

Business Process Outsourcing Opportunities in Pakistan

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1.0 Introduction

BPO has been defined by the Gartner Group as the delegation of one or more IT-intensive business processes to an external provider who manages the selected process based on measurable performance criteria through a contract and takes primary responsibility for providing a business process [Doong – Hoong,etal 2006]. BPO has evolved as a management concept from IS outsourcing which is “the significant contribution by external vendors in physical and/or human resources associated with entire or specific components of the IT infrastructure in the user organization” [Yourdon 2005].

The outsourcing model presented by Arnold classifies the company’s activities into four types: company core, core-close activities, core distinct activities and disposable activities. The outsourcing objects include all necessary activities for a company’s existence except the company core. When firms out source productive activities overseas, whether they are provided by external suppliers or by fully owned subsidiaries it is called off shoring.

The outsourcing and off shoring have been part of the corporate activities for a long time but now they are being increasingly practiced in business services. The decision to outsource depends on the nature of corporate strategy. Productivity is enhanced due to standardization, greater specialization and expert advice and customized solution [Mari Sako, 2006].

2.0 The BPO Process

The process of outsourcing/offshoring is time consuming, as the outsourcing / offshoring company has to go through various internal and external processes to assess the ability of the service provider to meet company's expectations. Such internal corporate processes may take six months or more from the time the company takes the decision to outsource some of its business processes to the actual commencement of work at the vendor location.



General Process a Company goes through when Outsourcing

[Bearing Point Analysis 2005, Ref PSEB]

The location (country) and vendor assessment for outsourcing is carried out prior to the vendor selection. The initial location screening identifies the countries with strong IT capabilities and evaluates them based on certain parameters, including Cost, Risk, Infrastructure and HR – Plus parameters such as Political, Legal and Business. The Vendor assessment criteria includes breadth of services provided by the vendor, size, number of centers, certifications, partnerships, clientele and cost.

The countries that have established themselves as outsourcing destinations score higher ratings on account of their proven track record and demonstrated ability; however the new entrants are handicapped to begin with. The issues like IPR, copyright, etc, which tend to get ignored for the major offshoring countries like India and China, would come under microscopic scrutiny when it comes to new entrants like Pakistan.

3.0 Global Market Size

The global ITPS market is enormous and growing exponentially. A study published by the International Data Corporation (IDC) showed that worldwide spending on BPO

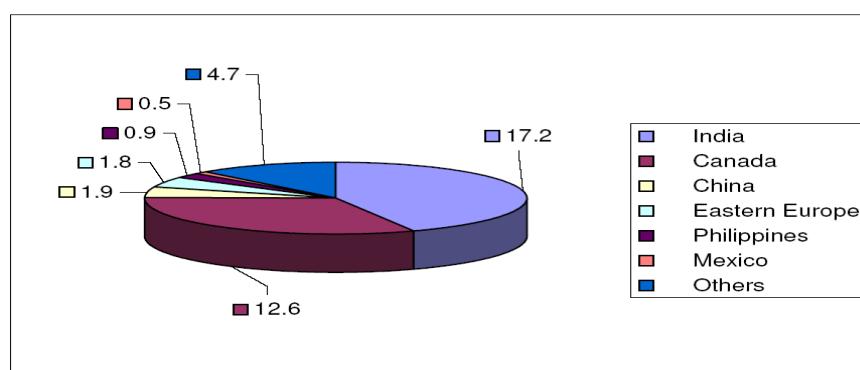
services was US \$712 billion in 2001 and will grow to US \$3.3 trillion by 2010 [Yourdon 2005].

The studies carried out by NASSCOM, Gartner and Forester estimate the current spending on ITPS as US \$ 1.045 trillion, of which US \$ 597 billion is on IT Services and Software and the remaining US \$ 448 billion is on BPO. Out of the above spending, approximately US \$ 280 billion is potentially Outsourcable to offshore locations-US \$ 160 billion on IT services and Software and a further US \$ 120 billion on BPO.

