

IV

BUSINESS PROCESS OUTSOURCING: IMPACT AND IMPLICATIONS

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Introduction

Business process outsourcing (BPO) from the United States to India has become a hot topic for the media in both countries in recent times. About 20 states in the United States have tried to put up legal barriers against the awarding of state contracts to non-United States companies. The flight of white-collar jobs from developed countries to low-wage developing countries in the form of BPO has threatened the prospects of many IT-enabled services (ITES), especially in low-skill sectors in developed countries. The issue has become politically sensitive, as several lobbies want to stop this flight of jobs. In an era of globalization, when the free trade of goods and services is being promoted, the wave of protectionist attitudes in cross-border trade in services has raised the eyebrows of many pundits.

Outsourcing is an arrangement in which one company provides services for another company that could also be or usually have been provided in-house. Outsourcing in manufacturing is nothing new. The rapid development of the IT sector, leading to increased cross-border trade of ITES, has widened the scope of outsourcing. In recent times, however, the concept of outsourcing has experienced a sea change. The traditional perception of outsourcing has gone far beyond the use of other local firms in various operations (such as hiring law firms for legal advice or companies like FedEx or UPS for logistics control). ITES offers companies more complex jobs to achieve transformational outcomes much more quickly (such as payroll or bank loan processing, and customer relations management through call centres), hence the term BPO.²

Today, outsourcing is possible from single aspects of IT to offloading the entire business functions to be performed and managed away from clients' locations and even in a different country.³ Most of these services were previously tradable only by the movement of providers. Rebecca Scholl,⁴ an

***Rapid development
of ICT has intensified
cross-border
trade in services,
especially in ITES***

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² According to Dataquest, BPO implies the delegation of an IT-intensive business process to an external provider which owns, administers and manages it according to a defined set of metrics. *Source:* < <http://www.cio.com/archive/050101/bpo.html> > , 24 March 2004.

³ Companies may procure these services either through external contracts with BPO vendors (outsourced) or through a remote subsidiary of the same company (offshored/out-located).

⁴ < <http://www.cio.com/archive/050101/bpo.html> > .

analyst from Gartner who views BPO as a distinct, expanding market, acknowledges that many of the services that vendors are labelling BPO do not fit any definition. “Lots of vendors trying to reposition as BPO providers are just doing IT outsourcing”, she says. “They’re providing an application. They are not really responsible for a process”. However, whatever may be the definition of BPO, there is a definite payoff in engaging in many activities that have been labelled as BPO⁵ in general. “Early inhibitors to BPO were security risks, bandwidth shortcomings and general technological immaturity”, says Scholl. “But recent improvements in collaborative technology and interconnectivity have strongly encouraged it”.

Cheaper labour cost, higher efficiency and better quality are the main driving forces of BPO providers

Countries like India, Brazil, the Philippines, Dominica, Israel, China, Romania and the Russian Federation have witnessed a surge of BPO provider companies catering for the needs of companies of the developed world and creating many employment opportunities in the process. FDI from developed countries in the BPO sectors of these countries is also growing rapidly. Cheaper labour cost, higher efficiency and better quality are the main driving forces of these BPO providers. As a consequence of this, the debate about job loss versus productivity gain has been geared up in the developed world.

Dimensions of BPO

BPO is often divided into two categories: back office outsourcing, which includes internal business functions such as billing or purchasing, and front office outsourcing, which includes customer-related services such as marketing or technology support. BPO that is contracted outside a company’s own country is sometimes called offshore outsourcing. BPO that is contracted to a neighbouring country is sometimes called nearshore outsourcing and BPO that is contracted within the company’s own country is sometimes called “onshore” outsourcing.⁶

Apart from IT applications, companies are outsourcing front and back office operations also

Outsourcing is a trend that is becoming more common in information technology and other industries for services that have usually been regarded as intrinsic to managing a business. In some cases, the entire information management of a company is outsourced, including planning and business analysis as well as the installation, management and servicing of the network and workstations.⁷ However, as mentioned earlier, from offering single IT services BPO has come a long way and now covers an array of operations from finance, banking, insurance, human resources development and training

⁵ In this article, BPO will be used as a generic term to include basic and advanced ITES and processes, IT application and related services and more complex business transformation outsourcing.

⁶ < http://searchcio.techtarget.com/sDefinition/0,,sid19_gci928308,00.html > , 20 April 2004.

⁷ Outsourcing can range from the large contract in which a company like IBM manages IT services for a company like Xerox to the practice of hiring contractors and temporary office workers on an individual basis. *Source:* < http://searchcio.techtarget.com/sDefinition/0,,sid19_gci212731,00.html > , 20 April 2004.

to health care, mortgage and credit card services, asset management, customer care, logistics and distribution, engineering, procurement, real estate, sales and marketing and web-related services. The table below lists some of the important services which are increasingly being outsourced.

