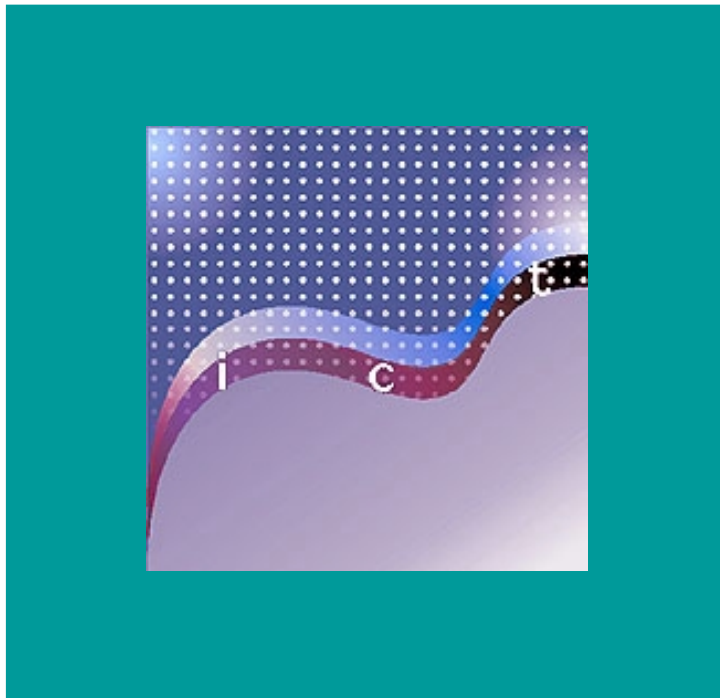


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Chapter 5: Business process outsourcing services for economic development



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Chapter 5

BUSINESS PROCESS OUTSOURCING SERVICES FOR ECONOMIC DEVELOPMENT

Outsourcing has been used for decades, especially in manufacturing, as a way to reduce costs and decrease investment in capital assets. Outsourcing the production of goods to developing countries already plays a key strategic role for companies seeking to reduce costs and streamline operations. Advances in information and communication technologies (ICT) and their business applications, together with the globalization of the world economy, have led to a rapid internationalization of information-technology-enabled services (ITES), including business process outsourcing (BPO). The growth of BPO services specifically in developing countries results from a combination of various factors, including recent ICT developments in these countries, and it mirrors increasing demand from enterprises located mainly in the United States and Europe to outsource non-core business functions at a low cost in order to focus on their main core operations. Case studies indicate that developing-country entrepreneurs seeking to enter the BPO business need to assess infrastructure and skills requirements, define a business plan, and develop marketing strategies to promote local competencies. Governments wishing to support the development of a BPO sector may, as a matter of policy, address issues related to ICT infrastructure, education, regulatory environment and taxation.

A. Introduction

In the late 1980s, outsourcing became common among large businesses located in the United States. Originally, they were driven to look for long-term ongoing support to manage their ever-changing information technology (IT) infrastructure. Large companies whose core business was not related to IT, such as manufacturing companies, outsourced their IT functions in order to focus on their core business and increase process efficiencies. IT outsourcing consists of contracting a service provider to completely manage, deliver and operate one or more IT functions

such as data centres, networks, desktop computers, and software applications. Initially these services were performed primarily at the client's site.

With advances in network technology and high-speed data networks, as well as increases in bandwidth capacity, remote management services developed. Remote management services are IT services that can be performed away from the client's location and computing technology. Companies located in developed countries have rapidly increased the scope of the operations they outsource from single aspects of IT to the offloading of entire business functions. In BPO, the company that provides BPO services to its clients is usually called the outsourcer or outsourcing vendor, or the BPO service provider. The company that buys outsourcing services or shifts functionality to an outsourcing vendor is usually called the client. To ensure consistency, this chapter uses the terms *BPO service provider* and *client*.

Moving functions such as call centres and customer support centres offering remote services providing Internet and Web-enabled applications to countries with a lower cost base emerged as a new business model for enterprises in developed countries. As a consequence, many companies in certain developing countries (mainly India) have flourished by providing, in particular, software application development and management services to clients worldwide (See section B). With an English-speaking skilled workforce and salaries up to 80 per cent lower than in developed countries (*Libération* 2003b), India has managed to capture 80 per cent of the international outsourcing market (*Le Monde* 2003b). The savings linked to low-wage labour has always been a major incentive to outsource to developing countries.

This chapter focuses on BPO as a strategic choice for enterprises seeking access to quality services and cost predictability while focusing increasingly on their main line of business. Because BPO is an expanding sector and the most recent trend in the outsourcing

market, it raises expectations in terms of economic development for developing countries. Gartner Inc. predicts that ITES/BPO will be a \$300 billion market by 2004 (Berkman 2002). Its annual growth rate since 1999 has been 23 per cent. Goldman Sachs has said that by 2005 worldwide BPO will be a \$585 billion market and will include a wide range of functions along a company's value chain (Gupta 2002). Estimates and forecasts by many Internet research firms concur that in the next few years, BPO will continue to grow internationally, becoming one of the fastest-growing e-commerce and e-business services.

However, to succeed in this promising niche, enterprises and Governments in developing countries need to focus on a certain number of prerequisites. After discussing BPO and the services currently offered by companies located or originating in developing countries, the chapter reviews some critical factors for ensuring the success of BPO in developing countries. It concludes with strategic recommendations designed to help enterprises and Governments in developing countries enable and support a sustainable environment that will permit BPO to expand.

B. ICT outsourcing opportunities

The emerging forms of outsourcing in developing countries, such as BPO, have developed along with the expansion of ICT and new business models that have dramatically changed business and communication in the information society. Lowering the costs of employing skilled and specialized workers is said to reduce operational costs up to 60 per cent (Gupta 2002), which explains why outsourcing service providers have emerged in many industries. The increasing number of enterprises that choose BPO in multiple sectors, as well as the level of complexity of the processes being outsourced, gives developing countries a chance to exploit higher-value niches.

Creating awareness of the new opportunities generated by ICT is still necessary in some developing countries, as well as in many of their enterprises. In particular, small- and medium-sized enterprises (SMEs) are not yet familiar with these opportunities. Nevertheless, several developing countries have already started to benefit from ICT opportunities. Outsourcing using new technologies such as IT outsourcing and BPO is a business-driven phenomenon. Enterprises in the United States are at the origin of the new forms of outsourcing, and India is the main

outsourcing provider among developing countries. The following section reviews the history of BPO and focuses on the reasons that have led some enterprises to outsource, in particular to India.

