



BRIDGING THE POVERTY GAP THROUGH INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

Emerging Challenges and Opportunities in Business Process Outsourcing

MPhil Thesis Assignment: BPO Value Chain Analysis

By

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1. Introduction

The impact of Information and Communication Technologies (ICT) on development is a subject that has captured considerable attention in recent years. There are many studies that show that the world has become a global village because of the progress many countries have achieved in connecting people and enterprises through innovative ICT. For developing countries, the critical issue is whether integrating ICT in the production of goods and services adds value to their global competitiveness to enable them increase opportunities for their economic and social transformation.

Torero (2006) explores this issue and attempts to provide a link between investment in ICT and growth. This study suggests that ICT accelerates economic growth by improving value chains and increasing economic competitiveness. However, research shows that growth, though necessary, is not a sufficient condition for creating new jobs and economic opportunities for poor people, countries or regions. Studies continue to explore the impact of ICT on growth, jobs and poverty reduction. The popular notion is that without ICT, countries usually grow at a rate that increases opportunities for the rich but leaves the poor trapped in poverty. The alternative hypothesis is that ICT acts as a catalyst to leap-frog economies beyond their normal growth path. Therefore, it accelerates the capacity of the poor to break out of chronic poverty by increasing opportunities for them to improve their quality of life through better access to economic opportunities, higher incomes and social integration.

2. The Business Process Outsourcing (BPO) Sector

One of the emerging areas of focus on the role of ICT in economic development and poverty reduction is the growth of Business Process Outsourcing (BPO). Interest in this field is primarily driven by the successful experience of India in offshore outsourcing. This business involves global or multinational firms in the United States and Europe outsourcing their non-core services to specialized

BPO service providers. This has enabled multinational enterprises on their core business, thus improving their efficiency.

Mehta et al. (2006) show how India has leveraged global contracts and alliances in BPO service delivery to emerge as a global leader in the global BPO market, which has an estimated value of US\$120-150 billion. In 2007, India accounted for an estimated 5-6 percent share of the total BPO industry and a significant 63 percent of global offshore business. Revenues and jobs from the BPO industry have become significant in relation to India's economy. According to Budwar (2006), India's BPO export revenues increased over tenfold, from US\$565 million in 2000 to US\$7.3 billion in 2005. Jobs in the sector are estimated to have increased from 300,000 in 2006 to over 1.1 million in 2008.

India's experience in BPO has set a global example how ICT can increase competitiveness and growth. The Indian model is being replicated in many countries to facilitate job creation and reduce poverty especially among young college and high school graduates. The BPO sector is also considered to have considerable potential for developing rural areas, hence, reducing the digital and growth divide that exists between rural and urban areas in many poor countries.

Kenya is one of the countries that has adopted the Indian BPO model to as part of its broader growth strategy that is primarily focused increasing incomes, improving equity in distribution of incomes and reducing poverty. This policy is seen as a solution to the country's rising youth poverty and unemployment problem, which has ramifications for economic, social and political stability and security. Many other countries in Africa, Eastern Europe and Asia have adopted the Indian BPO model. These include South Africa, Philippines, Morocco, Egypt, Chile and China.

Besides copying the model, research evidence shows that Kenya and some of these emerging BPO locations are challenging India as the preferred outsourcing

destination. They are exploiting opportunities such as the Indian language/accent “fatigue”, cost of labour and other competitiveness advantages. Projections indicate that while India’s BPO business is expected to continue growing, its share of the global BPO market (which declined from 70 percent in 2006 to 63 percent in 2007) is expected to continue falling.

