy, regulatory, trade, investment and natural person movement issues. Main idea was to assess the potential and export readiness of the local resource base, understand their SWOT, identify operational bottlenecks and things they need in order to champion the international market. This was covered in the phase 1 of the project, which was completed by the EDB together with a team of experts appointed by the Commonwealth Secretariat. During the mission the team was able to meet several organizations from several professional service areas and other related institutions, such as Sri Lanka Association of Printers, the Institute of Chartered Accountants of Sri Lanka, Sri Lanka Institute of Architects, Software Exporters Association (SEA), IT Enabled Services Association (ITASAN), Sri Lanka Bar Association, Chartered Institute of Quantity Surveyors of Sri Lanka, The Institution of
Considerable progress has been made on the supply side study in Sri Lanka, though significant challenges remain in terms of data collection. EDB organized numerous meetings with various stakeholders interested in initiating development activities related to the export of selected sectors. Work was done to review the legal and regulatory environment in Sri Lanka.

Two questionnaires were developed in early May in consultation with the EDB, one for associations, and one for individual firms. A list of associations was drawn up and letters sent attaching both questionnaires. The associations were asked to fill out the one for themselves, and to distribute the firm level one to their members. As it happened in many data collection efforts despite successive follow up the response rate was not very encouraging. Some associations have been slow and/or reluctant to act, whilst many of the firms are wary of the implications of divulging information in case it has implications for other areas of Government operation – e.g. tax.

At the end of this initial phase 1 EDB together with the team of consultants concluded that regarding:

**Supply Development**
- The EDB should set up a Special Unit to handle issues related to promotion of service exports.
- Training for export promotion and marketing is needed for the professional and trade associations and their member firms (including for the necessary business management and ICT skills).
- These member firms should be encouraged by the EDB to group together for export promotion, and each sector should have an Export Promotion Committee.
- A website should be developed with links to the professional and trade associations, brochures for each sector, and a database of firms offering services for export.

**Policy/Regulatory Issues**
- The EDB will have to persuade the Department of Commerce to set up government-to-government frameworks for the Sri Lankan professional associations to develop mutual recognition agreements with their counterpart associations in the selected target markets.
- The exact legal responsibility of the Foreign Employment Bureau should be examined to ensure that the EDB activities for promoting ‘GATS Mode 4’ exports, involving the temporary movement abroad of services suppliers, do not include persons subject to the laws controlling persons going abroad to take up employment.

**Market Development**
- A Sri Lanka brand image as a supplier of “quality service” should be developed.
- Promotion and marketing is needed in a few selected markets abroad, for which the EDB will have to carry out the necessary market research.
- The close cooperation of the Commercial Officers of the Department of Commerce in the target markets abroad is essential, and they will need appropriate training on the services sectors being promoted.
**Best Warriors to Start the Battle**

The definition of “Professional services” encompasses a very wide area. The Wikipedia definition is as follows: “Infrequent, technical, or unique functions performed by independent contractors or consultant whose occupation is the rendering of such services. While not limited to licentiates (individuals holding professional licenses), the services are considered “professional” and the contract may run to partnerships, firms, or corporations as well as to individuals. Examples of professional services contracts include: accountants, appraisers, archaeologists, attorneys, management and systems consultation, architects and engineers, physicians, performing artists, researchers, and real estate brokers. The selection of an independent contractor or consultant providing professional services is usually based on skill, knowledge, reputation, and creativity. Price may be a secondary factor in the selection”.

With the limited resources and experience of EDB in promoting service exports it was too complicated to deal with all the areas of professional services at the very beginning. Based on the views of the professional bodies and other stakeholders and also considering the varying degree of export readiness in various professional service sectors it was felt that the focus should be initially placed only on 5 main service sector groups.

The five service sector groups selected were:

- Accountants and management consultants
- Software design and installation and IT enabled Services
- Architects, planners, engineers and quantity surveyors
- Legal Services
- Ayurvedic services

**Demand Side – Hype or High Potential?**

After studying the supply side, it was essential to understand what the market needs, current trends and requirements, market access methods, regulatory and other barriers to match the strengths and capabilities of the supply side. In the proposed phase 3 of the project 2 market surveys were proposed to be held in two target markets. Markets selected initially for the study are:

- United Kingdom
- United Arab Emirates

These two markets were selected for initial investigation due to two factors. As many of the professionals are already working in those countries Sri Lanka had a substantial amount of credibility built around them. Secondly as many Sri Lankans historically have had plenty of interaction with these countries there was a considerable cultural compatibility or at least some degree of mutual understanding.