Elements of business process outsourcing					
<i>Customer interaction services</i>	<i>Back office transaction processing</i>	<i>IT/software operations</i>	<i>Finance and accounting services</i>	<i>Human resource services</i>	<i>Knowledge services</i>
Customer service	Cheque, credit/debit card processing	Requirements engineering	Billing services	Payroll services	Data analytics
Voice/e-mail	Collections and receivables	Application development	Accounts payable	Health-care administration	Data mining
Marketing services	Direct and indirect procurement	Application testing	Accounts receivable	Hiring and recruitment	Data/knowledge management
Telesales	Transport administration	Packaged application outsourcing	General accounting	Workforce training	Customer feedback
Order processing	Logistics and dispatch	Implementation services	Auditing and compliance	Retirement benefits	
Customer support	Warehouse management	IT help desk			
Warranty administration					
Customer feedback					
<i>Source:</i> < http://www.ebstrategy.com/BPO/basics/default.htm > , 24 March 2004.					

According to Namasivayam (2004),⁸ non-core and critical business processes such as IT services, manufacturing and finance are the fastest-growing outsourcing segments, as companies are moving towards outsourcing these services to third-party providers. Over time, many business processes which were treated as core have become non-core and companies opt to outsource them.

It may be pointed out that simpler services such as data entry and other basic processing tasks are considered as low-value and low-risk operations and bring low margins. Rules-based operations such as payroll processing are at the intermediate level in terms of value and risk. BPO relating to decision-making and problem-solving operations involves high-value and high-risk jobs. When BPO services include direct contact with

⁸ S. Namasivayam (2004), "Profiting from business process outsourcing", *IT Pro, January-February*, < <http://www.computer.org/itpro/it2004/f1012.pdf> > , 17 April 2004.

customers or clients (e.g., call centre operations) the skill requirement increases dramatically as the success of a deal depends on excellent communication and knowledge of the industry concerned and the client's mindset. When service providers offer consulting and advisory services, complex services requiring business skills and advanced services (such as risk management and sophisticated data analysis), profit margins of BPO providers are significantly higher.

Benefits of BPO: more than just cost-cutting

Changing nature and scope of BPO

After over a decade of economic boom times, the recent global economic turndown has significantly accelerated and intensified market competition pressures, causing many corporations to seek innovative ways to deal with the changed economic landscape. In the process, an increasing number of organizations worldwide have turned to BPO, which has significantly lower overhead costs without sacrificing quality and productivity levels. Today, BPO is considered not only as a simple cost-cutting mechanism but also as a strategic initiative, which is expected to shape and ready the organization for future business dynamics. Apart from cost-cutting, BPO saves precious management time and resources by allowing companies to concentrate on core competencies. BPO providers always have a process expertise and enjoy significant economies of scale and scope by offering the same services to different clients. Figure I shows how BPO can save a significant amount of costs for companies.