However, the actual Offshoring revenue is only US \$ 40 billion, about US\$ 28 billion on IT services and Software and the US\$ 12 billion on BPO. All global industry indicators project a growth of 7-8 % for the next 5 years in ITPS as a whole and about 11 % in BPO sector. The total spending on ITPS by the year 2010 is estimated to grow to US \$ 3.31 trillion.

The two leading players in outsourcing are India and Canada. Together they have approximately 75 % share (or US \$30 billion) of the market. Out of the total offshoring market size of US \$ 40 billion, India and Canada have 43% and 32% of the market share or US \$ 17.2 billion and US \$ 12.6 billion respectively.[] China is a distant 3rd with 5% of the market share or approximately US \$ 2 billion in ITPS offshoring revenue.

Market Share of Leading ITPS Offshoring Countries (Billion US \$)¹



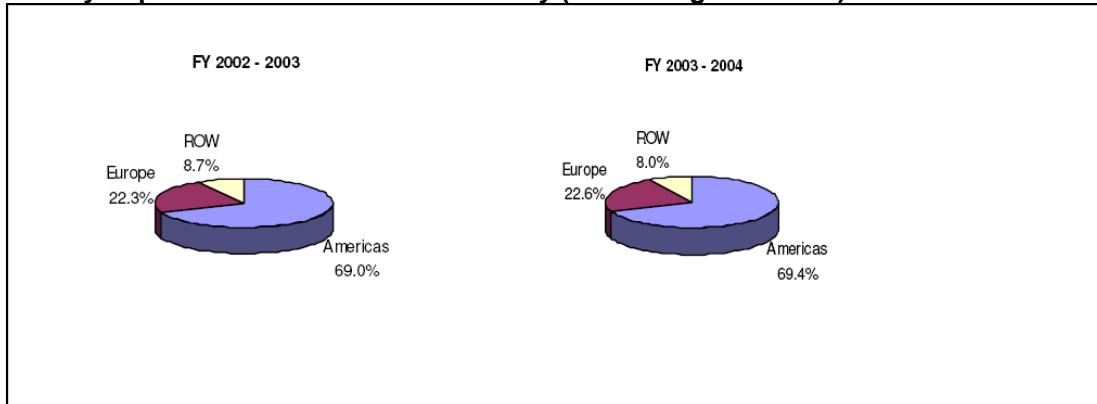
Strategy for Increasing Experts of BPO[Bearing Point Analysis Report 2005 Ref www.pseb.org.pk]

4.0 ITPS Vendors

A few major vendors control an overwhelmingly large market share of the ITPS revenue. The major IT services and software vendors include IBM, EDS,CSC and Accenture, whereas, the list of top BPO vendors includes ADP, Convergys, Ryder and Ceridan. The top three (IBM, EDS, CSC) together control one third of the global market. The top 10 global BPO vendors have approximately 28 % share of the market. The employment base of the ITPS global vendors is no less impressive. Accenture, IBM Global Services, EDS and CSC collectively employ approximately half a million people between themselves, out of which about 12% are working at their offshore locations.

The major revenue sources for off-shore ITPS are USA and Western Europe with approximately 70% and 23 % of the market share respectively, the rest of the world contributes a mere 8%.

Key Export Markets for IT-ITES Industry (Offshoring Countries)– FY 2003 – 2004¹



[Govt. Press Release 2006, Ref www.pseb.org.pk]

The IDC's study shows that US being in the lead, will continue to account for 60% of the worldwide BPO market; although Europe, the Middle East and the Asia will experience faster growth. The driving force behind such substantial change is the increasing competitive market place.

