



Advisory • Investments • Research • Education

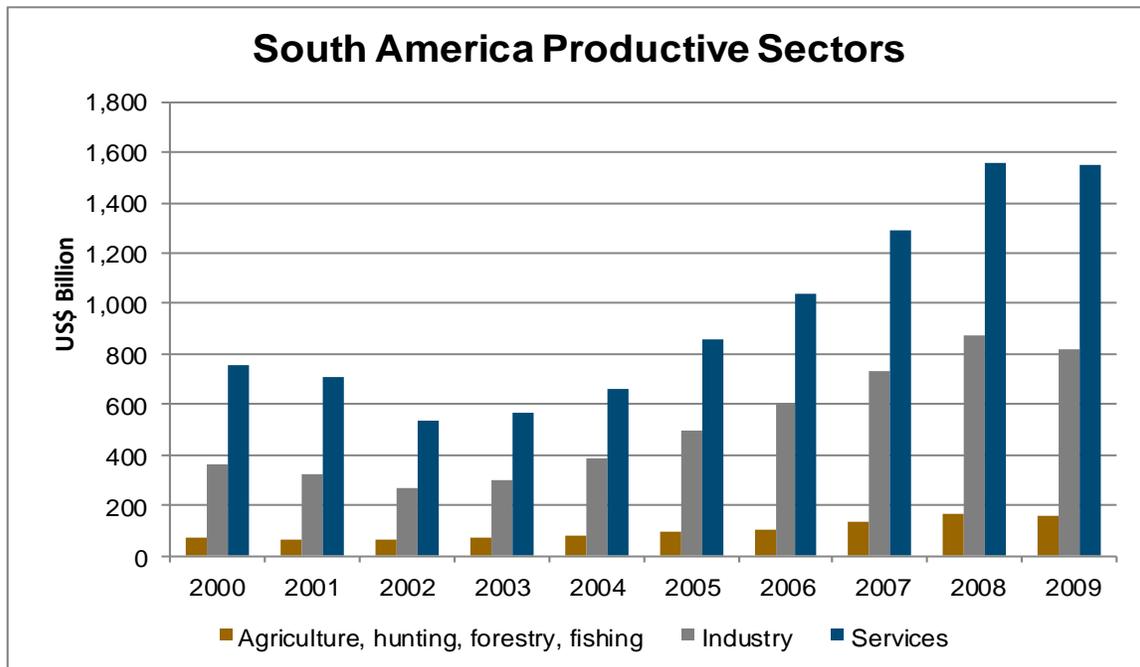
# Outsourcing & National Development in Latin America

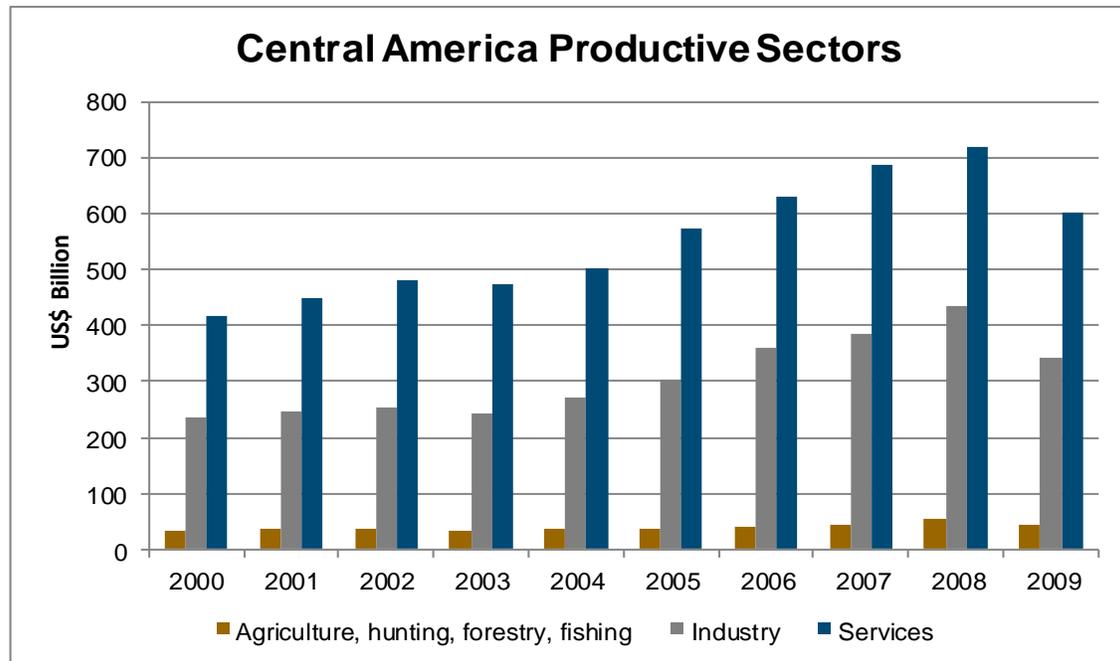
February 2012

## Services Outsourcing in Latin America Today

The services outsourcing industry in Latin America today has been tagged with lines such as “The Next Big Thing in BPO” and “The Next Outsourcing Frontier.” The Latin American region, comprising South America and Central America, has been the object of interest among global locators, especially the North American client market. With lingering economic turmoil which continues to hamper major client economies, service providers are recognizing the inherent capabilities of Latin American delivery locations and opportunities in regional domestic markets.