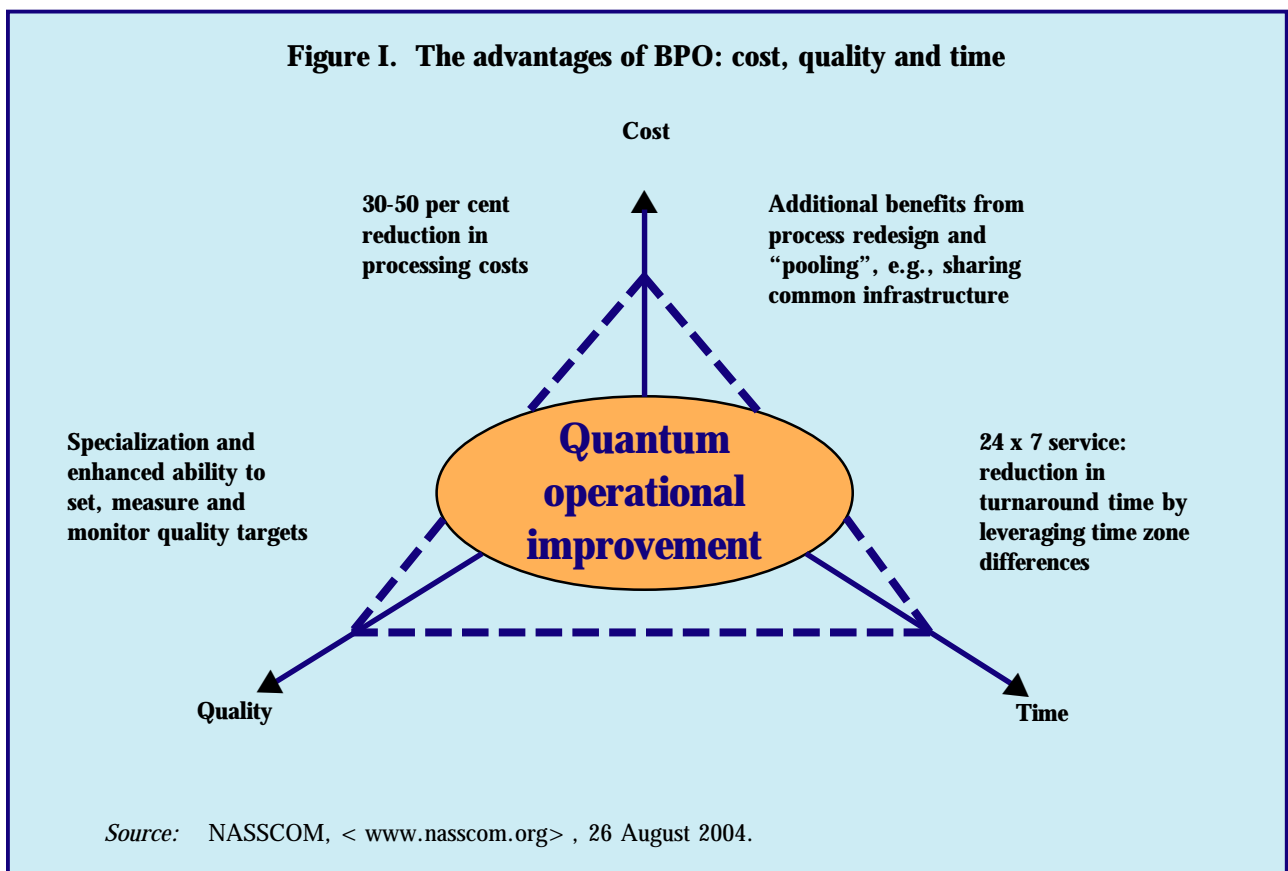
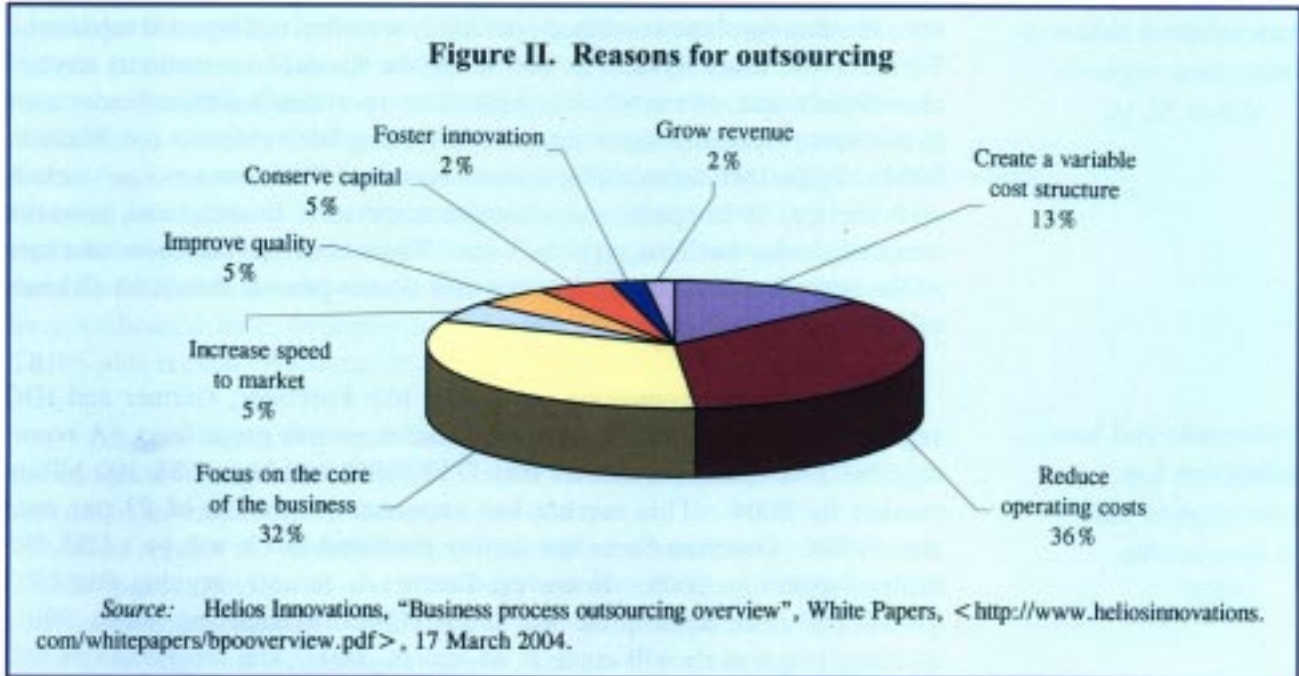


Figure II shows the importance of various factors which induce companies to outsource some processes. Reducing operating costs and focusing more attention on the core activities of the company are the main reasons behind outsourcing. Additionally, the availability of variable cost structures, improved quality and speedier services are other important considerations and plus factors as well.