1. The history of BPO

Since its inception, the outsourcing marketplace has been very competitive. Large companies in the United States first began outsourcing their non-core IT services to large companies domestically, preferring to have these services provided securely and reliably from the outside, rather than building up in-house expertise. The large IT and BPO service providers and intermediaries in developed countries include Accenture, Computer Sciences Corporation, Cap Gemini Ernst & Young, Deloitte Consulting, Electronic Data Systems Corp., IBM Global Services, Keane and PricewaterhouseCoopers. These corporations, as well as other global and regional clients in the United States and Europe, have progressively built, acquired or partnered with delivery companies in developing countries. US companies are expanding offshore through partnerships, acquisitions and local subsidiaries. The term *offshore outsourcing* was coined by US companies to describe outsourcing abroad, beyond the shores of the United States. The term is now in wide use globally to describe outsourcing to a provider in another country.¹

Outsourcing business processes to developing countries had its beginning in the early 1990s, when US companies began outsourcing to India the conversion of custom-made software programs from one operating system to another (Gupta 2002). This tedious and time-consuming operation could easily be transferred to a provider in a developing country. US companies found that programmers in India could perform the work with the necessary skill, speed and attention to detail, and outsourcing was much less costly than performing those tasks in the United States. Once the outsourcing of programming was perceived to be successful, an increasing number of IT tasks were outsourced abroad, including applications management, applications development and help desk support.

However, depending on the level of complexity of the outsourced business functions, location can become an important issue for outsourcing clients and BPO service providers. Many companies in the United States, for example, want to be able to easily "touch and feel" the facility where their services are delivered, and to easily contact or visit the service pro-

vider. Practice shows that some enterprises still prefer to outsource complex functions in relatively close off-shore locations. For example, enterprises in Western Europe are said to often outsource in Eastern Europe, and some US enterprises choose to outsource complex functions to Mexico rather than India.

In addition to India, BPO service providers are emerging in countries such as Bangladesh, Brazil, China, the Philippines, Romania, Russia, Singapore, Thailand, Venezuela and Viet Nam, to name a few.² These countries are increasingly considered as outsourcing destinations by enterprises in the United States but also the United Kingdom and other European countries, as they offer competitive BPO services on the outsourcing marketplace. Some of these countries may soon be able to compete with Indian BPO providers.

While most developing countries throughout the world provide basic BPO services such as data entry (see table 5.1), a few have been able to improve the quality of their expertise so as to provide more complex services. BPO service providers in some least developed countries are also reportedly trying to tap the available opportunities offered (see section C).

Since BPO agreements typically span three to 10 years, political stability is especially important to the client. Risk is a key factor in choosing with whom and where to do business. Potential clients will avoid a country or region where there is political unrest or conflict, as it is considered too risky for a company to move even its most basic business functions to a country with significant instability.

Giving a precise definition of BPO becomes more and more difficult (and less and less useful) as its scope expands to integrate various business functions such as human resources, logistics, procurement, engineering, marketing, sales, facility operations and management, legal work, finance and accounting. Frequently, estimates of the BPO market also include software services (UNCTAD 2002: 238). This discussion will treat the two as a single area, particularly since Indian IT outsourcing providers are quickly moving to BPO, tapping into new opportunities available in the outsourcing marketplace. Box 5.1 gives definitions of BPO by three firms that are simultaneously BPO vendors and BPO clients.

BPO is a varied and flexible process. Service providers may provide rudimentary data entry services, or they may take over management functions or operations and become responsible for the entire process. Clients may outsource to several outsourcing providers. They may outsource data centre management functions to one provider, network management functions to another, and business processes and help desk functions to still others. The BPO vendor may be a small local business or a large company, perhaps larger than the client.

2. BPO: The Indian experience

India is often cited for its successful specialization in the provision of IT software and related services (UNCTAD 2002: 238). ITES/BPO service providers in India are well recognized by the outsourcing clients, and India is a primary outsourcing destination for software contracts. The bulk of its clients are from

BOX 5.1

How three firms define BPO

Accenture defines BPO as “contracting with an external organization to take primary responsibility for providing a business process or function” (Linder JC and Cantrell S 2002).

For PricewaterhouseCoopers, BPO “is the long-term contracting out of non-core business processes to an outside provider to help achieve increased shareholder value”.³

Gartner defines it as “the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates and manages the selected processes based on defined and measurable performance metrics” (2003).

the United States, while 26 per cent are European, mainly in the United Kingdom (*Le Monde* 2003a).

Large IT and BPO vendors in developed countries are also increasingly moving their outsourcing business to enterprises in developing countries, mainly the big Indian cities of Bangalore, Mumbai and New Delhi, thus generating significant employment opportunities. Low labour costs, a sizeable skilled English-speaking workforce that has demonstrated its capacities in the field of software development, an appropriate ICT environment, and a time zone difference convenient for developed countries are the main reasons to outsource IT and business processes to India.

The development perspective

From a development perspective, outsourcing has demonstrated its viability and success in India. The Indian IT industry continues to expand and is now one of the most competitive domestic sectors. Indian software export revenues increased by 30 per cent in 2002–2003, while the global market increased only 5 to 10 per cent during the same period (*Le Monde* 2003a). Software exports accounted for around 20.4 per cent of India's overall exports during 2002–2003 (Nasscom 2003a), in comparison with 16 per cent during 2001–2002 (UNCTAD 2002: 238).

Indian exports of software and IT services in 2002–2003 reached \$9.5 billion, \$26.3 billion more than in 2001–2002. Of this, IT services and products grew at an annual rate of 18.3 per cent to \$7.2 billion, and outsourcing of IT-enabled services and business processes grew by 59 per cent to reach \$2.3 billion (Nasscom 2003b), employing 100,000 people (Wipro 2003).⁴ This figure is expected to reach between \$21 billion and \$24 billion by 2008. IT-enabled services are projected to employ up to 1.1 million people by 2008. In the software services industry proper, direct job creation is forecast to reach 2.2 million by 2008 (*Libération* 2003b).

A few large Indian outsourcing providers are well known in the outsourcing marketplace: GE Capital International services, Infosys, e-Serve, Wipro Technologies, Tata Consulting Group (TCS), Satyam Computer Services and HCL Technologies. The last four alone represented 40 per cent of the Indian outsourcing business in 2002. For example, the revenues of TCS are estimated to reach \$1 billion in 2003 (*Economist* 2003b), and Infosys and Wipro are not far behind. To meet demand, these enterprises are

heavily recruiting additional staff. Wipro, which has over 5,000 employees, is planning to recruit 1,000 more by May 2004 (*Financial Times* 2003a).