Every modern corporation has corporate functions, such as finance and accounting (F&A), human resources (HR), information technology (IT), sales and marketing,

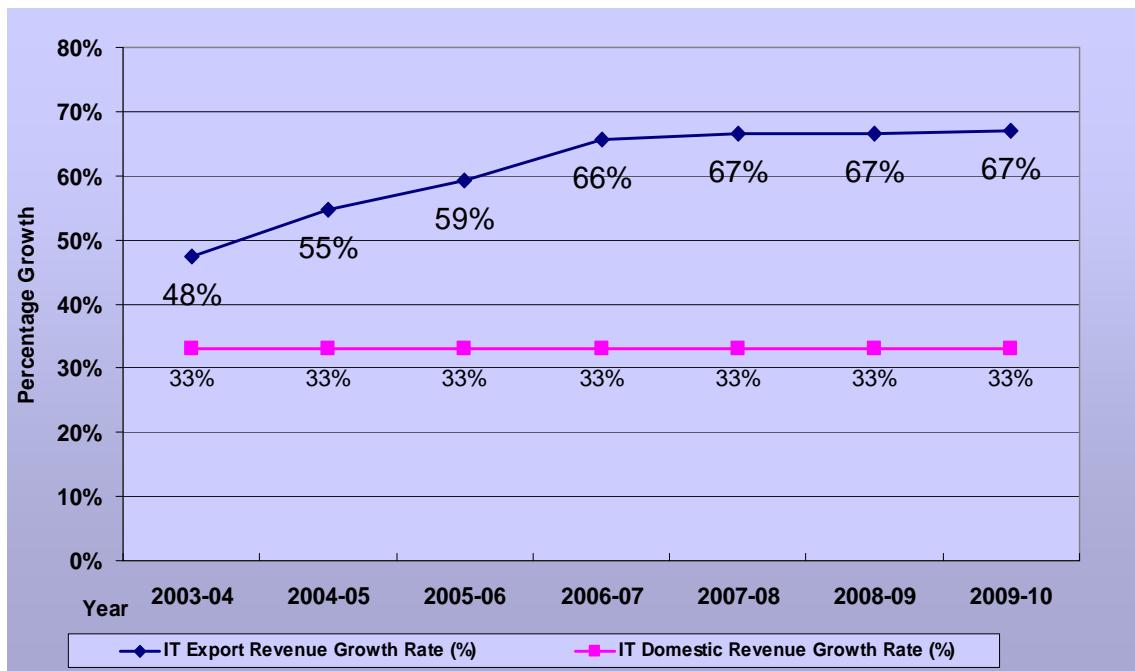
purchasing and supply, and research and development (R&D). Many processes in these departments are potentially outsourceable. In 2005, it was estimated that \$90 billion was spent globally on purchasing IT, \$179 billion in logistics and procurement, \$27 billion on engineering, \$14 billion on F&A, and \$13 billion on HR (IDC estimates quoted in Business Week, 30 January 2006).

McKinsey & Co. predicts global market for IT-enabled services to be over \$140 billion by 2008.

These \$142 Billion can be broken up and shown as below:	
Customer Interaction Services	33.0
Finance & Accounting Services	15.0
Translation, Transcription & Localization	2.0
Engineering & Design	1.2
HR Services	5.0
Data Search, Integration & Management	44.0
Remote Education	18.0
Networking Consulting & Management	15.0
Website Services	5.0
Market Research	3.0
Total	141.2
Source: NASSCOM McKinsey Study - India IT Strategies	
In that the opportunity for India will be \$17 Billion.	

5.0 ITPS Industry of Pakistan

Software Industry is still in the development stage in Pakistan. The size of Pakistan's IT industry was only about US \$ 700 million and annual software exports was about US \$ 50 million upto mid 2005. The software industry was experiencing an annual growth of 40% - 60% during the years 2003-2006 and has grown by 66% in year 2006 – 2007. The domestic annual growth has been constant with 33% during the year 2002-2007.