However, the positive implications of BPO services for a company's performance also depend on the managerial ability of the BPO client company. They are closely related to the company's goals, objectives and vision, the selection of the BPO provider, the development of a structured contract, the mutual relationship between provide and buyer and the financial justification. More than ever, managers of IT outsourcing and BPO need a sophisticated set of skills to keep the dynamic relationships in balance. Before engaging any vendor to provide BPO, a company needs to clearly understand the requirements for BPO and their technical feasibility. During the engagement of a BPO vendor, a detailed solution design needs to be articulated and a pilot project may be run so as to transfer the knowledge base to the vendor. BPO contracts should be evaluated regularly as technology requirements and cost structures vary considerably over time.⁹

Technological feasibility, managerial skill and understanding between vendors and clients are important for successful BPO

⁹ Source: < <http://www.heliosinnovations.com/whitepapers/bpooverview.pdf> > , 17 March 2004.

Analysing trends in cross-border BPO trade

BPO market size and trade

Inadequate measures of cross-border BPO

Lack of reliable estimates has made it difficult for researchers to analyse the trend and predict the future of the BPO market. It is hard to distinguish among many BPO services, as customer care often combines the operation of a call centre, customer database upgrade, technical support, etc.; the data for these combined operations are often not reported separately. Furthermore, many services do not fit into the standard international services classification and, as a result, it is difficult to report detailed cross-border trade in services, especially those segments involving BPO (Mattoo and Wunsch, 2004). In the IMF balance-of-payments statistics, “business services” include such services as computer and information services, financial and insurance services, “other business services”, etc. These headings somehow take care of the aggregate trade in services but they do not provide details on all kinds of BPO.

International consulting companies like Forrester, Gartner and IDC report opportunities in BPO and offer market growth projections. A report by UNCTAD (2003) indicates that ITES/BPO will be a US\$ 300 billion market by 2004. This market has experienced growth of 23 per cent since 1999. Goldman Sachs has further predicted that it will be a US\$ 585 billion market by 2005. However, Gartner is recently arguing that BPO growth will come down in the near future (Chandrasekhar and Ghosh, 2003) as many major deals will come to an end in 2004. The renegotiations will have to give due importance to a number of problematic issues such as the lack of quality and timely delivery, which have arisen in many cases in practice, and the potential of various BPO providers for further growth. Forrester Research predicts that a BPO market bonanza is a myth and the market will grow to only US\$ 145 billion in 2008.¹⁰ The market itself will also be fragmented into segments such as simple bulk transactions (e.g., credit card operations), broad shared services (such as finance and administration), high-volume vertical processes (including policy administration, claims and loan processing) and niche vertical applications (such as environmental data reporting and chemical process monitoring).

The BPO market is still immature but has huge potential

The majority of companies obtaining services from BPO providers have their headquarters in the United States. According to an IDC-TPI survey,¹¹ 42 per cent of all active outsourcing engagements now have an offshore component. In addition, 63 per cent of the outsourcing advisers surveyed identified offshore labour supply as the top driver of IT services, edging out economic conditions by 1 per cent. However, until now most of the big companies have shopped around for BPO providers. Of late, SMEs from developed countries have started choosing outsourcing as a business policy in order to obtain quality service at a cheaper rate (UNCTAD, 2003). This reveals a huge potential but needs some time to be realized.

¹⁰ John C. McCarthy and others, “BPO’s fragmented future”, Forrester Research Inc., 2003.

¹¹ Ibid.

Opportunities for developing countries

According to UNCTAD, the steady improvements in IT infrastructure, a steep decline in the costs of telecommunications and IT equipment, and the increased accessibility of the Internet have opened the way to the development of BPO services in both developed and developing countries. The process has been further fuelled by the increasing demand for cost-saving measures from enterprises in the United States and Europe. The lower cost of employing skilled and specialized workers is said to reduce operational costs by up to 60 per cent. Thus, the rapid internationalization of these services offers developing countries a chance to exploit higher-value niches.

Drawing examples from different countries, the same UNCTAD study also notes that with the minimum telecommunication infrastructure, BPO can materialize in developing countries, including the least developed countries, especially in the form of basic data entry services, where the required skill level is low. In Cambodia, for example, a charity-funded enterprise called DDD (Digital Divide Data) is providing outsourced data services to clients while at the same time offering jobs and educational opportunities to disadvantaged groups. DDD partners with an Indian firm, Cyberdata, which provides it with clients in exchange for software and IT and management training. DDD outsourced 60 per cent of its activities to Cyberdata in 2002, as compared with just 30 per cent in 2003.