Figures from UNESCO show that the Latin American region today is now strongly oriented towards the services sector. As the table below shows, there is an increasing trend in terms of the share of services in the productivity of the Central and South American regions. For instance, the services sector in South America and Central America both comprise 60% of respective total industry value-adds. These figures show robust growth rates of around 8% and 4% annually since 2000 respectively, amounting to US\$1.5 trillion and US\$600 billion in 2009.





From the point of view of services outsourcing, services sector-oriented economies have a greater propensity to transition into the IT-enabled Services (ITeS), and consequently services outsourcing sector. For instance, services-oriented locations such as the Philippines boast of more than 500,000 English language-capable laborers currently employed in the outsourcing industry. Today, the country is known as the leading destination for English voice-based Contact Support Services. Sri Lanka is another services-oriented economy known for a large pool of certified accountants. Numbering more than 30,000, the country today is host to FAO providers such as AMBA Research and captive financial institutions such as HSBC - servicing markets from the UK, India, and the US. In venturing into the services outsourcing industry, what is most needed is the availability of *scalable and lower-cost labor with sufficient skill sets needed by prospective service providers for outsourcing*. It is imperative to gauge the skill sets of the current and incoming labor pool (particularly the tertiary graduates) in order to match them with the specific outsourcing processes as various fields of specialization correspond to respective service lines and processes. Because of this, Latin American locations must identify and gauge the skill sets of its respective labor pools that could be harnessed and be transitioned into the IT-BPO industry. Highlighting the countries' labor pool serves as the initial pull attracting investments for outsourcing which consequently would increase the region's share in the global outsourcing market.

Discipline	Segment	Service Lines and Processes
<b>Health</b> <ul style="list-style-type: none"> <li>• Nursing</li> <li>• Medical technology</li> <li>• Pharmacy</li> <li>• Midwifery</li> <li>• Biology</li> </ul>	BPO	Medical Transcription <ul style="list-style-type: none"> <li>• Encoding</li> <li>• Billing</li> </ul>
	KPO	Health Information Management <ul style="list-style-type: none"> <li>• Patient Information Management</li> <li>• Physician Information Services</li> <li>• Laboratory Information Services</li> </ul>
<b>Information Technology</b> <ul style="list-style-type: none"> <li>• Information Technology</li> <li>• Computer Science</li> <li>• Computer Engineering</li> </ul>	BPO	Contact Center Services <ul style="list-style-type: none"> <li>• Technical Support</li> </ul>
	ITO	Infrastructure Management Services <ul style="list-style-type: none"> <li>• Database Management</li> <li>• Network Management</li> <li>• Storage Management</li> <li>• Application Hosting</li> </ul>
<b>Engineering and Architecture</b> <ul style="list-style-type: none"> <li>• Architecture</li> <li>• Mechanical Engineering</li> <li>• Civil Engineering</li> <li>• Chemical Engineering</li> <li>• Electronics and Communications Engineering</li> </ul>	KPO	Engineering Services <ul style="list-style-type: none"> <li>• Product and Component Development Maintenance</li> <li>• Embedded Software</li> <li>• Semi-conductors and Computing Systems</li> <li>• Plant Design and Process Engineering</li> <li>• Plant Automation and Maintenance</li> </ul>
<b>Business</b> <ul style="list-style-type: none"> <li>• Business Management</li> <li>• Accountancy</li> <li>• Hotel and Restaurant Management</li> <li>• Economics</li> <li>• Commerce</li> </ul>	BPO	Contact Center Services <ul style="list-style-type: none"> <li>• Customer Support</li> <li>• Telemarketing</li> <li>• Credit and Debit Card Services</li> </ul>
	KPO	Market Research Finance and Accounting Services <ul style="list-style-type: none"> <li>• Accounting</li> <li>• Asset Management</li> <li>• Payroll Processing</li> </ul>

<b>Social Sciences and Education</b> <ul style="list-style-type: none"> <li>• Education (Elementary and Secondary)</li> <li>• Tourism</li> <li>• Sociology</li> <li>• Psychology</li> </ul>	BPO	Contact Center Services <ul style="list-style-type: none"> <li>• Customer Support</li> </ul>
	KPO	Human Resources Administration Education and Training <ul style="list-style-type: none"> <li>• e-Training</li> <li>• Curriculum and Test Designs</li> <li>• Content Development</li> </ul>
<b>Fine and Applied Arts</b> <ul style="list-style-type: none"> <li>• Fine Arts</li> <li>• Graphic Design</li> </ul>	KPO	Creative Process <ul style="list-style-type: none"> <li>• Animation</li> <li>• Multimedia Outsourcing</li> <li>• Game Development</li> </ul>