[www.pseb.org.pk]

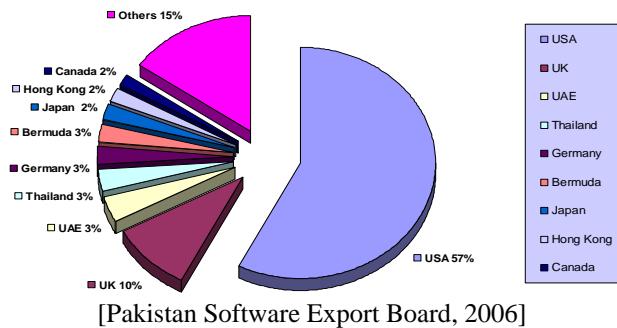
Pakistan's economy is almost 1/5th of the Indian economy. The size of the Indian ITS industry is US \$ 26 billion, with domestic market contributing US \$ 8.2 billion and international ITES revenue US \$ 17.9 billion[Nascom Report], which implies that Pakistan's IT industry has not kept pace with the other sectors of the economy and its size should have at least been about US \$ 4-5 billion. Pakistan's export revenue to the domestic revenue is only 17 %, whereas the same ratio of the Indian IT industry is 218%. [BearingPoint Analysis, 2005]

The size of Pakistan's IT industry is only about US \$ 2.2 Billion by Sep 2006 out of which exports amounts for US \$ 1.05 billion. Recently Pakistan Software Export Board developed the vision in conjunction with stakeholders such as PASHA, Planning Commission, State Bank of Pakistan and Ministry of Information Technology.

EXPORT OF IT SERVICES	LOCAL IT INDUSTRY REVENUE	TOTAL INDUSTRY SIZE
USD 1,050 Million	USD 1,150 Million	USD 2,110 Million

According to Bearing Point Analysis, the estimated ratio of the earnings of the IT services and BPO sectors is 2:1. As the BPO exports are at infancy stage, the share of IT services and Software and BPO in the ITPS exports revenues is estimated to be 60% and 40% in year 2007.

Pakistan IT Exports by Region



Public Sector has not given due consideration to merit and advantages of outsourcing. The two major priority areas for domestic outsourcing are call centers and utility bill processing. Next comes the administration, human resources, payroll and accounting services. PIA, a few banks and telecomm companies. The number of call center agents serving the domestic clients through these call centers is about 2000. The need for call centers for the domestic call centers is estimated to be 10 times more than the present capacity. This will enhance the large public and private sector productivity and facilitate the public and services for the customers.

Exports vs. Domestic	
Export-Products	22.56%
Export-Services	38.52%
Domestic-Products	23.37%
Domestic-Services	16.53%
Public vs. Private Sectors	
Public Sector (Govt.) - Domestic	8.51%
Public Sector (Govt.)- Foreign	5.90%
Private Sector – Domestic	30.79%
Private Sector – Foreign	54.77%

[Pakistan Software Export Board, 2006]

There are more than 100 ISO certified IT companies and 7 CMM certified companies in the country. Almost 25 companies are in the process for CMMI certification. There are seven MNCs.

OVERSEAS IT COMPANIES REVENUE GROWTH

Following are some of the leading global companies operating in Pakistan with healthy revenue growth percentage every year.

Company	2004	2005	2006
Oracle	30	40	70
IBM	20	20	25
NCR	25	30	35
Microsoft	20	30	30
Intel	30	30	35
Cisco	20	30	50

[E-Commerce Resource Centre – Pakistan]

The ranking of Top 10 IT/ITPS export companies with percent share for fiscal year 2005-06 are given below:

Company	%Share	Rank
NetSol Tecnologies (Pvt.) Ltd.	15.7	1
Ovax Technologies (Pvt.) Ltd.	10.9	2
TRG (Pvt.)Ltd	8.3	3
System (Pvt.) Ltd.	7.2	4
Elixir Tech Ibds	5.8	5
Descon IT24 (Pvt.) Ltd	5.2	6
Trivor Software	4.5	7
TIG Netsol (Pvt.) Ltd	3.8	8
Geopaq Tech (Pvt.) Ltd Ibd	3.7	9
Fusion Itech. (Renamed as Enterprise DB)	3.2	10

[Pakistan Softwar Export Board, 2006]