The benefits of BPO in developing countries could come directly in the form of job creation, a positive impact on infrastructure development, and diffusion of technology and ideas in domestic manufacturing and even in agriculture. This applies especially to the provision of information on marketing and prices, helping business-to-business communications and e-commerce applications, and even the processing of some services of domestic companies. Developing countries may also receive substantial amounts of FDI in the BPO sector (Baily and Farrell, 2004). The UNCTAD report (2003) also mentions that once the required ICT infrastructure is ensured, ITES will broaden the job prospects for women interested in working from home. Women are also employed on a large scale in different services such as call centres and data entry jobs.¹²

The BPO industry, moreover, has produced a promising niche for SMEs from developing countries as the enterprises require a small amount of start-up capital, basic telecommunication and other ICT infrastructure, and low-wage workers. In the absence of largely English-speaking, highly skilled and professionally trained manpower, national Governments in many countries with international support can win a slot in the BPO market especially in non-voice-based low- to medium-skill segments of BPO such as payroll and database preparation. This is not necessarily true in the case of IT services, which require more advanced skills and infrastructure.

***Countries with
minimum telecom
infrastructure
can also become
BPO providers***

¹² More than 50 per cent of employees are female in large Indian BPO companies such as Wipro's BPO segment, ICICI One Source and Daksh E-Service (UNCTAD, 2003).

Successful examples of BPO providers

India, with its skilled English-speaking workforce and salaries up to 80 per cent lower than those in developed countries, has captured a dominant share of the international outsourcing market. It is a primary outsourcing centre for software contracts. The ITES-BPO market remains a high-growth segment for the Indian software and services industry. According to NASSCOM,¹³ more than 200 companies are directly involved in this business and in 2003/04 the industry registered a growth rate of 54 per cent and total revenue reached US\$ 3.6 billion. The sector has employed more than 240,000 people and employment is expected to reach 1.1 million by 2008. Almost of a quarter of the total of India's IT and related exports are from the ITES/BPO segment. The box below describes the key trends in the Indian BPO sector.

Diversifying sources of BPO providers

Of late, however, countries like the Russian Federation, Romania, Brazil, the Philippines, Thailand and China are increasingly being considered as favourable destinations since companies from many developed countries find greater benefits in outsourcing processes there. Furthermore, a study by A.T. Kearney¹⁴ showed that Latin American countries are fast becoming popular because of their low-labour costs, their proximity to the United States and their location in the same time zone. Companies such as Xerox and Unisys have committed to outsourcing in Brazil owing to its large investments in ICT infrastructure and large pool of skilled labour. AOL Time Warner has opened call centre services for its Spanish-speaking customers in Mexico. The Philippines, owing to its familiarity with United States standards of service, especially in accounting, has become a popular outsourcing centre for such companies as Procter and Gamble, AIG, American Express and Citibank.

For European transnational corporations, Central European countries are becoming the popular source for outsourcing activities owing to their cultural and linguistic similarities, greater ease of ensuring compliance with European regulations (e.g., those pertaining to privacy) and the high levels of their technical capabilities. General Electric has invested significantly in Hungary over the past 12 years, moving a number of business processes to that country, in particular to support GE units across Western Europe. The Russian Federation, too, has a large pool of technical talent and Russian aeronautics specialists in seven cities are designing parts of the 777 aircraft.

BPO trends have shown that the comparative advantage of developing countries will not be limited to standard "back office" services. In India cross-border service exports have already started to be transformed from lower-end, disentangled BPO services to more integrated services. In the process, companies are moving up the value chain by focusing on innovation, consulting, branding and increasingly integrated services such as online training and product design. The rising wages in the BPO sector in India and the movement of Indian service suppliers to higher-value analytical tasks are expected to induce other countries to step in where wages in BPO are relatively low.

¹³ Source: < http://bpo.nasscom.org/artdisplay.aspx?cat_id=619 > , 31 August 2004.

¹⁴ Sources: Mattoo and Wunsch (2004) and < <http://www.atkearney.com> > , 20 April 2004.

Indian BPO sector: key trends

The Indian ITES-BPO industry was a key driver of the overall Indian IT software and services sector during 2003/04, recording revenues of US\$ 3.6 billion in that period. The key trends of the industry are as follows:

- **Increasing maturity:** The industry is rapidly gaining maturity and consolidation, following a large number of mergers and acquisitions during 2002/03. The trend towards maturity has been escalated by the entry of traditional IT services players, which have added the ITES-BPO portfolio to their existing offerings in order to provide customers with a complete umbrella of end-to-end services. The idea is to leverage the synergies between their ITES-BPO operations and the IT services offerings.
- **Growth in multiple vendor and BOT contracts:** The Indian ITES-BPO industry is witnessing an increase in multi-vendor and build-operate-transfer contracts which offer customers advantages such as low risks, scalability and competitive pricing.
- **Expansion of the services footprint:** Indian ITES-BPO vendors are expanding the spectrum of their service offering in client locations and even setting up facilities in other low-cost ITES-BPO destinations such as China and the Philippines, in order to tap these markets.
- **Higher value added offerings:** A number of Indian ITES-BPO vendors are moving up the value chain to offer high-end services such as equity research and analytics, insurance, and technology support and development.
- **Vendor polarization:** Growth within the ITES-BPO segment is becoming centred around the larger players that can offer clients benefits such as scalability, delivery capability, track record, customer referrals, etc. Industry observers believe that by 2005 the Indian BPO industry will have 8 to 10 US\$ 100 million third-party BPO companies. This will give companies a critical mass to compete against multinationals such as EDS, Computer Sciences Corporation and Accenture. Further, it gives prospective clients enough confidence to trust them with larger contracts.
- **Expanding capacity:** The Indian ITES-BPO industry, including MNC, and third-party service providers have been expanding their capacities during 2002-2004. The number of seats has increased from 140,000 at the end of March 2003 to around 210,000 in March 2004. Captive units account for almost 65-70 per cent of the existing capacity.