These corporations deal with various BPO functions, from the very basic to the most sophisticated, and have received a lot of business from large IT companies such as Accenture, EDS and IBM (*Economist* 2003b). Most of the larger BPO service providers in India boast an employee base of 2,000 or more. IBM, Accenture and EDS are expected to employ between 5,000 and 6,500 people in Indian offshore development centres by 2004 (Mortstead and Blount 2003).

In fact, the competitiveness of Indian vendors has been so impressive that six states in the United States have proposed bills to limit offshore outsourcing for state contracts and decrease the number of visas issued to foreign workers. In four states the legislation has passed, and starting in 2004 the annual quota for such visas will be 65,000 instead of 195,000 (*Libération* 2003a). Box 5.2 looks at this issue in more detail.

A gender perspective

Outsourcing plays a big role in creating job opportunities, in particular for women, who may be employed largely at the low end of BPO services, working in call centres or performing data entry (see chart 5.1) and other operations requiring low-level skills. As UNCTAD's *E-Commerce and Development Report 2002* demonstrated, the global expansion of software and IT-enabled services has broadened job prospects for women, who can now work from home (assuming adequate infrastructure and bandwidth are available) or in a data centre or telecentre close to home (UNCTAD 2002, chapter 3). The Indian BPO sector, for instance, employs a large number of women. Of Wipro's total workforce of 5,000 employees, 49 per cent are female, while ICICI OneSource's workforce of over 2,400 employees is 60 per cent female. Daksh E-Services also claims that 60 per cent of its employees are women (Aggarwal 2003).

Major obstacles remain in this area, and the policy recommendations made in last year's *E-Commerce and Development Report* remain valid. Women generally have to confront the problems of access to education, infrastructure and finance in order to participate fully in the digital economy. Efforts should be pursued to encourage the participation of women at all levels of BPO services. Enhancing women's awareness of BPO opportunities, their technical and mana-

BOX 5.2

Job migration: A threat to offshore outsourcing?

While developing countries devise national policies and sector-specific strategies to harness the opportunities offered by ICT, there is concern about job migration, mainly in the United States, the largest outsourcing client in the world. A November 2002 study by Forrester Research (2002) estimates that offshore outsourcing will displace 3.3 million jobs from the United States by 2015; 2.31 million of these are expected to go to India.

To minimize job losses in the United States, a recent bill proposal by the US state of New Jersey required that workers hired under state contracts be American citizens or legal aliens, or fill a specialty niche Americans could not, prompting at least four other states to consider similar bills. If the ban on outsourcing is not a danger at this stage, since the deals mainly occur between private companies on both sides, there is nevertheless a fear that further legislation will be enacted to regulate the sector at the business level. The recent debate highlighted the economic potential of BPO and was a preview of the potential protectionist backlash. Commentators are comparing this current fear of migration flow to the one created by the outsourcing of manufacturing a few decades ago and predict that it will not have a very large impact on the future of BPO in developing countries.

Meanwhile, the number of large outsourcing contracts between well-known US companies and service providers in India is increasing. Delta Air Lines has recently outsourced some of its reservation functions to two Indian companies, a move predicted to save about \$12 million in costs by 2005. The service providers will handle simple reservations, while complex ones will be taken care of by agents based in the United States.

Source: New York Times (2003).

gerial skills (through training) and their self-confidence (by involving them at decision-making levels) is still paramount for enabling them to generate sufficient income and significantly improve their quality of life.

C. BPO: What is on offer?

Large businesses in developed countries that started by outsourcing back-office functions and those requiring lower-level skills (see chart 5.1) are now increasingly outsourcing more complex functions related to human resources, billing, finance, payroll administration, training, telemarketing, order entry and so on. While large firms may have been the pioneers, increasingly SMEs in developed countries are also choosing outsourcing as a business policy in order to obtain quality services flexibly and a low cost, rather than setting up new internal departments to perform the services.

Some countries' accumulated experience in providing BPO and their workers' ability to carry out complicated tasks could help these countries take advantage of these new opportunities and thus diversify and improve their economic development. The case studies presented in the next section present a sample of BPO providers, including SMEs, in various develop-

ing countries. Since BPO is an industry where startup capital expenditures are low, it is a promising niche for SMEs, as long as the necessary telecommunications infrastructure and a low-cost workforce with the ability to execute basic functions are available.

As was mentioned earlier, BPO services span finance, banking, insurance, human resources, e-training, health care, mortgage services, credit card services, asset management, customer care, logistics and distribution, real estate, sales and marketing, and Web-related services (*Financial Express* 2002). Table 5.1 provides a list of the business process services currently offered by BPO service providers originating or operating primarily in developing countries (Goolesby and Parrino 2003). While this list may not be exhaustive, it offers a description of the current situation in the BPO marketplace. According to a recent report by Gartner Inc. (Scholl 2003), the largest single business process being outsourced is the field of human resources services. The market is estimated to grow by 18 per cent in 2003, to \$46 billion (DeMocker 2003).

The types of skills, expertise and knowledge needed to be a vendor depend on the complexity and type of the BPO functions being offered to the client. A hierarchy of BPO services by skills level is available for virtually every function within a corporation or

business, whether small or large. The evolution of a complex BPO market with offered and demanded services requiring different levels of skills, knowledge and expertise, depending on the type of business, is a complex process involving multiple long-term critical factors such as education, technological trends, cultural and IT capacity building, trust and confidence, adaptability and flexibility, and a competitive cost structure. Several BPO vendors in India have gained enough maturity and experience to be able to provide more sophisticated services, such as those required by the banking and insurance industries.

Chart 5.1 provides a pyramid of BPO services arranged by level of complexity. It supports the idea that BPO service providers in developing countries should focus on the delivery of services offering higher value, rather than striving to increase their earnings through greater volume. (This is discussed in more detail later in this section).

Many BPO services are basic back-office functions consisting primarily of data entry, data transfer or data conversion tasks; tasks such as moving data from a document or database to a general ledger; and billing services. These tasks require basic clerical skills and can usually be fully accomplished offsite. They are

well defined, and their successful completion can be easily measured. In table 5.1, account information capture is an example of a data entry service. However, even in performing basic functions, it is essential to understand the client's instructions. Clients from developed countries may be used to a high level of service and may assume that the instructions they are providing a developing-country company are clear and that terminology in particular is explained clearly enough; in fact, however, this may not always be the case.

BPO vendors may also offer advanced data and accounting services where basic administrative functions (e.g. data entry and billing services) and data conversion tasks (e.g. moving data from a document or database to a general ledger) are performed. As the BPO vendor establishes itself as a reputable business, it may venture to offer more complex BPO services appearing higher up in the value chain (see chart 5.1). However, investment in knowledge and expertise is required for the addition of new and more complex processes such as accounting.