On a similar note, locations in Latin America have been notably positioning themselves and leveraging service offerings in order to tap the growing services outsourcing market. The ongoing rise of Latin American markets in the services outsourcing industry can be seen in the increasing mention of Latin American cities reports such as global rankings of emerging outsourcing destinations. The Tholons Top 100 Outsourcing Destinations report, for instance, ranks the leading and emerging destinations for outsourcing, showcasing their individual strengths and identifying opportunities for growth across these locations. The Top 100 report for 2012 shows the rise of Latin America a promising destination for outsourced services with nearly a quarter of the locations included in the rankings coming from the region.

### Tholons Top 100 Outsourcing Destinations 2012.

Country	City	2012 Rank	Movement from last year
Brazil	São Paulo	13	↑2
Argentina	Buenos Aires	15	↓2
Chile	Santiago	22	↑2
Costa Rica	San José	18	↑7
Brazil	Curitiba	23	↓4
Brazil	Rio de Janeiro	30	-
Mexico	Mexico City	39	↓3
Mexico	Monterrey	41	↑1
Brazil	Brasilia	42	↑2
Uruguay	Montevideo	43	↑7
Mexico	Guadalajara	47	↑1
Colombia	Bogotá	55	↑9
Colombia	Medellin	60	↑8

Peru	Lima	64	↑2
Argentina	Córdoba	72	↓1
Brazil	Recife	75	-
Chile	Valparaiso	82	↑7
Colombia	Bucaramanga	85	↓3
Paraguay	Asunción	88	↓5
Brazil	Campinas	90	↑6
Colombia	Cali	98	-

One of these notable locations on the rise is Colombia. Previously notorious for crime and drug trafficking, the country today is a booming outsourcing location, offering various services such as multilingual contact support, FAO and ITO Services. The city of Medellin, for instance is becoming a recognized location for outsourced services. The city houses more than 6 IT services companies with CMMI certifications, highlighting Medellin's competencies for ITO Services such as Application Development & Maintenance (ADM). However, compared to more prominent locations like Mexico, housing 22 software development companies with CMMI certifications in the entire country, the city of Medellin alone comprises around 1/7 of Mexico's certified companies, further asserting the level of depth and the quality of service delivery offered from the city itself. Such capabilities have attracted providers such as HP in locating in the city. Recently, Kimberly Clark announced the creation of a Global Innovation Center in Medellin, which will serve as an addition to its existing centers in South Korea and US, in concordance to Medellin's improving business environment and capabilities for outsourcing.

Meanwhile, Costa Rica in the Central American region provides similar delivery opportunities for the Latin American IT-BPO industry. Mainly known for ITO services in software development and R&D, Costa Rica is now home to industry giants such as HP, Intel, IBM, and Fujitsu. Backed by incentives by government such as tax breaks for up to eight years as well as available financial and legal assistance, Costa Rica has maintained gains in attracting investments for IT-BPO. For instance, IBM announced its investment of US\$300 million in the development of an information technology services center with the aim of delivering services such as infrastructure outsourcing, data security, and cloud computing services. With operations aimed to start in 2012, the delivery center is projected to generate more than a thousand jobs in the next three years. Likewise, smaller niche providers are emerging in Cost Rica as well, solidifying its hold as the IT-BPO Hub for Central America.

The discussions above highlight the fact that there is a wealth of opportunity for Latin America's continuously growing IT-BPO industry. Regional data shows that Latin American economies are predominantly services-oriented, which allows for smoother transition and adoption of IT-enabled outsourced services. Meanwhile, this has been further validated by recent developments in Latin American location's respective IT-BPO industries. As highlighted above, outsourcing in Latin America has been characterized by continuous investments by global service providers, realizing that Latin America can surely deliver quality services beyond Spanish language-based voice services. Such an environment should be recognized by governments in Latin America and governments should enact concrete means for their respective industries to increase market

traction. One significant means of achieving this would be the integration of the IT-BPO industry in national development strategies. As the next section will present, the integration of the IT-BPO sector in national development strategic planning serves not only to accelerate IT-BPO industry growth, but also highlights the role of state efficiency in creating significant impact in socio-economic development.

## The Role of IT-BPO in National Development

The previous section highlighted the ever present opportunities for growth of the Latin American region's services segment, looking into its rise over the productive industries in the regional economic landscape. The above analysis shows that venturing in the services sector and particularly transitioning into the IT-BPO field surely benefits Latin American locations and that there is huge opportunity that the region can tap, even amidst the current global financial crisis. With this in mind, services outsourcing can serve as a strong driver of economic growth in Latin America. Aimed at locating at lower-cost markets delivering quality business solutions, services outsourcing promotes job creation and increases business activity with the entrance of service providers. These factors could then eventually drive productivity and increase overall GDP of Latin American countries.