Source: < http://www.nasscom.org/artdisplay.asp?cat_id=667 > , 2 August 2004.

Emerging issues

To estimate the potential of the BPO industry in a particular country is a difficult task as the size of the market depends on a variety of assumptions and predictions; furthermore, BPO in a developing country is typically a new issue. Commonly quoted estimates do not make clear which segments of the market are involved. Many BPO deals are also being renegotiated and scrutinized as increasingly it is being realized that finding the best single vendor to manage complex processes is a difficult proposition. There are other issues like the lack of performance matrices, inflexible contracts, delivery and quality problems (especially in voice-based BPO) that pose new questions about the growth of the BPO industry in developing countries in the coming years. Poor privacy laws and monitoring violations in developing countries are another set of issues for consideration by many companies from the developed world.¹⁵

***Excessive competition
will drive down prices
leaving little benefit
to BPO vendors***

¹⁵ Economic and Political Weekly, "BPO: cautioned ahead", EPW Editorial, 27 March 2004.

If the market is unlikely to grow rapidly, then the scope for new players is limited unless the market is redistributed. Many critics argue¹⁶ that, as in the case of primary products, competition between developing country providers of lower-end services will commoditize some of the basic processes. This would drive down the prices and transfer the benefits of low wages to international corporations, leaving little behind in the developing world. Moreover, BPO clients typically try to minimize their risk exposure, committing a small amount of investment in developing countries, thus transferring the entire risk to BPO providers. It is also expected that BPO business will become fragmented into different lines and there is a possibility that different countries will specialize in different aspects of BPO.

Finally, BPO services constitute a tiny portion of the organized service sector and employment opportunities are limited mainly to educated youth in urban areas. Interestingly, in a country like India, high staff turnover is observed in the BPO sector (annually around 50 per cent in call centres) for such reasons as job-related stresses and the availability of jobs in rival companies with higher wages (Chithelen, 2004). Rising costs for hiring and training and the higher wages needed to attract quality employees are making India's BPO services more expensive.

Issues in developed countries: productivity gain versus job loss

Productivity gain through BPO is significant in the United States

The impact of the global division of labour through cross-border BPO on efficiency gains in developed countries is remarkable. Prudential, the British insurance company, is expected to save US\$ 26.2 million through the creation of 1,000 offshore customer service jobs in India.¹⁷ General Electric saves about US\$ 350 million per year through the 18,000 offshore Indian employees.¹⁸ The United States banking industry alone saved around US\$ 8 billion in the last four years as a result of outsourcing.¹⁹ In general, the savings figures usually range from 30 to 60 per cent.²⁰ Most BPO clients have reported significant productivity gains, ranging from 15 to 25 per cent. McKinsey Global Institute showed that for every dollar of corporate spending outsourced to India, the United States economy gains as much as US\$ 1.14 in return.²¹ As only around 5 per cent of United States firms with revenues

¹⁶ C.P. Chandrasekhar and Jayati Ghosh, "Outsourcing for development", published in *The Hindu Business Line*, 02 December 2003.

¹⁷ "India fears impact of bid to curb jobs exports", in *The Financial Times*, 4 June 2003, cited in Mattoo and Wunsch (2004).

¹⁸ "US firms saved US\$ 8 billion via local outsourcing", in *Business Standard*, 16 April 2003, cited in Mattoo and Wunsch (2004).

¹⁹ Ibid.

²⁰ "U.S. gained US\$ 17 billion from outsourcing to India", in *Deccan Chronicle*, 7 July 2003, "Indian outsourcing costs", at < www.vnunet.com >, 1 January 2003, and "The case for, and against, shifting backoffice operations overseas", in *Wharton Papers*, 9 October 2002.

²¹ Baily and Farrell, "Exploding the myths of offshoring", *The McKinsey Quarterly*, July 2004.

from US\$ 100 million to US\$ 4 billion have started to outsource, much untapped potential for this sort of cost saving and productivity gain remains (Mattoo and Wunsch, 2004).²²

Business Week (22 March 2004) reports that since the start of the recession in March 2001, output per hour in the United States has risen at an astounding 4.6 per cent annual rate, which is far ahead of the 1.8 per cent productivity growth of the previous recession and recovery of the early 1990s. Higher productivity has enabled corporations to boost profits while holding down price increases. Higher corporate operating profits are associated with a very low inflation rate, averaging 1.5 per cent a year since 2001, and this has helped consumers to save hundreds of billions of dollars.

