

# *ICT-enabled outsourcing and offshoring activities in Hungary*



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## Outline

- **Changing investment behaviour**
- **The present: Share Service Centres (SCC) and Call Centres**
- **The near future: investment in preparation**
- **State incentives**
- **Actions to be taken by the Government**

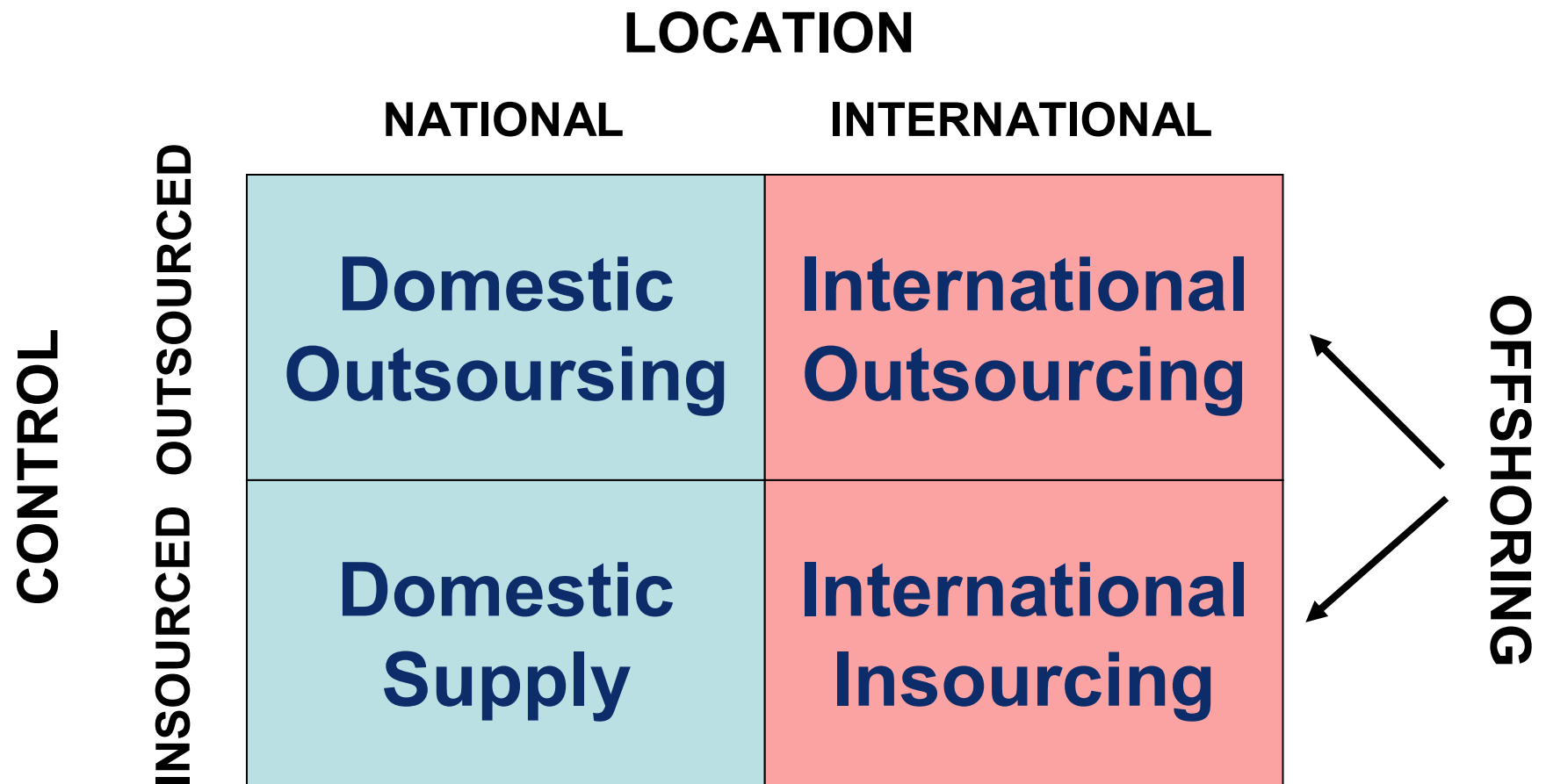
## • **Changing investment behaviour**

- **Hungary's success in the 90's (favourite destination):**
  - Stable and attractive investment environment
  - Low cost and highly skilled labour -> high FDI
- **New challenges**
  - Increasing labour cost
  - High level of competition in the region (SK, CZ, PL, RO, BU)
- **New type of investment**
  - high value added investment
  - based on existing investment,
  - expansion and development of services, facilities
  - R&D centres

## Press headings

- **India Daily: GE, IBM shifts focus from India to Hungary - a new trend or just isolated cases?**
- **CIO Insight, March 2005: Hungary is the 5th most attractive target for IT related outsourcing**
- **KPMG: Hungary is not lagging behind: nature of investment changes, the future is not the low labour cost**
- **Világgazdaság: Budapest has become a favourite outsourcing location in CEE (based on Capgemini ranking)**