With this realization, the challenge now rests among governments in this rising market in enacting means to attract more investments and capture a larger share in the global IT-BPO space. One significant and noteworthy initiative involves the institution of IT-BPO as part of critical components for a country's overall socio-economic development.

### Integrating IT-BPO in the Development Agenda

National planning fundamentally revolves around the allocation of a country's resources towards the attainment of country socio-economic, goals. The overall agenda serves as a framework that will guide this process, identifying growth targets as well as component factors and drivers that would contribute in attaining national goals. In defining the development track of the country, an important step involves the identification of potential growth industries that would help drive the attainment of this vision. As major components towards national development, these growth industries will be given special attention in the form of legislative support through investment promotion strategies and the creation of special bodies that will ensure the growth of these sectors. Also, industry-specific programs would be initiated such as labor pool skills training as well as the creation of infrastructure to accelerate industry development. As a product of this assessment of country opportunities, these numerous targeted interventions and policy reforms would serve as pillars that would contribute to the overall attainment of national economic development.

Thus, national development planning entails the following: Development Planning, Human Capital Development, and Infrastructure/Area Development.

- Development Planning – This pillar highlights the importance of the institution of policies and legislation in the process of defining the overall development objectives. This involves the creation of a national strategy that aims to set development objectives the

country wants to attain, while mapping out critical components in the attainment of this vision. From this standpoint, several policy recommendations and legislative reforms consistent with the national plan will be created to catalyze the attainment of development objectives – whether it be the promotion of business activity and the enticement of inward investments, while at the same time, targeting the provision of basic services. Out of these legislative agenda will spring concrete programs that will realize the outlined objectives. Also, specialized bodies will be formed that will manage and monitor the progress of individual programs, ensuring the attainment of targets on time.

- **Human Capital Development** – This pillar is based on the assumption that the individual serves as society’s building block. Human Capital Development (HCD) thus first entails defining the required skill sets the labor pool should possess to further attain the country’s development objectives. A second component involves devising programs that will equip the labor pool with the necessary skill sets in order to become productive members of society, performing specific functions in realizing and achieving development objectives.
- **Infrastructure Development** – The pillar of infrastructure/area development involves the construction of physical structures that would serve to support and accelerate the creation of an enabling environment that fosters the attainment of development gains. This may include the creation of buildings and facilities and roadways and transportation, as well as communications infrastructures.

The three pillars mentioned above are supportive components, with each pillar supplementing and reinforcing the other. For instance, legislation passed on the promotion of IT in the provision of services would translate into training programs for the labor pool on the use of the computer and the Internet, and programs that would automate the service delivery of outsourced processes. At the same time, such initiatives would require the development of facilities like training institutes and computer labs that would provide a medium for training and preparation of the labor pool to facilitate IT-enabled services.

Thus in realizing the wealth of opportunities in the global services outsourcing market, services-oriented economies such as those of Latin American locations should institutionalize the IT-BPO industry as a growth sector. Ultimately, such initiatives would accelerate the growth of the region’s IT-BPO landscape. The following sections discuss the significance of each pillar with respect to the development of Latin American IT-BPO ecosystems. Also, case studies will be presented on the application of the development of each pillar and its impact on the IT-BPO sector.

## **Development Planning**

Developing Latin American IT-BPO locations first involves development planning. This step involves the creation of an overall institutional framework that would set the movement towards growing the IT-BPO industry. The development of this pillar consists of an assessment of the current economic and business landscape, the identification of growth components, and the creation of policies and legislative reforms supportive of IT-BPO.

Industry strategic planning involves an assessment of the current national economic landscape, and identifying its strengths, weaknesses, and opportunities with respect to the creation of a supportive IT-BPO environment. Some critical questions would include: *Does the current quality of infrastructure in the country provide seamless and redundant communication and operations for outsourcing? Does the current labor pool have the skill sets needed by service providers? What are the current policies and incentives government have in place that promote outsourcing in the country? Does the current cost regime provide enticing incentives and benefits for providers to locate in the country?* Assessing the current economic environment enables policy-makers and industry stakeholders to pinpoint the *current state* of IT-BPO with respect to national and *the direction of industry development*. Obviously, the ultimate goal is industry growth.

Assessing the current business and economic landscape then allows for a definition of critical growth components for IT-BPO. This simply means identifying avenues of opportunity in further progressing towards building a robust IT-BPO ecosystem. Looking at a location's strengths should entice stakeholders to imagine means towards reinforcing these strengths and building on them in order to contribute to the provision of more quality services for instance. Meanwhile, identifying current challenges should be given much more attention and should be seen as potential growth areas that would surely catalyze the creation of a more robust IT-BPO ecosystem. For instance, and as will be discussed below, the identification of skills gaps should translate to focused training programs that would allow for the equipping of skills sets among the labor pool. Such initiatives would create a more employable and industry-ready labor pool that could be tapped for outsourced services. The identification of these growth components then serves to pinpoint specific goals and objectives towards the creation of a more robust outsourcing landscape – be it talent development or legislative reforms on tax incentives and costs.