While BPO and IT outsourcing may contribute positively to productivity growth via price decline, the specter of losing “white collar” jobs abroad looms large. Stories that report dramatic movements of jobs offshore need to be put into the current economic perspective. First, these citations frequently use the peak of the economy and technology boom as the base for their analysis, thus ignoring the business cycle (downturn) decline in manufacturing employment, dollar overvaluation and technology bust.²³ Second, data on international trade do not corroborate these frequent citations but rather point to sustained international competitiveness on the part of United States service providers (Baily and Farrell, 2004).

***Many job losses are
due to economic
downturn***

During the period from 1999 to October 2003, for example, employment data from the United States labour market confirm disproportionate and continuing employment losses in manufacturing (2.7 million or 16 per cent since 1999). In terms of occupational categories, there has been a trend decline in “management occupations”, where 1.1 million jobs have disappeared since 1999 (a 14 per cent decline). In contrast, employment in the private service sector increased throughout the period and is 1.5 per cent higher in October 2003 than in 1999 (Mann, 2003).

Employment in white collar occupations related to IT or deemed vulnerable to IT-enabled international trade was stable and recovering or higher in October 2003 than in 1999. The expansion of domestic jobs in many white collar occupations deemed particularly at risk to offshore operations has also been recorded. Moreover, net export of services from the United States during 1997 and 2003 (Q1) increased from US\$ 42 billion to US\$ 50

²² More specific estimates confirm the potential of BPO services. A survey by Deloitte Research, for instance, found that the world’s 100 largest financial services firms expect to transfer US\$ 350 billion of their cost bases abroad by 2008. The value of medical transcription outsourcing in America alone is expected to double by 2005 to US\$ 4 billion. The United States market for “contact centres” alone has a turnover of US\$ 100 billion (Mattoo and Wunsch, 2004).

²³ “There are no publicly available data on jobs ‘lost’ to workers in foreign countries. Publicly available data show the number of people in occupations defined by occupational class and by sector. When the number of jobs falls in a particular cell of this matrix, there is no way to determine whether that job was regained in another cell of the matrix (different occupation or different sector) or whether this job no longer exists, either because the job has moved abroad or because technology has made it obsolete” (Catherine L. Mann, 2003).

billion; such exports included the vulnerable service groups despite the appreciation of the dollar.

According to Kirkegaard (2004), the job losses in the United States from 2000 to 2002 in occupational categories threatened by offshore outsourcing occurred in the manufacturing sector. This means that white-collar job losses cannot be separated from economic problems in the manufacturing sector. Moreover, the trend is not uniform across the United States, with some states gaining and others losing jobs. This suggests that no singular nationwide trend, other than the regular business cycle, can be specifically identified. The majority of United States jobs thought to be lost in occupational categories threatened by offshore outsourcing pay less than the United States average wage. The implication is that many of these jobs may face medium-term elimination through technological change regardless of whether they are outsourced to offshore locations or not.

Low-wage service jobs are at risk owing to both BPO and technological change

Kirkegaard (2004) also notes that the decline in jobs is concentrated in low-skilled IT occupations and in occupations where economy-wide trends dominate (managers and manufacturing). For example, more than 70,000 computer programmers have lost their jobs since 1999, but more than 115,000 higher-paid computer software engineers have been inducted during the period. However, jobs for bank tellers, switchboard operators (including answering services) and telephone operators are all projected to shrink. But this contraction is as much due to automated teller machines and voice-answering technologies as to jobs going offshore. In the recent past, productivity growth and an expanded technology sector have added not just engineers and programmers, but also marketers, cable installers and web-site designers.

A major question is therefore how flexible workers from the United States are to adapting to change and upgrading their skills to compete in the world market. It has been suggested that adjustment assistance may be made available to white-collar workers hurt by international competition the same way as trade adjustment assistance helps those in the manufacturing sector. The new programme of wage insurance is expected to help some IT workers to find new jobs but not necessarily those with white-collar skills.²⁴ Basu (2004) and Baily and Farrell (2004) opine that outsourcing will in turn create jobs in rich countries, not in the sectors that moved to developing countries but in other sectors. Likewise, offshore work in developing countries is expected to increase income and demand in those countries, resulting in a possible rise in exports from the developed world. So a large part of the responsibility lies with developed country Governments to provide relocation benefits and social welfare to vulnerable workers during times of adjustment.

²⁴ As implemented in the trade promotion authority legislation, workers older than 50 years and earning less than US\$ 50,000 at their previous jobs can receive half of the difference between their old and new wages for up to two years. The objective of this programme is to encourage workers to return to work as soon as possible and for the new employer to provide on-the-job training, which has proved to be more effective than government-financed classroom training. The programme is limited, however, by age as well as by type of job lost (only manufacturing jobs are covered) (Mann, 2003).