The next level of services involves the ability to follow rule-based and decision-making processes. These processes are clearly defined and their successful

Chart 5.1

BPO hierarchy of services

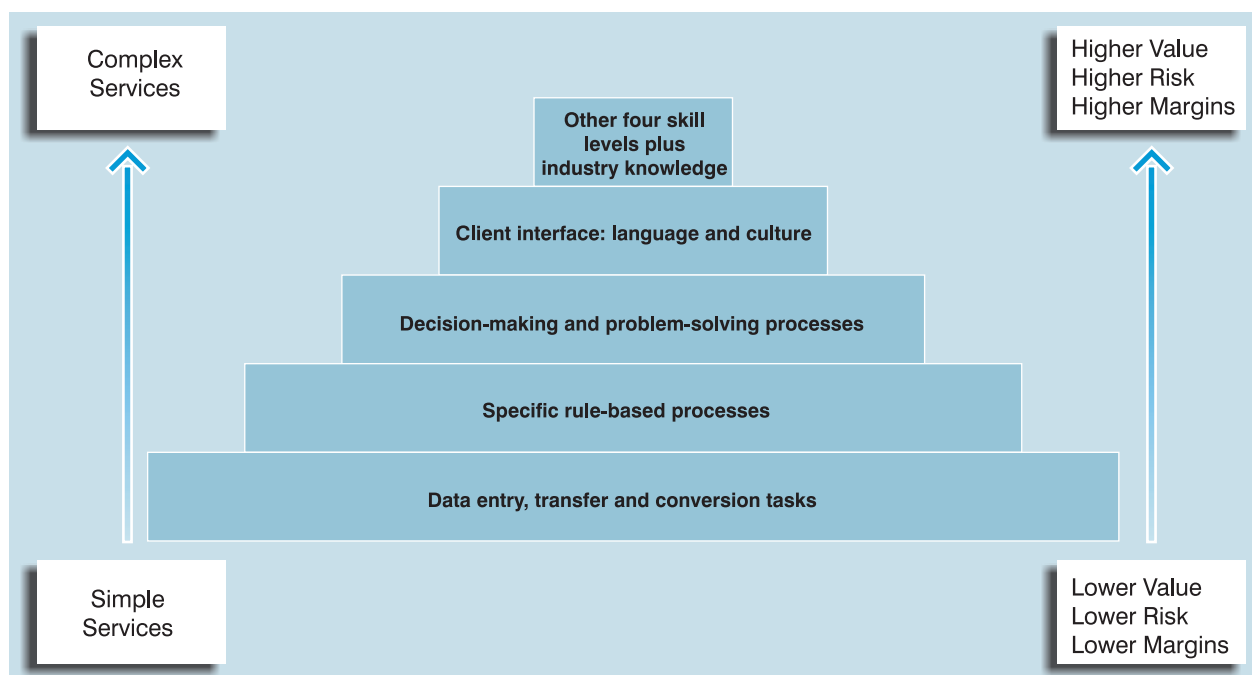


Table 5.1
List of typical BPO services

<p>Banking Services</p> <ul style="list-style-type: none"> Account opening services Account information capture Customer queries Check clearing Check payment reconciliation Statement processing ATM reconciliation Investment account management Management reporting Loan administration Credit debits card services Check processing Collections Customer Account Management 	<ul style="list-style-type: none"> Collections and customer follow-up Account queries and limit enhancements Accounting and payment reconciliation <p>Insurance Services</p> <ul style="list-style-type: none"> Policy Owner services Claims processing Transaction & Re-insurance Accounting Statutory reporting Annuities Processing Benefit Administration Customer information capture Risk assessment and premium computation Policy processing and account monitoring Claims management Payment reconciliation 	<p>Human Resources Services</p> <ul style="list-style-type: none"> Payroll and benefits processing Training and development Retirement investment and benefits management Hiring and staffing Recruitment screening, Administration and relocation services Payroll processing Compensation administration Benefits planning Administration and regulating compliance
<p>Mortgage Services</p> <ul style="list-style-type: none"> Application verification and processing Disbursals and collections Payment reconciliation Account information updates Mortgage Loan Servicing 	<p>Asset management Services</p> <ul style="list-style-type: none"> Account creation Account maintenance Transfers and additions Dividend payments Brokerage payment MIS reporting Customer service 	<p>Sales and Marketing Services</p> <ul style="list-style-type: none"> Telemarketing Services Direct Marketing and Sales campaigns
<p>Finance Services</p> <ul style="list-style-type: none"> Document management Billing Shareholder services Claims processing Accounts Receivable Accounts Payable General ledger Accounting services Treasury Operations Management 	<p>Health Care</p> <ul style="list-style-type: none"> Medical Transcription Services 	<p>Web-related Services</p> <ul style="list-style-type: none"> Website designing Website management Site personalization Site marketing Search Engine, Directory Optimization and Positioning Services Catalog / content management Web analytics Database Design Web security services and integration with CRM Back-office systems for inventory management Web enablement of legacy applications Electronic bill presentment and payment services Graphics/Animation Web-based Email Processing Web-based Help Desk Web-based Chat Support e-Learning :Web based online education services⁴ e-publishing
<p>Credit Card Services</p> <ul style="list-style-type: none"> Applications screening and card issuance Customer account management 	<p>Customer Care</p> <ul style="list-style-type: none"> Customer service Customer analysis Call centers Consumer information services Customer Relationship Mgt 	

completion requires a certain level of discipline and focus. In table 5.1, account opening services are an example of a rule-based process service. Screening credit card applications and issuing cards are examples of a decision-making process.

When the BPO service includes direct contact with clients, as do telemarketing, e-publishing, and customer support through a call centre, the skill requirements increase dramatically. BPO service providers working with clients worldwide must have not only

excellent communication skills but also knowledge of the client's language(s), mindset and native industry. When the service provider offers consulting or advisory services, complex specialized business skills and relationship-building skills are required.

BPO clients are now going beyond transaction processing and expect to achieve a degree of business processes transformation through outsourcing. As the skill and knowledge requirements increase, the cost of the employees providing the services also increases. So does the value of the service, and profit margins may increase significantly as well. This is partly owing to the cost the client would incur by retaining highly skilled employees to perform advanced functions in-house. Competition in this new market is high. With an increasing number of developing countries offering low-cost skilled labour for BPO services, primary BPO vendors need to upgrade the scope and level of their services.

D. Case studies from developing countries

The previous section demonstrated that once the minimum telecommunications infrastructure, including Internet access, is in place, BPO can materialize in developing countries, including least developed countries, at least in the form of basic data entry services, where the required skill level is low.