Realizing the value of services outsourcing in maintaining positive economic growth rates, Latin American locations should be continuously mindful of each location's strengths and address lingering concerns. Given the increasingly competitive global environment, there is more demand for creative solutions that serve to optimize business operations, deliver high-quality and timely results, and maintain cost-efficiency and profit margins. Because of this, given the current gains of the Latin American outsourcing industry, individual locations must be quick to strategize as to how each can capture its respective position in the global outsourcing market.

Industry development planning culminates in industry-specific interventions such as the creation of an overall industry growth strategy, legislation for IT-BPO, and the institution of industry bodies.

## **Industry Growth Strategy**

Realizing the value of outsourcing in bringing about increased country productivity, Latin American governments should go about and devise an encompassing industry growth agenda. The said strategy serves to look into the current landscape's effectiveness meeting outsourcing demands of low-costs and available labor. The growth strategy then identifies gaps in the current industry landscape and numerous legislative agenda highlighting these gaps as focus growth areas – be it talent development, infrastructure development, etc. – that would serve to plot industry growth trajectory. These various agenda then would be realized through concrete initiatives like talent development and infrastructure development, as would be discussed in

succeeding sections. Meanwhile, the following case study of Brazil's innovation agenda highlights the significance of industry growth strategies for IT-enabled Services.

### **Case Study: Brazil's Innovation Agenda Driving Growth for Technology Sectors**

Innovation, translating into technology sectors such as Information and Communication Technologies (ICT) and IT-enabled services has been a priority for Brazil since the early 2000s. Realizing the inherent value of innovative sectors to national growth, the State, through the Ministry of Development, Industry, and Foreign Trade, instituted the Productive Development Policy (PDP), with the aim of enhancing Brazil's industrial and technological competencies and increase the country's global presence. In promoting innovation and IT-enabled services in Brazil, the government, under the program, initiated the following laws:

- The Innovation Law (Law nº10.973) created in 2004, which comprises 3 components
  - The constitution of an environment appropriate to the establishment of partnership relations between universities, technology institutes and enterprises;
  - The incentive to the participation of institutes of science and technology in the innovation process;
  - The direct incentive to innovation within the firms
- The Law of the "Goodwill" serves as a mechanism for the promotion of innovation initiatives of technology firms by providing finding incentives and boost R&D activities

These laws then give rise to the following ancillary programs:

- R&D financing program under the National Bank for Social and Economic Development (BNDES) – provides R&D financing since 2003 when government recognized the technology sector as a strategic priority sector; subsidized around US\$20 billion in R&D activities in 2007-2010
- Competitiveness Forum for Science and Technology Services – instituted in 2008, the program's aims include the development of avenues for discussion between government, the productive sector, academia and society about the policies and actions for the sector touching on issues like the generation of employment, occupation and income, and regional development.

Brazil's overall agenda for its innovative sectors continually serves as a guide in promoting industry growth. What is important to note in the implementation of the said agenda was the country's recognition of the value that innovation and ancillary sectors like IT-enabled services in contributing to the country's overall productivity. As of 2010 estimates, Brazil's software and IT services exports reached US\$3.5 billion, growing by around 17% from 2009 revenues.

As seen from the case study, Latin American locations must first realize that venturing into the outsourcing field would surely bring gains in terms of productivity and economic growth. As highlighted above, the growing demand for outsourced services in Latin America already provides much case for locations to consider and include outsourcing as a strategic and priority growth sector for national development. With this in mind, a strategic step governments in Latin America should institutionalize involves the creation of lead outsourcing agencies that will initiate and roll out individual programs for outsourcing industry development across individual locations.

### **Creation of a Lead Industry Body**

Drafting and outlining industry growth targets for Latin American IT-BPO locations will then pave the path for respective countries to augment productivity through the development of this relatively new growth sector. Equally important, governments in Latin America should initiate means in order to implement and kick-start the development process. One way of doing this is through the creation of lead industry bodies for services outsourcing.

The lead outsourcing body is composed of representatives from key stakeholder groups and will act as the primary, responsible body for developing and directing a country's outsourcing industry. Related outsourcing associations or organizations, members of the academe, as well as law-makers should have representation in this lead organization. Such organizational composition would provide a comprehensive view on the pressing needs of the industry and align identify the stakeholders roles with their respective areas of responsibility.