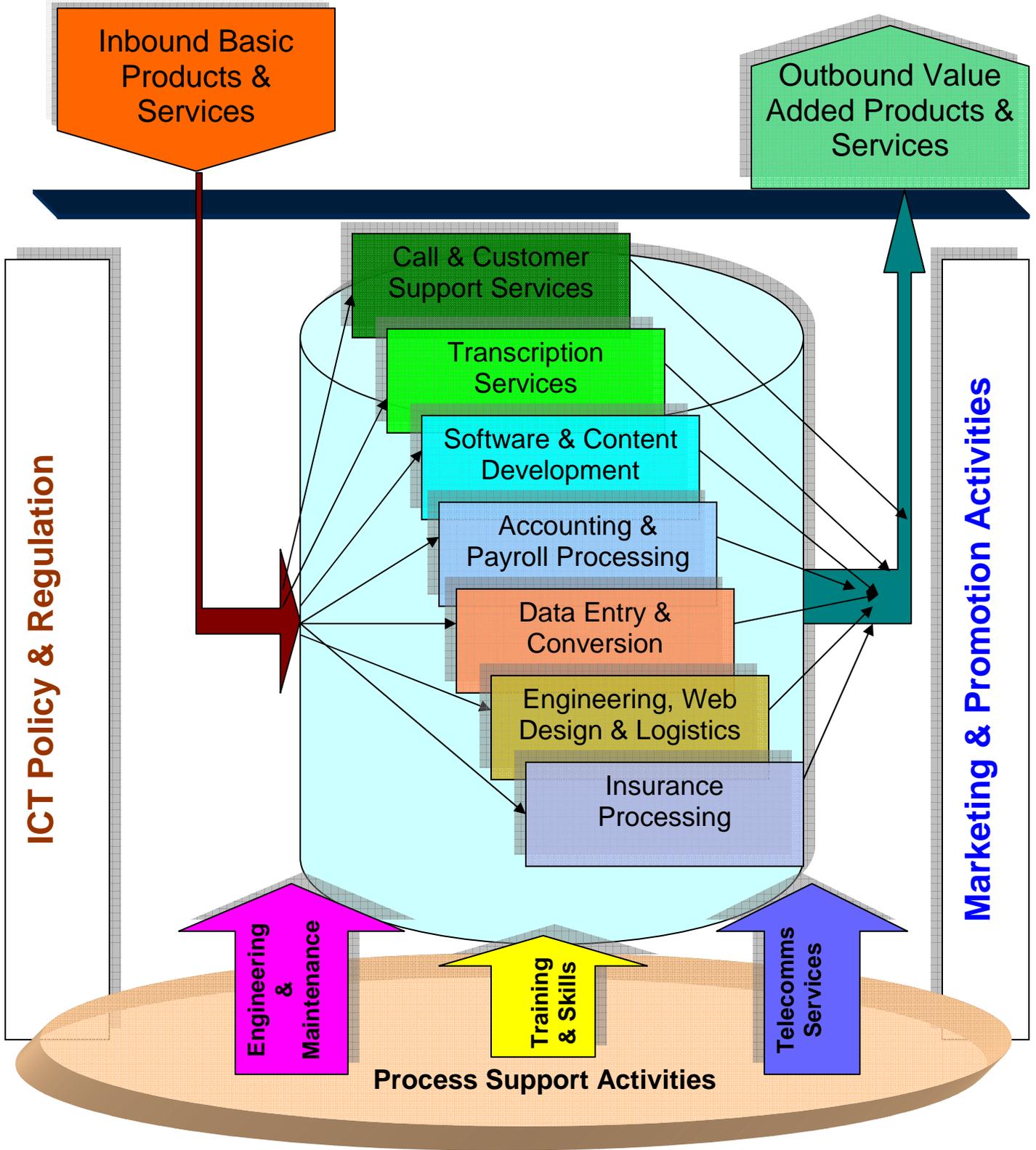
3. The BPO Value Chain

The BPO value chain involves interaction between people, processes and products/services. These may be within a country or across borders. The flow of value from developed economies, especially from the United States and Europe, to the emerging locations in the developing world is the key area of focus of emerging BPO locations such as Kenya and South Africa. The attraction of this value is that it acts as a source of foreign exchange earning (like exports) and contributes to economic development similar to that of foreign direct investment through new incomes, job creation and technology transfer.

Figure 1 below shows the main activities and processes in the chain. In this example, multinational firms outsource some of their non-core activities to BPO centres in developing countries. These services range from simple customer help services for international airlines, banks and insurance firms in nascent BPO locations such as Kenya to more complex and specialized functions such as accounting and payroll processing, engineering designs, medical diagnostic services and patent writing in mature markets such as India.

The integration of the BPO services is facilitated by providers of support services such as providers of voice and data telecommunication portals, skills development institutions (technical colleges, universities and specialized trainers) and engineering firms providing technical services such as equipment maintenance. The policy and regulation of the sector is the responsibility of government agencies and self-regulating sector associations. Both government and the associations are also involved in marketing and promotion services.