The case studies presented in this section demonstrate various strategies that BPO service providers in the developing world have used to implement and run their businesses. They illustrate different issues covered in the previous section. The first case is that of a social enterprise offering digitization and data entry services in Cambodia with a view to providing jobs and educational opportunities for disabled people. The second case relates to a Kenyan woman who created her own enterprise to provide BPO services worldwide in the form of simple data mining assignments and more specialized Internet research. The third case refers to an Indian enterprise, Daksh, that is well established in the outsourcing market as a BPO service provider for integrated customer care services and is preparing to offer BPO services in the area of travel and leisure. The last case focuses on the recent initiative by the Government of Mauritius to build up a Cybercity, involving IT outsourcing and BPO service providers in an effort to make the ICT sector the

fifth pillar of the economy after sugar, textiles, tourism and the financial services sector.

1. DDD Cambodia⁵

DDD (Digital Divide Data)⁶ is based in Phnom Penh and describes itself as a social enterprise for creating skilled entry-level jobs and educational opportunities. It provides outsourced data services, mainly data entry, to business and public-sector customers domestically and internationally. From January to May 2003, DDD has won 15 contracts, and its annual revenue for 2002 totalled \$150,000.

Created in July 2001, DDD is a charity-funded project initiated by a local Cambodian non-governmental organization (NGO) and assisted by a US foundation, Global Catalyst, which granted \$25,000. Another \$25,000 was to be raised by DDD to purchase needed equipment and to pay salaries in order to start operating. The idea was to use ICT to provide job opportunities to disadvantaged groups, including people with disabilities, land mine and polio victims, orphans and women. In July 2001, DDD started business with 20 employees and its first client, Harvard University in the United States, which had decided to digitize some of its archives.

DDD offers to digitize documents into different formats and send them back via email (connected at a sufficient and workable 64 kilobits per second) or FTP (file transfer protocol) or on CD-ROMs delivered by courier. One of the company's main concerns when it began operations was to understand clients' technical requirements. DDD started by concentrating on a few projects in order to ensure quality results. The staff members undergo continuous training to provide quality services and ensure client satisfaction. Considering India's positive experience with outsourcing, the manager of DDD has undergone training at Cyberdata, a BPO company in New Delhi that specializes in data conversion and digitization. To ensure high-quality work and compensate for expertise that it lacked when it started operations, DDD entered into partnership with Cyberdata, which will get clients through DDD in exchange for providing software and IT and management training. In 2002, DDD outsourced 60 per cent of its activities to Cyberdata, as compared with 30 per cent in 2003. About 70 per cent of DDD's clients are from the United States, mainly universities (submitting library archives, microfilm, etc.) and law firms (submitting telephone records); the remaining 30 per cent are

local SMEs, NGOs and the National Library of Cambodia.

DDD maintains that it is run “as a self-sustaining co-operative, with all profits going back into the business to provide fair salaries, ongoing training and health services for its employees”. DDD allows staff members to work flexible hours, including part-time, so that they can continue their studies, and it pays them an average of \$65 a month. (A factory worker earns around \$40 a month.) In April 2003, DDD was employing 93 people, 50 per cent of them women, at all levels of responsibility. Ten employees have already benefited from career advancement opportunities, moved to another enterprise, and been replaced by DDD. DDD is planning to open offices in Battambang (Cambodia) and Vientiane (Laos) and hopes to employ 500 people by 2005. DDD has also engaged a representative in the United States to promoting DDD’s services at trade shows and by telephone and email marketing.

2. PrecissPatrol Kenya

Founded by Mugure Mugo, a young Kenyan woman entrepreneur, E-Business Solutions Ltd. began operations in 1998 and was formally registered in Kenya in January 1999. It started by offering website development solutions, targeting the East African market. In November 2001, it became involved with the UCTAD/WTO International Trade Centre (ITC)⁷ through the Kenya Nationwide Task Force on E-Commerce, of which Mugo was a board member. Recognizing the benefits of BPO, Mugo registered Preciss Services in April 2002 as a subsidiary of E-Business Solutions Ltd. and began operations as PrecissPatrol in July 2002. With \$5,000 and the support of E-Business Solutions Ltd. in terms of human resources, office space and telecommunications equipment, she went on to register the company in the United States in July 2002, after which PrecissPatrol was able to open a small liaison office in Massachusetts. The existence of this office greatly facilitated various operations such as marketing, banking and communicating with potential clients. In four or five months, PrecissPatrol was able to cover its operating costs and was no longer relying on E-Business Solutions Ltd. for support.

The staff of five full-time employees, each with a diploma in IT, is equipped with a high-speed multimedia computer and a permanent Internet connection. Additional workers are hired on a project-by-project basis. The projects handled by PrecissPatrol

range from simple data mining to specialized research on the Internet. Website management and software testing services are also offered, and for the latter PrecissPatrol recently signed a partnership agreement with a United States-based software testing firm. Recently PrecissPatrol has serviced categories of enterprises ranging from market research firms, consulting and training firms, and online directories to Internet filter development firms. Their clients are mainly based in the United States, the United Kingdom and the Netherlands, and inquiries have recently been received from Australia, Canada and the European Union. Offering competitive prices is central to acquiring business, and PrecissPatrol has managed to undercut United States-based competition by almost 50 per cent (Bacon 2002).⁸ In the future, PrecissPatrol plans to provide new services such as incoming and outbound call centre services and other back-office services.

PrecissPatrol has a bank account in the United States to facilitate payments by clients based there. For smaller projects and other countries, including the Australia, Canada, the Netherlands and the United Kingdom, PrecissPatrol receives payments through PayPal, an online payment service.⁹ The main challenge has been the issue of credibility and trust in international markets. Potential clients sometimes feel uncomfortable paying for a service provided by a company thousands of miles away. PrecissPatrol has over time devised ways of overcoming this problem, usually by offering concessionary fees for a trial period during which clients are able to test the service to their satisfaction.

While BPO may be a new concept in Kenya, according to Mugo, Kenya has much of the necessary infrastructure and human resources to succeed as a destination for BPO vendors. In recent years Kenyan firms have been actively involved in exporting various types of services related to areas such as architecture, engineering and accounting. In order for Kenya to become a recognized destination for outsourced services, the support of institutions such as the Export Promotion Council, the Investment Promotion Centre and the Nationwide Task Force on E-Commerce (all national export support institutions) is paramount. While initially the success of BPO may be driven by companies, government support and a stable legal and business environment are important for fostering success in any country. Recognizing the opportunity, the Government of Kenya is now starting to get involved in supporting the sector. For example, in April 2003 the Export Processing Zone (EPZA) invited a number of firms involved in BPO

to discuss how the EPZA could help them. A number of other government and non-governmental organizations are also involved in assisting this emerging sector.