Also, in having a singular responsible body for the industry, industry development projects and programs implemented can be effectively streamlined and concerted, while minimizing fragmented efforts among industry stakeholders. In addition, the creation of a lead organization will enhance communication among stakeholders, as the lead organization would serve to monitor and evaluate stakeholders. An example of a lead organization among outsourcing destination countries is India's NASSCOM. As the case study below shows, the NASSCOM has been a strong proponent in providing insight towards the continued growth of India's services outsourcing industry. It has also been instrumental in industry initiatives such as networking with foreign markets for outsourcing. It is a great benefit especially for nascent outsourcing locations to consider the creation of a lead organization. Not only does this streamline the implementation of outsourcing industry growth initiatives, it serves to bring together stakeholder initiatives and create order and sound direction in achieving respective outsourcing pathways.

### Case Study: NASSCOM – Catalyzing India’s IT-BPO Growth

NASSCOM - National Association of Software and Service Companies – was established in 1988 as a non-profit organization, which was stipulated in Indian Societies Act 1860. It is India’s Chamber of Commerce of the IT-BPO sector. NASSCOM’s vision is rather simple, yet very definitive – *“to be the most effective and engaging global trade organization built on trust and credibility”*.

In fact, NASSCOM has been fulfilling its vision through its concrete actions. NASSCOM aims *“to drive the overall growth of the global outsourcing market and maintain India’s leadership position”*. NASSCOM does this by helping to augment India’s employable labor pool and helping various established companies in India to comply with internationally recognized standards. NASSCOM also has its research segment to establish appropriate industry strategies.

The influence of NASSCOM is not only confined in India, but also extends to other countries. Egypt’s ITIDA has realized this, making them to pursue partnership with NASSCOM for talent development. As various countries look at the example of NASSCOM, it proves the strength of the organization as a credible authority in the industry.

The creation of a lead organization is a tedious yet important task. This is because specific requisites would be involved in forming this group. For instance, this may require additional legislative measures to honor the validity and credibility of the organization as the main authority and governing body for a country’s IT-BPO industry. Also, it is equally important to be able to bring stakeholders together, can conceptualize and prepare the mandate, vision and objectives of the lead organization – thus fully realizing the IT-BPO industry’s growth vision through a foundational Lead Organization. This can, and should, be hastened by a strong support and collaboration between the private and the public sector. These two sectors should closely dialogue and identify gaps in industry needs and government/academe support mechanisms, while at the same time jointly monitoring the progress of the legislation. This frame of mind must be applied in targeted interventions such as talent development as will be discussed below. What is most important to highlight is the significant linkages and the relationships formed among stakeholders in growing Latin American locations’ IT-BPO industries.

From the discussions above, it is clear that industry development planning serves as the catalyst that would pave the way and drive IT-BPO industry growth in Latin American locations. Admittedly, these specific initiatives highlight the presence of *opportunity* in the current IT-BPO landscape. The increased interest in locating in nearshore Latin America serves to testify to the growing demand for services outsourcing from the region. In response, Latin American locations should couple this with *strategy*, positioning them and aiming towards the realization of the IT-BPO industry. Realizations and findings in crafting national industry development strategies would lead to targeted initiatives such as human capital and infrastructure development, as will be discussed below. These pillars would serve to fuel the overall strategy and bring into fruition the goals and objects for Latin America’s IT-BPO industry growth.

## Human Capital Development

A necessary component of a healthy IT-BPO industry is the presence of a scalable and employable labor pool. Keeping in mind that *effective outsourcing* involves the provision of quality services from a location with lower costs; this notion is dependent on the presence of an abundant labor pool supply that is capable of delivering the outsourced processes. Thus, governments and industry stakeholders should enact measures towards human capital development for services outsourcing. This involves the development of a *scalable* talent supply and equipping them with the required skill sets to deliver outsourced services, making them *employable* for outsourcing.

Identifying a scalable supply of labor for outsourcing means to ensure an abundant and steady churn of professional talent into a country's labor market - *scalability*. This entails looking at the rate of graduation and the number of graduates from a country's universities as well as from training and technical institutes. It is this pool of talent that will be readily tapped and whose skill sets will be transitioned into IT-BPO services. A scalable supply of labor is important for outsourcing as outsourced operations like call centers require a huge number of individuals. For instance, a call center of 500 seats may need 1,000 agents working 2 alternating shifts for each seat.

While an abundant supply of labor is highly sought after for outsourced services, a more important consideration lies whether the labor pool has the necessary skill sets that are required for outsourcing: whether the current labor pool is *employable* for outsourcing. Measuring employability involves an assessment of the existing skill sets of the current labor pool – which includes graduate profiles as well as currently employed individuals – through tests and skills assessment suites. At the same time, dialogues with industry players and stakeholders serves to shed light on the demands of the services outsourcing industry and the skill sets needed to deliver outsourcing services. These steps would lead to a skills gap analysis between academe and industry – identifying disconnects and gaps between the skill sets taught at the academe vis-à-vis the *actual* skill sets required by service providers for outsourcing.