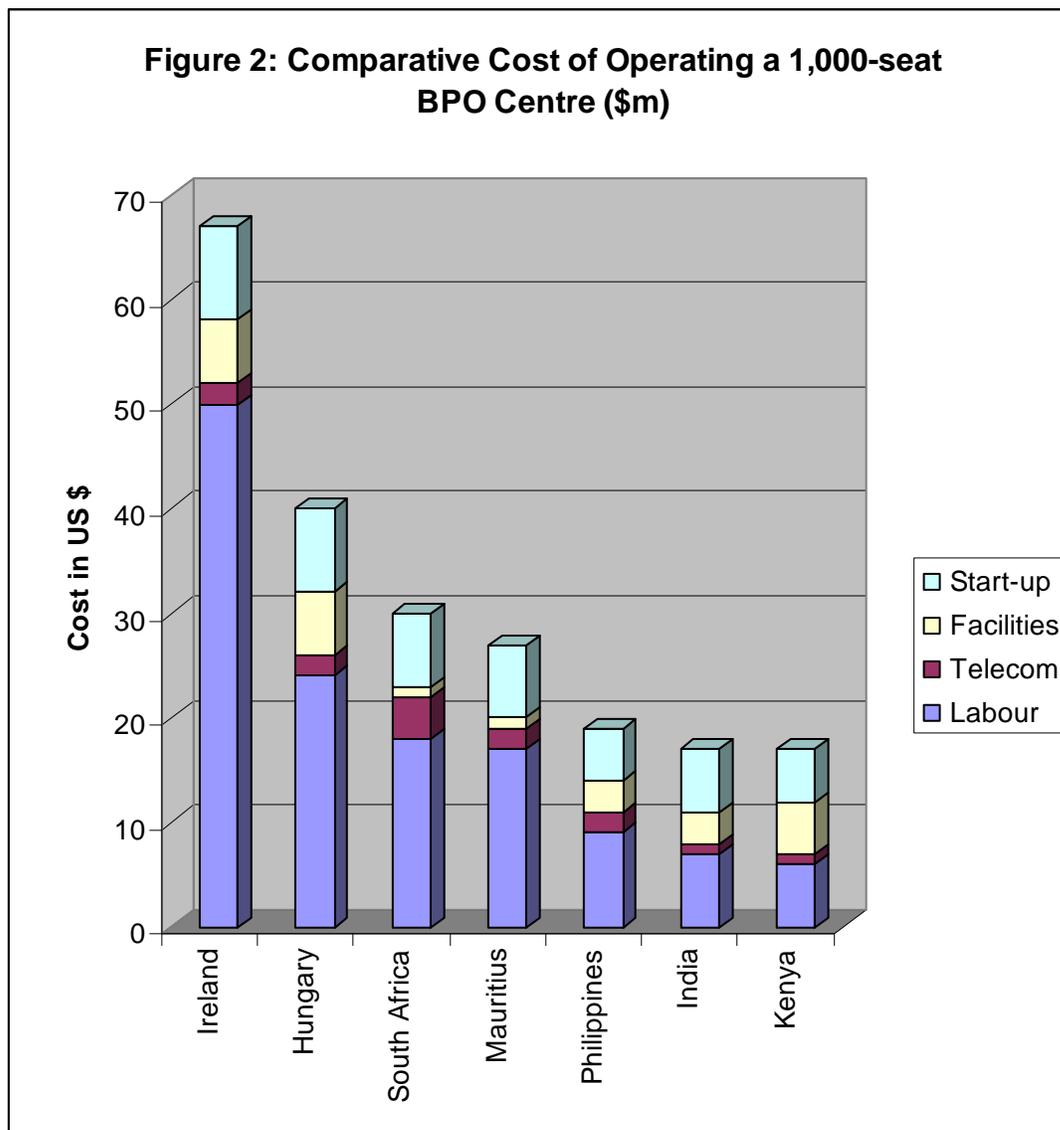
Figure 1: The BPO Chain Activities and Links



4. The BPO Value Chain Analysis

The competitiveness of a BPO location is determined by the cost and distribution of value that the people and processes add to the products and services outsourced by clients.

Figure 2 below shows the cost of operating a 1,000-seat BPO centre in different locations.



Source: Kenya Investment Authority Analysis, 2008

The comparative statistics show that it costs US\$16 million to operate a 1,000-seat BPO centre in Kenya compared to US\$17 million in India. The costs for Kenya assume that the costs of telecommunications for call centre operators are subsidized by the government through a World Bank credit for Transparency Communications Infrastructure Project (World Bank, 2007). This subsidy will be discontinued as Kenya achieves global competitiveness in telecommunications costs with the completion of a fibre optic cable from Fujairah in the Middle East to Kenya in 2009.

The operational costs of the other locations included in this comparative study are much higher, mainly due to labour costs. The cost labour in South Africa, for instance, is US\$18 million, accounting for over half of the total cost of US\$30 million of operating a 1,000-seat call centre.