WTO and outsourcing

Despite the substantial global benefits from cross-border trade in IT services, the adjustment pressures could provoke a protectionist backlash in the developed countries. The current negotiations under the Doha Development Agenda offer an opportunity to reap the benefit of outsourcing by locking in the current openness and pre-empting protectionism. A bold initiative through comprehensive commitments by WTO members under the General Agreement on Trade in Services (GATS) can help to secure such openness. The current practice of services negotiation through a “positive listing”²⁵ approach places a heavy burden on the services classification scheme used by WTO members.

In particular, the existing classification scheme does not cover all the services being traded today, such as the services offered by call centres. Moreover, the services classification scheme needs to be dynamic as technology itself is changing, thus rendering new services tradable. According to Mattoo and Wunsch (2004), the negotiation process based on a “request-and-offer” approach involves negotiating commitments trading partner by trading partner and sector by sector. This is a slow task with high transaction costs and may not necessarily produce efficient or equitable outcomes owing to the unequal bargaining powers of countries. An essential step is to map the IT and BPO services being traded today into the existing GATS classification scheme.

Up until now much attention has been given in WTO to reduction of barriers such as tariffs, which are transparent, but not to outright bans or discriminatory internal regulations and taxation as instruments of protectionism. The full implementation of specific commitments by countries regarding various services under GATS obligations can lead to a reduction of protectionism. The recent wave of protectionism is observed in United States government procurement contracts, which are currently excluded from the scope of the GATS rules.²⁶ Exporting countries need to reassess their current position on the subject of government procurement and a clear negotiating position needs to be mapped out.

According to Chanda (2004), countries like India need to be more proactive to get market access in government procurement²⁷ as the potential for public sector procurement in a country like the United States is huge, given the likely pressure for cost reduction and budgetary savings by the Government. Moreover, the issue of intellectual property rights and cybercrimes also needs to be evaluated on its own merit and not as a regulatory tool for trade diversion as in the case of services. Enhanced participation of developing countries is required to obtain more fully the benefits of trade in services. Finally, developed countries have also pushed to secure market access for their

The existing classification of services under GATS is insufficient to capture the dynamics of BPOs

²⁵ It applies only to the sectors a member chooses to list. So if a service is not explicitly listed, a member remains free to restrict trade in that service.

²⁶ “US outsourcing ban legally valid: experts”, published in < <http://www.rediff.com/money/2003/jun/16bpo.htm>> , 16 July 2003.

²⁷ The current share of United States federal government contracts in exports of IT software and services from India is less than 2 per cent (Nawn, 2004).

exportable services in developing countries. The negotiation aspect should take into account all these issues in the light of the Doha Development Agenda, perhaps not including all WTO members immediately (concentrating on the participation of a critical mass of countries, for the time being).

Conclusion: development issues and challenges facing the BPO sector

Both entrepreneurs and Governments face challenges in developing a thriving BPO sector

Cross-border outsourcing is expected to continue growing in the near future, since it represents a positive business option for reducing costs and increasing efficiency. Outsourcing, and especially BPO, has become a means for developing countries to exploit that competitive advantage while embarking on e-commerce fuelled by the development of ICT. Government and international support can help to ensure that the benefits of developing a BPO industry will actually materialize. Potential BPO service providers need to assess infrastructure and skills requirements, define a rigorous business plan, arrange funding possibilities, develop marketing strategies to promote local competencies and find clients, and maintain competitiveness.

There are challenges at the enterprise level as well as the government level. The biggest challenge for the entrepreneur is the commoditization of services as international competition is now only on the basis of cost. BPO-providing companies as well as countries need to go up the value chain of BPOs. Hence, along with supplying basic services, other dimensions for increased attention are improving efficiency, being on the learning curve, utilizing management talent, and improving the capacity to bring integrity between tech and consulting culture together. BPO providers will also need to consider branding the services they provide and how quickly they can move from horizontal BPOs to vertical BPOs. UNCTAD (2003) has pointed out that in order to offer high levels of cheap and quality services, entrepreneurs require better communication skills with clients, greater business acumen (marketing, partnering and labelling), more utilization of the diaspora as a network for outsourcing, and enhanced capacity to deliver concise service requirements.

The expansion of BPO services in a developing country depends to a considerable extent on its capacity to identify potential niches and make the required investments in telecommunications infrastructure, education, legal framework and tax incentives to attract overseas clients. Tailoring a national development strategy to benefit fully from the new BPO marketplace is crucial to ensure the development of a profitable market. National ICT policies and strategies embrace several sectors such as telecommunications, human resources, law and taxation, and finance and payment systems to promote the use of IT in commercial activities. Many government officials in developing countries are still not fully aware of the potential of developing a BPO industry, and some awareness-building activities by international agencies and non-governmental organizations should be pursued. The biggest challenge to government is to bring the benefits of ICT to all citizens, including the underprivileged communities which would also like to have a share in the BPO revolution.

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