The findings from the gap analysis and assessment would translate into the institution of training programs serving to bridge the gap between the quality of talent churned with respect to industry demands. In developing a scalable and employable talent pool in Latin America, governments in the region can look at the example of India's finishing schools program. The Finishing Schools program serves to train the relevant labor pool segment – particularly fresh graduates – for *specialized industries* and to prepare them for gainful employment. Finishing Schools complement the fundamental skills learned in academic institutions, while maintaining focus on the specific training and development components in its programs. The following case presents the experience of India in implementing Finishing Schools in order to supply a scalable talent for its strong IT-BPO industry.

### Case Study: Finishing School Program in India: Replicating Best Practices to Emerging IT Services Locations

Among Western countries, perceptions on Finishing Schools are about “grooming” and presentation of oneself. With the upsurge of the global IT Services industry, India has been giving a new light on this. There exist Finishing Schools for the overall skills development in the IT Services Industry.

Finishing Schools in India can be initiated by the government or can be run by the private institutions. For example, in 2009 the government of Tamil Nadu has sought to establish rural BPO Finishing Schools, while in 2010 the Kerala government launched model Finishing School to give practical training in IT and soft skills for technically qualified students. On the other hand, some private Finishing Schools institutions are NIIT, Dale Carnegie, 3Edge Solutions, and Tholons Institute. The students likewise shares financing burden in getting enrolled in these training institutions. Tuition fees range from US\$100 to US\$500 for the courses, depending on the chosen course of the students.

Finishing Schools for IT Services typically run in five weeks to one year duration. This depends on the desired technical skills that the student or learner needs to develop. A priority skill that Finishing Schools address is the English capabilities of the Indians, in addition to the technical skills of the students.

Moreover, Finishing Schools in India encompass relational skills, which the country deems to be an integral value-add among the talent pool. Like the traditional Finishing School, students are also taught confidence and presentation skills. Possessing such skills increases the employability of Indians – meaning that the industry service providers would have a greater inclination to hire talents possessing such skills.

With respect to industry development initiatives for Latin America, the Finishing Schools case highlights the importance of a systemic approach towards building a scalable and more importantly, employable talent for IT-BPO. First, it recognizes the *current* capabilities of the talent pool coming out of the current academic structure on the one hand and at the same time identifies the skill sets needed by industry. Similarly, it recognizes the role of *all stakeholders* – the State, the academe, and industry – in shaping the capabilities of the labor pool towards in delivering IT-BPO services. These steps culminate in the human capacity-building program of Finishing Schools: highlighting the opportunities that could be had in bridging talent gaps and serving as a platform in forging partnerships across relevant stakeholders for labor pool development. While this paper recognizes the presence of talent development programs for IT-enabled services in Latin America, it pushes for the value of developing coordinated, institutionalized means for talent development encompassing all stakeholders, recognizing their contributions to the initiative, and defining each of their roles towards its realization. Because of this, Latin American locations should identify the most feasible means of consolidating multi-stakeholder capabilities and effectively channeling them towards the institution of talent development and further national development through IT-BPO.

## Infrastructure Development

In addition to the previous components discussed, the efficacy and the quality of service delivery in outsourcing is complemented by the presence of robust infrastructure. While an available and skilled talent pool provides agency and innovation in terms of service delivery and while legislative support sets the stage for industry development, a strong infrastructure base serves mainly as the critical medium in delivering effective outsourced services. A robust outsourcing infrastructure base corresponds to the availability of technological facilities such as continuous and reliable Internet connections and leased line service providers across service delivery locations. Aside from this, a strong infrastructure base also conveys the availability of dedicated locations that can support outsourcing activities, like Special Economic Zones (SEZ) and technological parks.

The construction of infrastructure mainly involves spatial development and while the usual demands of facilities like Free Trade Zones (FTZ) or SEZs has been hectares of land, smaller-sized locations and cities may not be able to fully provide such large-scale facilities. A notable practice today has been the institution of facilities called *Single-Enterprise Free Trade Zones*. These designated zones may comprise of a single building or a floor within a complex enjoying the incentive schemes usually given to large FTZs. In promoting business incubation and industry growth, these specialized facilities serve to accelerate outsourcing into specific locations, providing means to set up business *exactly where resources are located for outsourcing*. This means that locators now can fully enjoy the gains of outsourcing by freely setting up business wherever there is sufficient employable labor and at the same time enjoy income tax holidays exemption from trade duties, thus maximizing profit margins in business operations. This set up can be seen in highly urbanized areas such as Manila NCR in the Philippines. Comprising several urban agglomerations, the Philippine Economic Zone Authority (PEZA) initiated the *Single-Enterprise Free Trade Zone* program, allowing for the creation of enterprise buildings enjoying SEZ benefits. This is highlighted in the case study below.