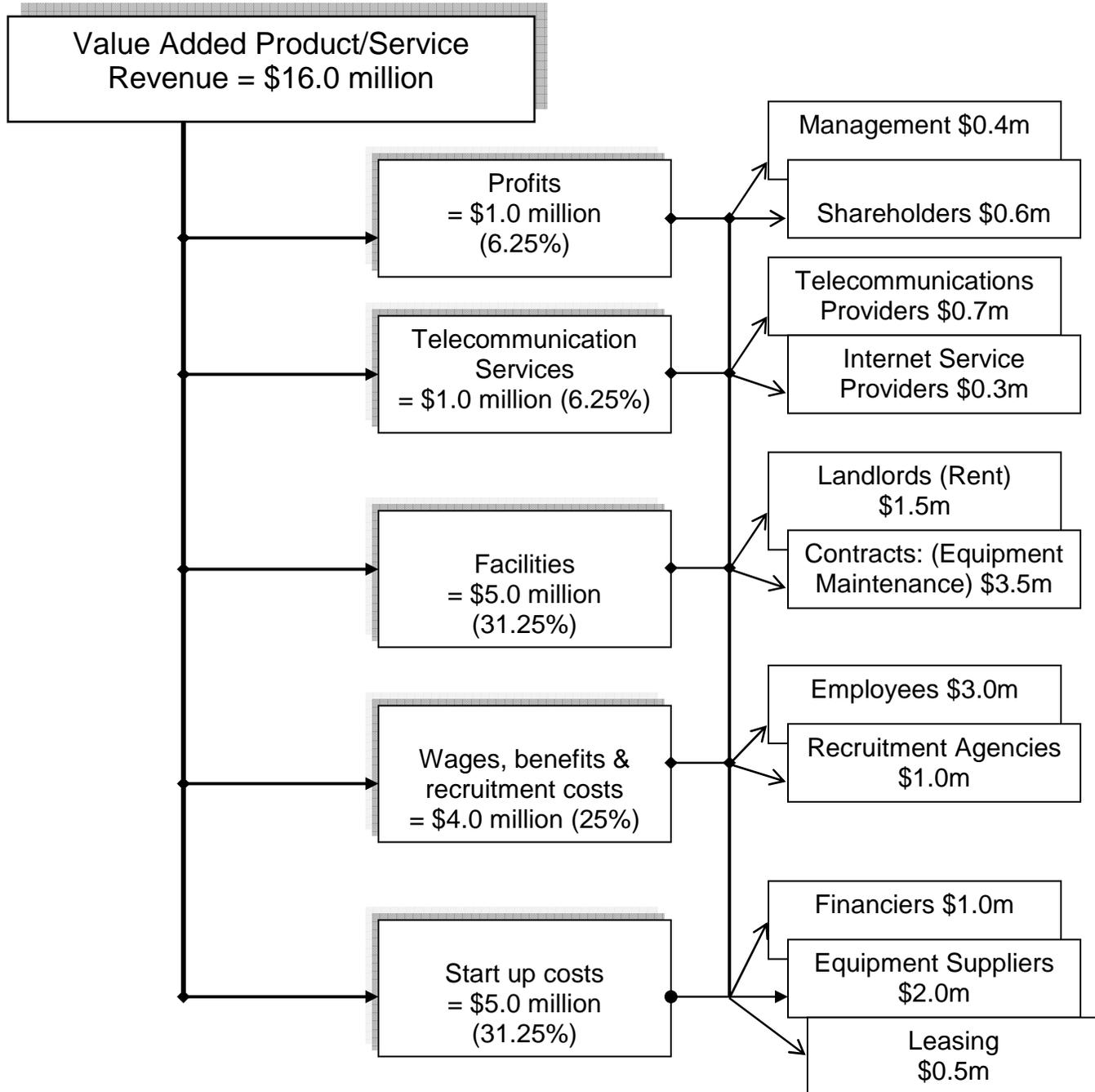
In essence, a rational global firm seeking the most competitive location for outsourcing its products or services would choose Kenya or India, based on the cost of operating a call centre. This is assuming that other factors such as quality of services, speed of delivery and reliability constant.

Figure 3 below shows how the value of a 1,000 seat BPO centre in Kenya is distributed between various actors. The assumption in this case is that a global firm outsourcing its business to Kenya pays an average of US\$16 million for value added services that are then transmitted to their global customers. It shows that the greatest value goes to actors involved in start-up activities and providers of facilities, followed by employees through salaries, wages and benefits.