6.0 Human Resources & Infrastructure

The ITPS industry generated direct employment for over 120,000 people by the year 2005. The total number of IT professionals, call center agents and the employees working in other BPO segments in the country was estimated at 75,000, 3,500 and 2,000 respectively. However, the corresponding numbers with exportable skills were about 4,000, 2,500 and 1,500 respectively, which implied that out of the total HR strength of 80,500, only about 10 % posses exportable skills by the year 2005. [BearingPoint Analysis, 2005]

The population of people who can understand and communicate in English with varying levels of skills is about 6.5 million. However, a large number of them would require extensive training to work for their foreign clients. Availability of trainers is another limiting factor. The lack of sufficient number of middle management and supervisors is also an area of concern. The main strength of Pakistan lies in the availability of a large pool of Accountants, Engineers, Bankers and Doctors who can be employed in the BPO sector.

Infrastructure includes the three major factors, Internet bandwidth, telephone and electricity which affect BPO sector. BPO companies can address load shedding problem by using generators and UPS but Internet and telecom are beyond their control. The reliability of the Internet connection is a major concern.

PTCL has recently implemented two more links for redundancy, one through undersea cable SEMEWE-4 and the other through underground fiber optic link with an Indian company VSNL. The total bandwidth was 608 Mbps in the year 2005-06 and it is projected that it would improve to 1222 Mbps by the end of 2007.

After the deregulation of telecom sector, reliability of phone service does not constitute any significant problem in the outsourcing of BPO business to Pakistan, as over a period

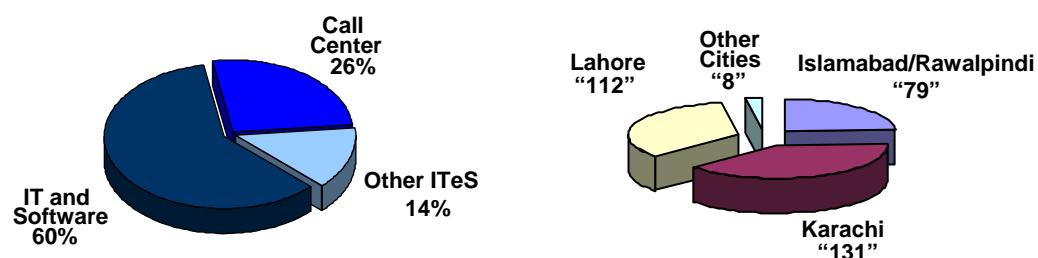
of time, the land and mobile phone infrastructure has become reasonably developed. Over 85% of telecommunications infrastructure is on fibre optics.

7.0 Local Call Centre Segment

Although, the international call center industry in Pakistan started in 1998, but the current call centers started their business after 9/11. The HR strength of these companies ranges from 5 to 500+. It was estimated that the total numbers of agents working in the international and domestic call centers were 2,500 and 1,000 respectively by the year 2005.

Estimates suggest that there are more than 100,000 call centers, 1.2 million seats and 2 million agent positions across the globe and the demand for agent positions is growing at the rate of approximately 23% to 25%. The call centers of Pakistan have to compete in this market place to get their share. According to recent PSEB analysis, there are almost 350 call centers out of which 100 are operating as international call centers.

Call Centers Share in Total Revenue



A number of Pakistani call centers are in process to maintain their presence in North America / Europe through their own offices or business alliances. The top 25 international call centers in Pakistan collectively add up to about 1,500 seats. Majority of these are outbound, i.e. providing sales and telemarketing services. The remaining international call centers, each with 10 seats or less, are either very specialized and integrated into other software or BPO businesses or have yet to establish their long-term viability. Only a few large call centers have long-term contracts and relationships with their customers.