## Sourcing Graph



## **Export oriented Share Service Centres and International Call Centres**

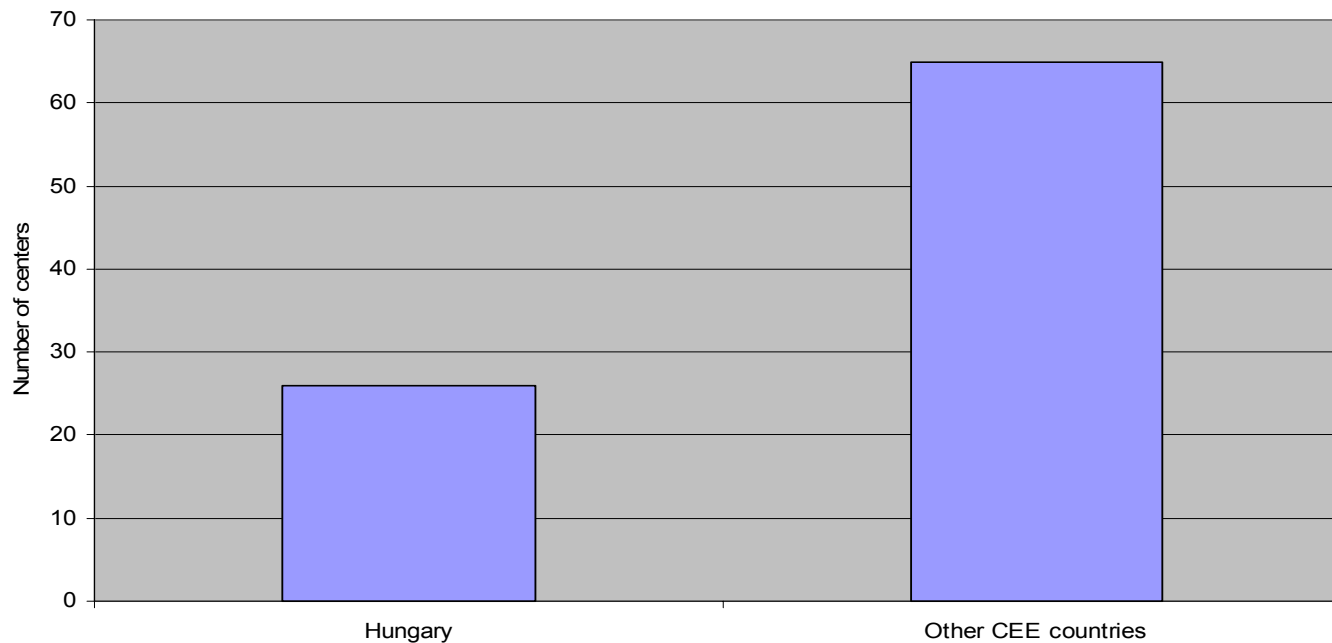
- **Beneficiary of this process since 2000**
- **Only a few services settled compared to Europe, but prospects are promising**
- **Measurement problems**
- **Estimated service export turnover is between USD 400 – 600 million**
- **Estimated number of new jobs bw 4000 – 6000**
- **No job losses as a result of international sourcing**

## Results 1.

- **Firms investing into the largest SSCs / Call Centers created between 500 and 1000 jobs respectively and are continuously expanding their range of services (EDS, IBM, Sykes, and GE EOS)**
- **Dozen of multinational companies have established small and medium sized regional service centers in Hungary, employing 50-500 persons (DIAGEO, Avis Europe, and Exxon Mobil)**

## Results 2.

**Export oriented foreign direct investments established in CEE aimed at such service institutions as Call Centers, Shared Service Centers, IT service centers and regional company headquarters bw. 2002 -2003**



## • Characteristics of international sourcing

- **Mainly insourcing and nearshoring**
  - Financial services
  - HR services
  - Customer services
  - IT services
- **More than 80% are in Budapest**

## **SSCs / international Call Centers investments in preparation**

- **20 other SSC investment under preparation in 2005**
- **Germany, the Netherlands, Belgium and the USA**
- **Planned investment value between EUR 700.000 and EUR 4 Million each**
- **Planned number of employees between 25 and 1000.**
- **Target locations: mainly Budapest and less developed regions due to tax allowances**

## **State Incentives Supporting Foreign Investment**

- **Tax allowances**
- **Individual subsidies for large scale investors**
- **Tender-based subsidies**
- **The one-stop system**

## **Governmental actions to be taken**

- Top priority of the economic policy
- Investment stimulating measures
- Harmonization of the bureaucratic processes
- Sufficient educational-training strategy
- Further steps of competition policy -> reduction of communications and IT costs.
- The legal and institutional framework as the basis of standardized and safe electronic networks should be continuously developed.
- The dissemination of digital literacy and the spreading of telework
- Focus on SME size service companies that are potential knowledge-based subcontractors of SSCs

## Examples: Large SSCs and Call Centres

	Number of employees	Profile	Other
<b>EDS Hungary Kft.</b>	900	IT support, customer services, back-office services	20 locations, mainly domestic clients which are local subsidiaries of transnational companies
<b>IBM ISSC Hungary Kft.</b>	700	Procurement, HR, financial and customer services	Foreign clients, mainly other IBM subsidiaries in the region
<b>GE European Operation Services</b>	600	Marketing, logistics, accounting, IT and customer services	Clients are European affiliates of GE, 18 languages
<b>Sykes Central Europe Kft.</b>	600	International Call Centre: Customer care services	Domestic and foreign clients
<b>Diaego Business Services Kft.</b>	450	Regional SSC	

## Examples: Medium SSCs and customer care centres

	<b>Number of employees</b>	<b>Profile</b>	<b>Other</b>
<b>Exxon Mobil</b>	300	Regional SSC	10 languages
<b>ING Group</b>	250	European regional trade and data processing centre	
<b>Alcoa</b>	150	SSC	
<b>GM, Flextronics, British American Tobacco, Avis</b>	Smaller SSCs and Call Centres		

## Summary

- **Hungary is a beneficiary of international sourcing**
- **Tough competition globally and in the CEE region – need for change**
- **Promising outlook, but effective governmental measures are needed**

**Thank you for your attention**

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