Mugo has developed a website to support the efforts of PrecissPatrol, as well as those of any Kenyan firm interested in marketing its services in the international BPO market (*www.outsourcetokenya.biz*). The site is a good example of a country-level marketing site and contains all the information that investors need to know if they are planning to do business in Kenya.

3. Daksh India

In November 2002, Daksh¹⁰ was recognized as one of the top two contact centres in India in terms of revenues.¹¹ The outsourcing services offered by Daksh include the following:

- inbound customer service and technical support
- outbound collections and telemarketing
- back-office processing and customer feedback programs
- data analysis, reporting and processing
- customer interaction services (email, chat, etc.)

In the near future, Daksh plans to foray into new areas like travel and leisure and utilities. Daksh was founded in 2000 in response to high demand from companies (mainly based in the United States and the United Kingdom) looking for quality and cost advantages. On its website, Daksh claims to be the leading provider of BPO services to Fortune 500 companies.

Daksh has four service delivery centres – three in New Delhi and the fourth in Mumbai – and is evaluating the feasibility of setting up operations in South East Asia. Daksh also has two points of presence in the United States, in New York and Los Angeles. With 3,600 employees, Daksh claimed revenue of \$18 million in 2002 and expects to reach \$29 million by 2003, adding an average of six to eight clients a year. Its outsourcing contracts tend to vary from three to five years, and clients are found mostly through referrals by existing clients.

Daksh has multiple security systems in place to guarantee 24/7 services to its clients. It also has band-

width provision via satellite for extremely critical services that may need to be operational during major outages of connectivity channels. Redundant hardware and power supplies are in place to counter any local deficiencies. In addition to telecommunications infrastructure, human resources play an important role in the BPO industry. The industry employs a large number of fresh graduates, and it is important to keep their interest and maintain retention levels through ongoing training. Daksh has developed a strong pool of in-house trainers who train customer care specialists in various subjects like voice and accent, soft skills and behavioural training, and product training.

According to Sanjeev Aggarwal, chief executive officer, the implementation of a well-prepared business plan, a combination of adequate funding and a sound infrastructure, and a few clients to jump-start the venture all contribute to a BPO venture's initial success. Since quality is a key component, stringent methods and checks aligned to the client's requirements should be in place. All these steps minimize the chances of encountering difficulties along the way, and they help to ensure long-term stability and ongoing success.

4. Cyber island Mauritius

The Government of Mauritius recognized very early that its ICT sector was an important key to the future development of the country, and it has embarked on ambitious long-range plans.

The Government plans to transform Mauritius into a "cyber island", as the adoption of ICT in all sectors is expected to enhance productivity and quality and improve competitiveness. The aim is to create an ICT sector that will enable Mauritius to participate fully in the digital economy by becoming a regional hub in the Indian Ocean.

The strategy to develop Mauritius into a cyber island revolves around the following:

- research and training institutions
- a local labour market with high-quality technicians, engineers and software developers
- favourable tax and credit incentives
- bureaucratic efficiency and institutional support
- world-class telecommunications infrastructure

There are about 150 companies in Mauritius working in areas as varied as hardware and software supply, software development, three-dimensional animation and multimedia development, IT training, back-office operations, call centres, data encrypting and electronic archiving, back-up centres, electronic publication and website development. The island has an ATM network and many other services such as ISDN (integrated services digital network), ADSL (asymmetric digital subscriber line), frame relay and the like. Mauritius Telecom has been privatized, and 40 per cent of shares are owned by France Telecom. Liberalization of the ICT sector has been implemented in a strategic and forceful way to boost investment in this sector. Internet service provider (ISP) licenses have been granted to 20 companies, and major developments are expected in the years to come.

The number of fixed telephone lines increased from 21.2 per 100 inhabitants in 1998 to 27 per 100 inhabitants in 2002. Mobile phone use increased from 5 per cent in 1998 to 30 per cent in 2002. The number of Internet subscribers rose from 35,000 among a total of 300,000 households (11.7 per cent) in 2000 to 50,000 (16.7 per cent) in 2002, while the number of Internet users increased from 123,000 in 2000 to 173,000 in 2002. Eighty-three per cent of businesses have at least one computer, 43 per cent have a network, 75 per cent have Internet access and 21 per cent have a website.

While BPO vendors and clients may certainly benefit from the modern telecommunications infrastructure available in Mauritius, Government support for ICT is seen as a key component for accelerating the development of this sector. A ministerial committee chaired by the Prime Minister has been set up to monitor progress in development of ICT, in particular the implementation of a “cyber city” project, known as “Ebene Ciber City”.¹² The committee is also responsible for follow-up and coordination of action on the strategic partnership formed between India and Mauritius regarding IT development in Mauritius. India has granted Mauritius a credit line of \$100 million to develop the ICT sector, and the agreement provides for support from Indian institutions such as the Software Technology Parks of India for the development of the island’s ICT sector.

In addition, three ministerial task forces – chaired by the Deputy Prime Minister and Minister of Finance, the Minister of Information Technology and Telecommunications, and the Minister of Education and Scientific Research respectively – are to ensure the efficient development of Ebene Cybercity and busi-

ness parks, e-government, e-education and training. Ebene Cybercity will offer state-of-the-art facilities for the development of software and multimedia, training in ICT, call centres, back-office operations, data encrypting and electronic archiving, back-up centres, e-publishing, and website development.

BPO has been identified as a niche area for ICT development, and a secretariat has been set up at the Government Board of Investment to handle BPO projects. ICT companies investing in Mauritius include Infosys, Satyam, IBM, Microsoft, Hewlett-Packard and Accenture, which (in partnership with DCDM Consulting) is currently managing BPO projects from a delivery centre. Others include Berger Levrault (information processing, publishing and information management), Centrefile (human resources and payroll services), Cendris (document management, imaging and data processing, database management, printing and mailing, scanning and retrieval, and e-commerce), Mondial Assistance Group (business-to-business assistance, travel insurance and service provider), Bowman Cybercity (call centres), Answer Plus (telephone answering services and tele-messaging) and Ingecom (development of radio frequency electronic systems and modules and radiolocalization).

Individual initiatives in the broader ICT sector are being encouraged by the Government. A number of start-ups by young entrepreneurs have already become operational in the Incubator Centre of the National Computer Board. The Development Bank of Mauritius is introducing a scheme to finance enterprises engaged in ICT-enabled services and development of ICT products.