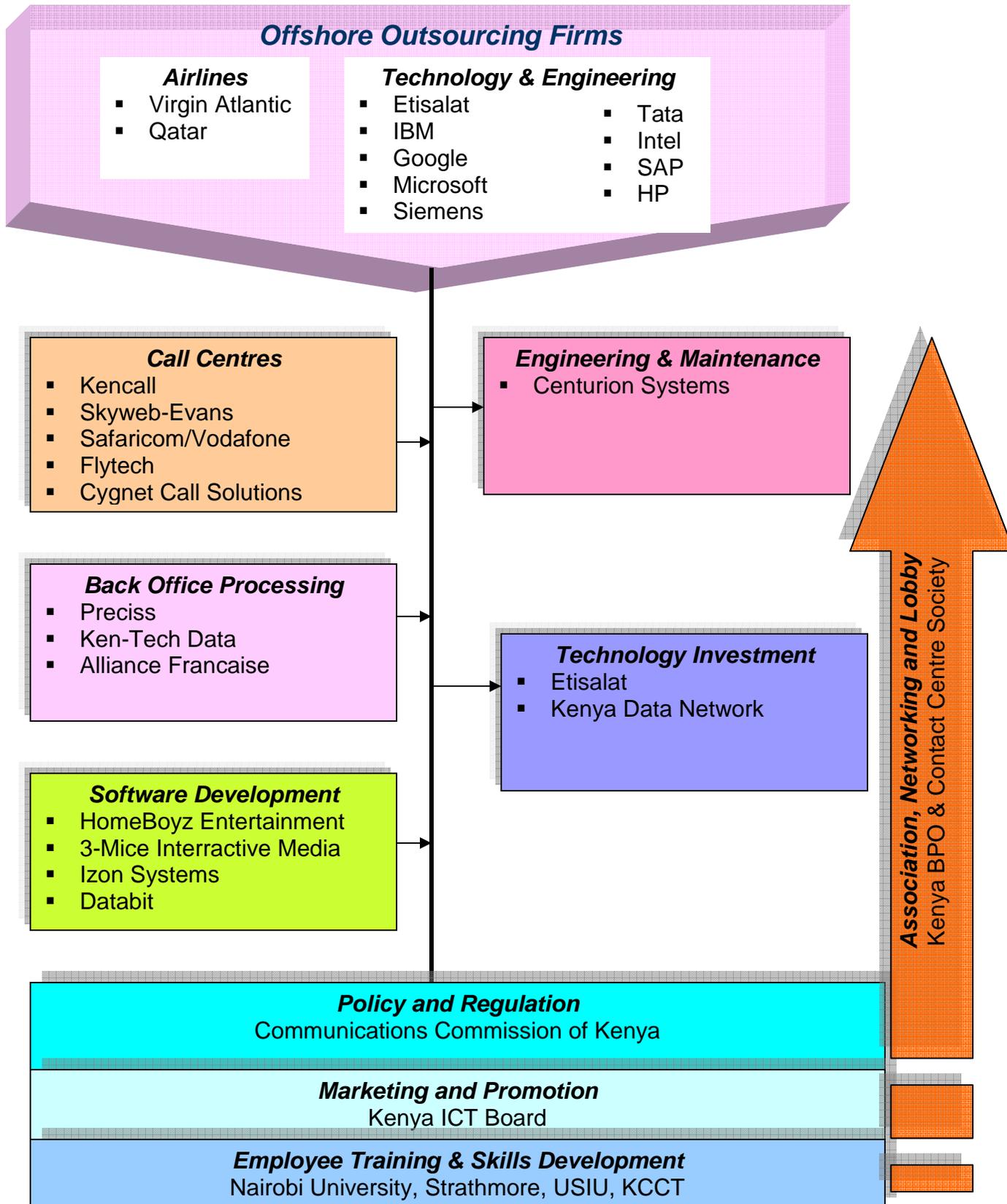
The benefit to the country in terms of additional offshore earnings, jobs and technology transfer will depend on whether the actors are local or foreign owned, or whether the foreign ones repatriate their earnings or re-invest it in the country. However, this analysis does not show the proportion of the business and the value that is retained by the outsourcing firms. Studies indicate that different

factors such as perceived risks and labour lobbies influence the extent to which firms in different industries outsource their non-core business activities.

Figure 2: Value distribution in a 1,000 seat BPO Centre in Kenya



5. Stakeholders in Kenya's BPO Sector



6. Conclusion

The global BPO industry is projected to continue expanding, increasing business opportunities for established and emerging economies. Research will continue on the real impact of BPO on economic growth, new job opportunities and technology transfer from developed economies to developing countries. Although indicators point to emerging BPO locations such as Kenya becoming attractive in relation to established ones such as India, there is need for further research on the factors driving the competitiveness of these new locations and whether the trend being observed is sustainable in the medium and longer term.

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