The objective of this mission was to establish initial contacts with potential business partners in the target markets and to study the market opportunities for Sri Lankan Professional Services and to gather information regarding the market requirements and market access.

The UK market study was held from June 20th – June 24th in London with the cooperation of the Sri Lankan High Commission in London.

Similarly the mission in UAE was held from 6-10 August. Sri Lanka Consulate in Dubai played an important facilitating role in coordinating this mission.
Credibility, Regulatory Firewalls and Business Needs

The early conclusions drawn from the two market studies done were:

**Regulatory Barriers are not Prohibitively High** - Examination of the regulations in place shows that whilst some sectors have regulatory barriers that require extensive study and work experience in the UK, many others do not have formal barriers. Even those that do only restrict certain aspects of the sector, such as use of a particular title (such as “Architect”) or certain activities (such as signing off an audit). In UAE these barriers are much more flexible and are limited to some routine and formal procedures.

**Relationships and Networks Will Be Key** – Whilst formal regulatory barriers may not be prohibitive, the normal informal barriers present for any business operating internationally are significant and must be overcome if services exports are to be developed. As such relationships between firms and the use of networks and associations will be key. Potential organizations and facilitators have been identified.

**Areas of Real Potential** – From a number of angles it was clear that accountancy is the main area of potential. Significant capacity exists in Sri Lanka, at a level of qualification (i.e. CIMA) readily accepted and recognized in the UK. A number of UK companies have recognized this potential, from big players such as Norwich Union that are setting up off shoring operations, to small firms that are linking Sri Lankan capacity to numerous small clients in the UK. CIMA itself is also very supportive. This is something that can be built upon, and which has potential to add significant value. In UAE scope for accountancy and IT is limited as it is dominated mainly by India. However we saw a tremendous potential for Engineering services especially Quantity survey.

**Harnessing the Best Resources and Networking Best Brains**

Due to the wide diversity of the services of firms they do not usually belong to a single, common association. Although Sri Lanka has an apex body for all associations (Organization for Professional Associations, OPA) it is not equipped with enough resources to look after all issues of the member associations. The majority of service sub-sectors is inward looking and is not naturally attracted to the international market. Similarly, the low level of recognition of the sector’s export potential at the policy level requires strong advocacy both within the sector and towards policy-makers. Further, many companies do not even realize that they are exporting since it is not necessary to travel abroad to export, and services can be delivered online or in-country.

Therefore EDB felt that it is very essential to setup a National Advisory Committee comprised of all relevant professional bodies, industry figureheads, policy-related organizations, etc. to advise EDB on formulating promotional and developmental strategies and action plans.

**One Stop Shop – Online!!**

Services are generated as it is presented to the client and are therefore intangible. Like in goods samples cannot be sent to prospective buyers. The exporter is limited to selling a promise which can only be backed up by a track record and, possibly even more importantly, the recognition of professional credentials. Therefore, building credibility both in terms of firm level and national level is very important. EDB realized that reputable National Web Portal to portrait all export-ready service providers would be of paramount important. Currently there is no such central point to get information for people who need to get in touch with local service providers. Central one-stop-shop backed by the apex state body for international trade like EDB would provide necessary confidence for the buyer and the required recognition for the local service firm.
Hand-in-Hand

In the majority of service sectors contracts are mainly based on referrals. Therefore it is essential that the service firm, and its capabilities, be widely known both nationally and internationally. And as export opportunities involve a combination of different service specializations (e.g. the architecture, QS and construction sectors), partnering among local service firms represents a key market entry strategy. This could be initiated through the proposed Advisory Committee.

Bridging the Skill Gaps

The marketing of many services requires extensive face-to-face contact and negotiation between the professional – the engineer, the IT specialist, the architect, the doctor – and the potential buyer. Special training is required for developing soft skills of the professional while keeping the technical skills state-of-the-art and more practical and industry oriented. It was revealed during the supply survey that the technical skills in Sri Lankan professionals are brilliant while other soft skills such as communication, presentation and HR capabilities are not up to the expectations. EDB has already initiated a dialog with major universities to upgrade the quality of technical education and to bridge the skill gaps.

Last but not Least

Having done all the work underpinning the issues indicated above, the final goal would be to develop real business partnerships between service firms at both ends. EDB envisage organizing a series of one-to-one contact promotion missions in target markets with carefully selected local delegations to have face-to-face interactions with their potential partners with the ultimate goal of healthy, sustainable, mutually beneficial B2B relationships.