E. Conclusions

Outsourcing to offshore vendors, or “offshoring”,¹³ is expected to continue growing in the near future, since it represents a positive business option for reducing costs by employing workers in developing countries (Gartner 2003). The cost implications and real business process benefits for clients have not yet been fully assessed, and the level of BPO services provided by most developing countries is still low. However, competitive advantages and economic pressures encourage companies located in the United States and Europe to look for partners in developing countries to deliver quality business services, and this trend is likely to continue.

Since its early stages, outsourcing has matured and has become a way for developing countries to exploit competitive advantages while embarking on e-business activities using ICT. Providing BPO services via the Internet allows a country to take advantage of an industry that does not have the logistical and geographic issues of other types of business that may require an individual to be physically present to deliver the product or service. India has managed to translate the success of its software services industry into ITES/BPO services, and Indian BPO vendors have already opened offices in the United Kingdom and are looking to set up IT services companies in France (*Le Monde* 2003a). However insightful, Indian BPO champions are not representative of a developing country that still has to discover its potential and start from scratch. While ICT play a central role in enabling developing countries to benefit from the digital economy, a number of countries affirm that government and international support can help ensure that the benefits of developing a BPO industry actually materialize.

The case studies demonstrate that potential BPO service providers need to assess infrastructure and skills requirements, define a rigorous business plan, develop marketing strategies to promote local competencies and find clients, and maintain competitiveness. BPO service providers should identify funding possibilities as well as potential local, regional and international partners, and should implement in-house or on-site training programmes aimed at continuously improving service quality and performance as well as knowledge of new technologies, while fostering a proactive policy on gender issues. Many BPO service providers have established points of presence in the United States or Europe and market their services online. The case studies also highlight the importance of national government support at the highest level to create an enabling environment for ICT opportunities, encourage policy reforms to build a climate of trust, and bring ICT to all citizens, including underprivileged communities. The conclusions provide suggestions for potential BPO providers, as well as Governments in developing countries that wish to develop their capacity to provide BPO services. These services have much in common with other types of opportunities deriving from ICT in general.

1. Enterprise-level strategies

To respond adequately to the challenges facing developing-country companies wishing to succeed as BPO providers, several issues need to be addressed.

Emphasis on high-quality services

Because BPO services have evolved in complexity, they present greater risks to clients in terms of quality delivery of services than IT outsourcing; thus care needs to be taken when embarking on BPO. When considering the creation of a BPO business, companies in developing countries should focus on one service type at a basic skill level as an entry point, such as data entry (see chart 5.1). Once this level has been mastered, services can be expanded to include more complex business processes. Starting at a lower skill level reduces the cost and risk, while trial run and phase-in services ensure quality implementation. Beginning with low-risk projects and paying special attention to the transition is what really matters. Equally important is to focus on a few projects to provide high-quality services and thereby learn the business mentality of BPO clients, build confidence, and successfully promote developing countries' capacities, even though locations may often be very far offshore.

In-house training should be provided to enable workers, in particular groups with special needs (e.g. women), to upgrade their professional skills, giving them a chance to participate at a higher level in the provision of BPO services. BPO service providers should supply career options in order to keep attrition rates low, which in turn enables retention of skills, expertise and client knowledge. Teamwork and trust are also essential for any outsourcing business to succeed, and the notion of a creative, as opposed to disruptive, relation between leadership and collective ambitions can be enhanced through training.

Communication with clients

Quality of service may be one of the main drivers to outsource offshore, but behind quality what really matters is communication between the clients and the BPO vendor. Good comprehension of the tasks to be accomplished is a key factor for succeeding in business. When offshore outsourcing is conducted through ICT (mainly email), such comprehension is even more crucial. Long distances increase the need for accurate guidelines and communication skills. They require an understanding of the outsourcing client's mindset, needs and business. The more the service involves interaction with the client or the client's customers, the more language and communication skills become a decisive factor in doing business with a company or within a country. They are critical in an

outsourcing environment, where problem solving and the communication of news are essential for the success of the business and the BPO services agreement. Being able to communicate with and understand the needs of the client and have the client understand the service provider are of key importance in selecting an outsourcing business partner.

To that end, BPO service providers should communicate early and often with foreign counterparts, as communication is crucial for the success of any project or relationship, especially when there are differences in language, culture and work style. Providers should make sure that project work requirements are well known and success criteria and outcomes are clearly defined, communicated and understood and are measurable. For each project, key performance indicators should be in place to regularly evaluate progress.

Diaspora as a network for outsourcing

Cultural understanding is also a very important element of success when BPO services require frequent communication with clients. BPO clients look for vendors that have a similar culture and mindset in order to ensure the viability of the business relationship.¹⁴ Collaboration requires an understanding of cross-cultural social dynamics and their impact on communication. While the BPO service provider has primary responsibility to adapt to the cultural norms of the client, the client needs to be aware of cultural differences that may affect successful delivery of the service and the success of the outsourcing agreement. Challenges arise when the two sides are not conscious of many of their cultural differences. In that case behaviours and communications may be misinterpreted, with resulting actions that could disrupt business and jeopardize its success (Kearney 2000).

This explains why BPO deals often happen through diasporas. Executives originally from Bangladesh or India, for example, might be motivated to outsource to their respective countries. BPO vendors in turn need to target and organize their nationals working abroad, many of whom are fully aware of and comfortable with the cross-cultural issues involved and can overcome the potential communication problems. BPO service providers should establish strong linkages with overseas diaspora networks, universities, private-sector leaders, and consular and foreign trade authorities in their Governments.

Concise service requirements

It is imperative for outsourcing partners to invest time and money to ensure proper project management by ensuring the development and implementation of good processes. Clear and concise process requirements, work descriptions and agreements, and performance metrics diminish the risks involved in working with global teams. They define the expectations of both the service provider and the client and ensure the delivery of quality services (Terdiman 2002). Contracts may vary depending on legal requirements or on the business conventions of the client and vendor countries. The typical outsourcing agreement should be thorough enough to be read and understood by those who will be responsible for managing the contract during the lifetime of the outsourcing project, in particular since outsourcing agreements may be defined for up to 10 years.

Agreements should include a definition of the actual services to be performed, the performance requirements and service levels, the framework of a change management process (needed to track any changes that may occur in the program requirements during the years of service), the organizational structures of the vendor and client, and dynamics management and review meetings. A project management plan should be drawn up indicating programme milestones and project team contact information. An issue resolution process defining whom to contact and what to do when an issue cannot be resolved immediately, along with penalties for missing performance requirements and a glossary of terms, should be negotiated in order to avoid ambiguity.