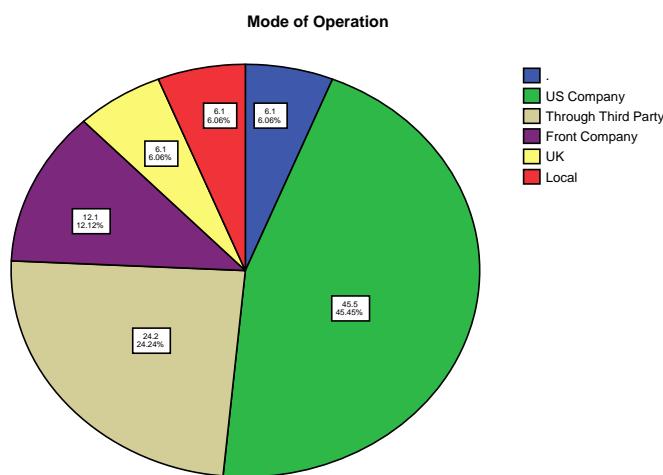
Much focus is needed on efforts to diversify into other BPO segments where Pakistan has a large pool of trainable resources, such as, HR, Accounting, Medical and Legal documentation, etc. Concerted efforts are needed to move up the value chain. For instance, call centers can upgrade themselves into better-priced customer and technical support and other knowledge-based inbound services with long-term client relationships and contracts. Similarly, BPO services need to be aimed at knowledge - based value added services, way beyond data entry and simple operations.

8.0 Data Analysis & Interpretation

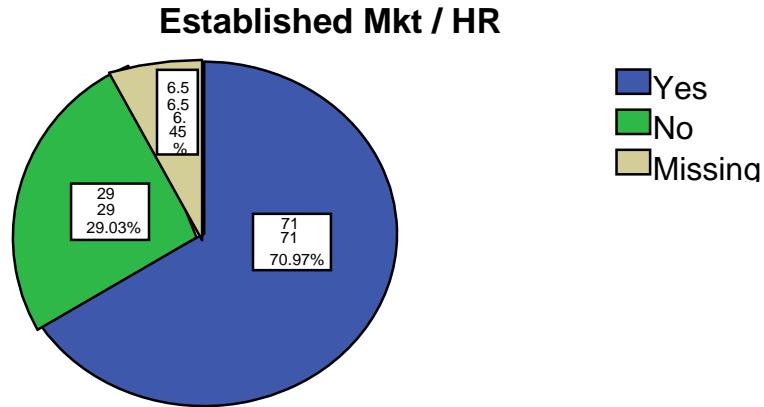
The problem addressed through this study is to determine why despite large pool of technical proficiency and language understanding Pakistan has low market share of BPO.

The respondents for the study were mostly the people involved in BPO like Directors, Project Managers and Team Leaders of Software Companies, Call Centres and other IT Service Providers.

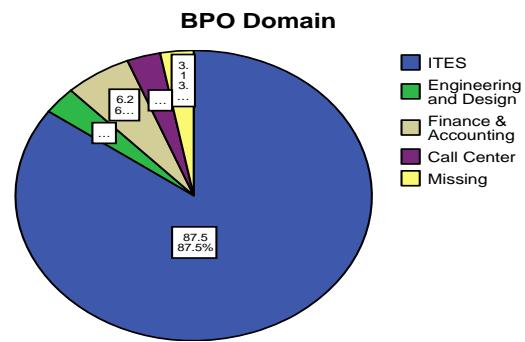
A total of 33 companies were surveyed out of which 45% are being outsourced from United States and almost 24% are getting their outsourcing business through a third party.



Almost 70% of BPO companies have their established marketing and HR Departments and 80% companies are associated with Pakistan Software Export.

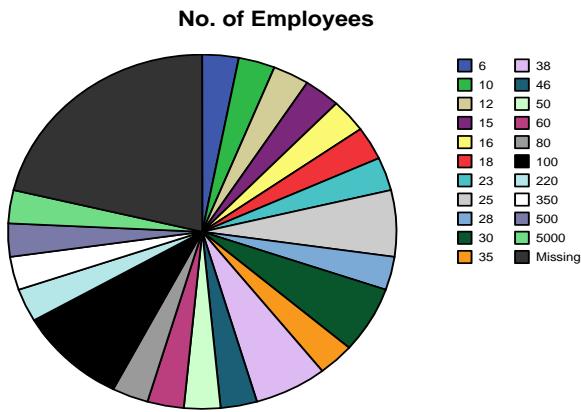


IT and ITES constitute 85% share of BPO remaining 15% includes Call centers, Finance and Accounts, Engineering and Design and Transcription services.

