

Panel session on ICT-enabled services offshoring: country and business perspectives

This panel session was held as part of the June 2005 meeting of the Working Party on the Information Economy in order to increase understanding of how OECD economies can benefit from the offshoring of ICT-enabled services, and the associated challenges and opportunities. Presentations were given about Hungary and Ireland, two countries that benefit by attracting offshored services. Siemens Business Services and Satyam Computer Services Ltd. provided company perspectives on how global ICT-enabled services sourcing operates in practice, the business imperatives and motivations for firms that offshore activities, the strategic and local factors that determine the type of activities to be offshored and their location, and the wider benefits to consumers through lower prices of provided services.

The factors that emerged from these presentations, as well as the discussion that followed, as important from both a country and a business perspective include

- The investment climate and overall macroeconomic conditions
- Workforce skills and, more generally, the importance of education and training (including vocational training and life-long learning).
- Education and training matter for both source and host countries of offshored activities, aiding reemployment of displaced workers in the source country, and raising the locational attractiveness of (potential) host countries.
- ICT infrastructure development, availability and quality
- Telecommunications costs
- Wage costs
- The need to find ways to include SMEs in the offshoring process and integrate them into emerging global value chains

The most important points from the individual presentations are summarised below.

Hungary

At present, ICT-enabled services offshoring in Hungary consists mainly of shared services centres and call centres. Most of this is intra-firm, between affiliates in Hungary and parent companies in nearby countries, and is predominantly in financial services, human resource services, customer services and IT services. There is a high geographic concentration of these activities in Hungary, with over 80% of offshored activities located in Budapest.

The government aims to take advantage of the ICT-enabled offshoring of services and, in particular, to attract activities with greater value added. It has a range of policies designed to strengthen the locational attractiveness of Hungary, in a context of increasing competition from other locations both in the region and globally. These include various state incentives to support foreign investment by services firms, such as tax allowances, individual subsidies for large scale investors, and the establishment of a one-stop administrative system whereby administrative procedures and obligations are facilitated. Such incentives are one part of a wider set of planned policy initiatives. Other measures include further steps to stimulate inward investment, the harmonisation of bureaucratic processes, enhanced national educational and training strategies, including the promotion of digital literacy, reductions in the costs of telecommunications and IT-related inputs, and strengthening the position of local service SMEs that can serve as subcontractors for companies investing in Hungary.

Ireland

Ireland has been very successful in attracting foreign direct investment, in manufacturing and increasingly in services. This can be explained by factors such as the advantages of EU membership, the corporate tax regime, the skills of the English-speaking workforce, the experience of the country's Industrial Development Agency (IDA) and the educational and training strategies which have been integrated into the country's FDI-oriented development strategy. The offshored services activities located in Ireland are concentrated in computer software, financial services, and other business process offshored (BPO) services.

Both indigenous and foreign-owned software firms are primarily export-oriented, whereas in many other countries such firms largely service the domestic market. Around half of software-related employment in foreign-owned firms is in manufacturing and distribution for large software firms such as Microsoft, Oracle and Lotus, the other half is in software development for both hardware and software ICT firms. The International Financial Services Centre, established in 1987, has successfully exploited the deregulation of the financial services sector, making use of Ireland's advantages in terms of location, language, education and technology. Finally, the IDA has also targeted the BPO sector since the early 1990s, using call centres as a way into developing shared services centres. Ireland is now a leading location for shared services centres. Call centres in Ireland are also distinct from those in other countries, e.g. the UK, in that they tend to have more experienced staff and are more skills intensive because they have a substantial element of technical and software support. They also tend to have a high ratio of team leaders to agents, reflecting a focus on quality and more complex functions.

Siemens Business Services

There are essentially four branches of Siemens Business Services: (i) solution business at the highest part of the value chain (which has a high local component, adapted to local business rules and regulatory environment), (ii) business process outsourcing, especially of IT intensive business processes in human resource and financial services, (iii) operation related services, focussing on infrastructure, and (iv) product related services, focussing largely on hardware and software related maintenance. Currently, the market for solution business appears to be slowing down, but the BPO market is growing rapidly.

The main client motivations for the outsourcing and offshoring of services are reduced costs, the need to improve the quality of the services provided and increased flexibility for the firm. Increasingly, firms consider IT services to be a tool for their core business activity in a similar way to other types of services, such as accounting. By outsourcing and offshoring these types of activities, firms can focus on their core competitive activities and benefit from the economies of scale and scope realised by firms that specialise in providing outsourced and offshored services. The overall implications for jobs and employment are seen as most likely to be job loss at the bottom of the value chain, and job creation at the top of the value chain.

The main locational factors for services suppliers providing offshored services include a "follow-the-client" motivation, the skills base and know-how in place, staff retention, costs, language, time zone, and the overall political and economic stability of the (potential) host country and/or the region.

Satyam Computer Services

Offshoring has been taking place for many years, but now increasingly complex transactions and functions are being offshored. Value chains can be broken up into ever smaller segments, transforming the offshoring decision from being a binary choice (onshore or offshore) to a process with multiple options. Satyam follows a strategy of locating their activities and providing their services from multiple locations

depending on client needs and home and host country advantages and capabilities (“rightsourcing”). The type of function that is being offshored determines the location where this can be most effectively provided through the exploitation of specific geographical strengths. The geographical locations of offshored services suppliers are also becoming increasingly specialised (e.g. Israel for high-end software and learning systems, China for embedded software, hardware services, localisation and application development, Eastern Europe for software engineering and applications development, BPO and contact centres).

From the supplier perspective, national governments need to respond to the enhanced locational mobility of ICT-enabled services by focusing on providing the appropriate investment climate and infrastructure, and especially education and training (including vocational training). Governments could also make greater efforts to promote IT by encouraging the wider use of electronic transactions and processes in its own transactions and across the economy. Promoting local-global partnerships would also offer an opportunity for local firms to benefit from the investment and presence of more globally-oriented foreign firms in both domestic markets and international markets.

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