Marketing, partnering and labelling

There are strong incentives for using ICT to promote BPO services, and going online is a fundamental for marketing companies' offerings. Developing a relevant Internet presence is now a common practice for BPO service providers in developing countries. A comprehensive website proposing well-defined services, clear prices, competitive advantages in terms of cost reduction and service quality for clients, and a client reference list helps create a trustworthy environment.

Many companies in the United States and Europe do not know where to search for a trustful and reliable partner. BPO vendors should develop partnerships

with major global clients as a way to enter the outsourcing market and establish their company in the BPO business. BPO service providers in developing countries also have to keep abreast of the latest technological trends in order to remain competitive in the global outsourcing marketplace.

Many BPO vendors have established points of presence in the countries where the majority of their clients are located. Participating in international business events – such as the conferences organized by the Outsourcing Center,¹⁵ the Outsourcing Institute or its affiliate members¹⁶ or CIO.com,¹⁷ and specific organizations (e.g. the Global Offshore Outsourcing Summit held in India in April 2003) – should also be considered as a way to find potential clients and learn about strategies and good practice.

Creating an outsourcing certification label for companies that corresponds to the different types and levels of complexity of available BPO services may be a prerequisite for successfully matching providers' services with clients' needs.

2. Government policy options

The expansion of BPO services in a developing country depends to a certain extent on its capacity to identify potential niches and make the required investments in terms of telecommunications infrastructure, education, a legal framework, and tax incentives to attract overseas clients (see chapter 3). The importance of government support in enabling a favourable environment for ICT has been often recognized. 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.

However, 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 NGOs may be pursued needed. Tangible success in the BPO arena may encourage Governments to implement the necessary measures, and especially to help SMEs fully exploit ICT opportunities. Even if the overall impact of BPO on developing countries' economies cannot yet be assessed, at the community

and firm levels, BPO has emerged as an economic driver for education, employment and social issues.

ICT infrastructure and access

Telecommunications infrastructure and access remain the main factors in ensuring delivery and maintaining the confidence of clients outsourcing to developing countries, thus making BPO economically viable. The technology needed to conduct outsourcing business is available in most developing countries and in urban areas of least developed countries. However, entrepreneurs in rural areas have little chance of getting a share of the outsourcing market, given the urban-rural divide in many developing countries. Fostering the development of ICT infrastructure in rural areas will be key to unlocking the development potential of BPO.

Governments should encourage computerization and automation in enterprises and should support cost-effective technologies such as voice-over Internet protocol (VoIP) that lower telecommunications costs, thus allowing local BPO vendors to offer services at a competitive price. With improved Internet access and increased bandwidth, VoIP telephony is set to expand rapidly, provided monopoly long-distance telecommunications operators are not given regulatory protection. If this technology is still treated as illegal by the laws of many developing countries, this is mainly because it damages the financial position of national telecommunications operators. However, there is often no practical way of enforcing the laws. The number of VoIP companies offering their services openly in Internet cafes is increasing in many developing countries. Some countries have already taken steps to legalize VoIP. For example, in Bangladesh the Telecommunication Regulatory Commission in May 2003 took a position in favour of the use of VoIP, and legalization of this technology that provides new opportunities for increasing access to communication services was expected to occur in 2003 (Rahman 2002).

While legalizing VoIP, some Governments in developing countries would like to give this technology a legal framework and collect revenues through possible taxation of VoIP, license fees and other taxes, or restricting its provision to the monopoly telecommunications operator. The risk is that regulation of VoIP will hinder its deployment in some countries, particularly if no liberalization occurs in the telecommunications sector.

Education

The growth of the BPO industry has offered employment opportunities in developing countries for both educated and uneducated workers, male and female, as most of the basic BPO services do not require a high level of education and can be learned on the job. However, as was mentioned in section B, the provision of certain BPO services, especially high-value ones, relies heavily on the skills and specialized expertise of the vendor country workforce.

Governments could prioritize education and e-education in their development policies and could reform the curriculum of their universities and schools to include subjects in support of a technology-enabled and export-oriented service sector. The developing countries that are recognized for their outsourcing capacities have certain standards for their higher education systems. This is true of Indian universities, which attract many foreign students from the Asian region to study computer-related subjects (*Le Monde* 2003a). Other educational reforms include the example of Romania, whose educational system promotes studies in mathematics, engineering and IT services (Overby 2002).

Governments could also encourage cultural exchange programmes with other countries that related to Internet-enabled businesses. They could, through their e-government umbrella, develop national portals to market the country's business capacities.

Tax incentives

Developing countries' Governments should consider offering tax incentives and financial backing to help develop a technology services industry. Like the Government of Mauritius, the Government of India has shown support for businesses entering the technology market – in India's case, through tax breaks and other financial support that encourages foreign-based companies to outsource part of their business, or to develop and own businesses in India. In September 2000, India's Ministry of Finance made IT-enabled services exempt from income taxes.

An increasing number of clients are looking to outsource business processes to reliable partners in developing countries, but they do not always know where to find these partners. UNCTAD has recently received requests from companies looking for a database of BPO service providers in several developing countries. In one case, a company in the United States wanted information about outsourcing software development for the mortgage industry in Chile, Israel or Ukraine. While demand is high and developments in India indicate rosy prospects for the future, the development of a BPO industry is intimately connected to the wider issue of ICT for development currently being discussed by the international community. Thus this issue needs to be addressed within the wider framework of government e-strategies and policies.

Notes

1. This use of the term offshore is different from how it is used in the financial industry.
2. Several sources mention current leading destinations. The countries listed are those most often quoted in the literature.
3. See www.pwcglobal.com.
4. See www.wipro.com/spectramind/why_bpo.htm.
5. This section draws on material from online interviews with selected DDD employees.
6. See www.digitaldividedata.org.
7. See www.intracen.org.
8. In this article the author, a PrecissPatrol client based in the United States, describes his experience with the company.
9. See www.paypal.com.
10. See www.daksh.com.
11. Calculated according to US GAAP (Generally Accepted Accounting Principles), as per Nasscom.
12. See Survey of On-Line Governance (1999/2000), a joint project by UNESCO and COMNET-IT, at www.comnet.mt/unesco/Country%20Profiles%20Project/mauritius.htm.
13. Mortstead and Blount (2003).
14. S. S. Cheng, General Manager of HP Outsourcing Southeast Asia, in an interview with the Computerworld Singapore IT Outsourcing Forum, www.computerworld.com.sg/pcwsg.nsf/unidlookup/E78AD5906A92B69648256BA5001E7896.
15. See www.outsourcing-events.com.
16. See www.outsourcing.com.
17. See www.cio.com.

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