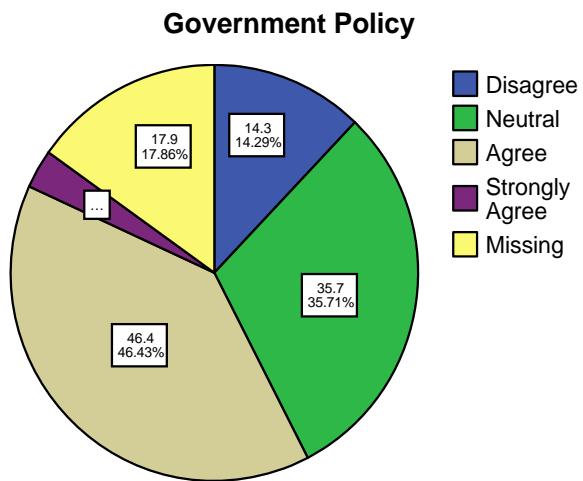


42% of the BPO companies respondents are ISO 9000 certified 6% are CMM certified and some are in process to get quality certification.

Human Resource in BPO sector ranges from 6 employee to 500 + employee. So the number of employees varies with the size of the company.



The observations of the respondents about Government Policy towards outsourcing are favorable and for the last many years Government played a major role to attract outsourcing customers and Foreign Direct Investment in other areas.



Almost 50% of the respondents argued that there is political stability in the country for many years which has significant positive effect to attract new outsourcing customers in the countries.

9.0 Research Findings

9.1. BPO Market:

1. There is a huge demand for call center setups, software services from US and Europe but there is a shortage of skilled human resource to meet requirements of the foreign customers.
2. There is a huge gap between quality service in the country and product promotion in the foreign market. BPO vendors developing high quality product and services do not have their front offices in the foreign market to attract new clients.
3. Also there is a shortage of experienced middlemen who can exploit the outsourcing/offshorting opportunities from Europe and US.
4. Time Zone for the Pakistan Call Centers are very suitable to attract business from US and UK because working hours in the afternoon and night shifts can easily meet the requirements in the US and UK respectively.

9.2 Human Resources:

5. There is a gap among skills, knowledge and experience of the available HR to provide high quality services for the global customers.
6. HR salaries in Pakistani BPO sector are higher as compared to Indian BPO industry whereas Indian HR is more skilled relative as compared to Pakistani Human Resource.
7. Job switching of developers and managers during development stage of the project causes outsourced projects to be delayed and over budgeted.
8. The English language accent of Pakistani HR at call centre is comparatively better but the English language proficiency is poor.

9.3 Infrastructure:

9. IT infrastructure (Fiber optics, bandwidth, electricity/voltage etc.) is now much more satisfactory with availability of redundant undersea fiber optics.
10. There is a huge gap between infrastructure, location and bandwidth facilities available at IT Parks and business outside the IT parks.
11. Although public works in the country have no direct impact on BPO industry even then electricity, fiber optics and transportation facilities are disturbed.

9.4 Governments Role

12. There are just eight to ten Software houses and BPO companies which are CMM certified. The Government is trying to create awareness about benefits of CMM' ISO and PMI certifications.
13. There are not adequate efforts by the government and academic institutions to increase quality certified professionals. There is gap between academic education and industry experience.
14. Country image also has a bad impact while attracting new clients in the foreign market. Many of the foreign outsourcing companies do not know Pakistan as an outsourcing location.
15. Unfavorable political environment in the country which includes terrorism, inconsistent policies and physical security also has significant effect on outsourcing and off shoring.

Future Growth:

This descriptive research covered outsourcing destination side and outsourcing opportunities to Pakistan as destination location. Another research which can be conducted why Pakistani industry is shy to outsource their non-core activities to the professional vendors to get competitive advantages and focus on their core activities. This will be the outsourcing dimension of the enterprise toward the outsourced location.

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