### Case Study: Setting Up Single-Enterprise Free Trade Zones for the IT-BPO industry in Manila, NCR

Looking into the rapidly expanding services outsourcing industry in the Philippines, the government, through the Philippine Economic Zone Authority (PEZA), developed *Single-Enterprise Free Trade Zones* in various urban areas in Manila NCR. According to its guidelines on registering IT parks for the IT-BPO industry, this comprises the areas of Manila, Caloocan, Las Pinas, Makati, Mandaluyong, Marikina, Muntinlupa, Paranaque, Pasay, Pasig, Quezon and Valenzuela and the 5 municipalities of Malabon, Navotas, Pateros, San Juan and Taguig.

An IT Park or Building in Metro Manila may be an existing, new, or proposed complex or building and in attaining certification from PEZA, these prospective areas will be subject to the following conditions:

- Having a minimum available business floor area of 5,000 square meters (including common areas such lobbies, elevator / stairways, corridors, wash rooms / rest rooms / toilets and utility areas, but excluding parking areas and roof gardens);
- The availability of the following minimum facilities required by locator IT Enterprises:
  - High-speed fiber-optic telecommunication backbone and high-speed international gateway facility or wide-area network (WAN); or any high speed data telecommunication system that may become available in the future;
  - Clean, uninterrupted power supply; and
  - Computer security and building monitoring and maintenance systems (e.g. computer firewalls, encryption technology, fluctuation controls, etc).
- In addition, prospective IT Parks and Buildings in Metro Manila may have the option of providing IT business and technology incubation centers and facilitate access of locator IT Enterprises to IT research and development centers and training and educational institutions / facilities.

As of December 2011, there are more than 60 PEZA-accredited facilities setting up operations in Manila NCR tapping the city's outsourcing labor pool. Ultimately, the establishment of PEZA-accredited *Single Enterprise Zones* allows investors to directly tap potential resources by setting up facilities where these resources are and enjoying SEZ incentives. Because of this, not only do they secure their profits, t these services providers serve to play a bigger role in growing the city's services outsourcing industry by actively participating in industry initiatives such as curriculum development and training.

Having a robust infrastructure must be included in national planning initiatives as this serves as a strategic advantage for prospective outsourcing services destinations in Latin America. Reliable infrastructure dedicated for outsourcing locators are assured of the continuity of outsourcing operations, and even more, this presents opportunities for the expansion of operations among established service providers in a country. Having a sound and extensive infrastructure in a

location is also advantageous as it allows for *operational redundancy strategies* for service providers. From the case study above, the creation of *Single-Enterprise Free Trade Zones* truly maximizes gains for outsourcing. It allows service providers to have the convenience of setting up businesses wherever there is employable talent for outsourcing. Thus, locations in Latin America must look into this as a best practice that should be instituted especially in support of talent development initiatives. Surely, such measures would increase business activity within individual locations, and accelerate gains from outsourcing.

### **Sustainability: A Self-Influencing Ecosystem**

An important aspect in the proposition of IT-BPO in national development for Latin American locations is the notion sustainability. Sustainability in this context refers to two aspects: Systemic Integration of individual components and the Temporality of development and growth. Systemic integration means that the individual components in the development process are linked together such that the growth of one pillar entails the development of the other pillars. For instance, as locators set up operations in single-enterprise zones in a city, government should also ensure an available and employable supply of outsourcing labor, translating into training programs such as finishing schools, while at the same time, there should be incentives and support mechanisms in place like financial support in order to promote the incubation of locators. Meanwhile, the gains from the development of this ecosystem serve to reinforce social impact as seen in the increase in jobs created due to scaling up of operations, as well as the generation of state revenues from industry productivity. The current dynamics in Latin America's outsourcing industry as outlined above has been characterized by the expansion of services delivered from individual locations, thus increasing the number of employed individuals for outsourcing.

Such a discussion above paints an ecosystem that is *self-influencing* in nature. From this perspective, it is apparent that the inclusion of IT-BPO in national planning for Latin America not only paves the way for the efficient development of IT-BPO industry, this mindset also accelerates industry growth. In relation to the development pillars above, the gains in achieving these pillars tends to self-perpetuate, leading to further gains that will ultimately promote sustainable development, giving back and driving growth of the existing IT-BPO ecosystem. As the global services outsourcing industry looks at Latin America as a viable market, Latin American locations should all the more realize the gains in developing a sustainable ecosystem consisting of industry development support by government, human capital development initiatives, and infrastructure development. Not only does this ensure growth rates over the near-term, such a framework ultimately provides tangible impact mainly but not limited to the creation of jobs. With a framework in place, development becomes holistic as well, comprising private sector, government, and social development.

## **Points to Consider**

The above discussions have presented the heightening interest the global outsourcing market is giving Latin America. Initial sections of this report have highlighted that the Latin American region has been experiencing a surge of investments from large global players, expanding their presence in the region, and tapping more into the available labor pool. Because of this, Latin

American locations must realize more than ever the value of outsourcing as a productive sector that drives economic development. Because of this, Latin American locations must realize that *outsourcing must be institutionalized as a viable growth sector in national economic development planning*. Out of this realization, industry growth strategies, talent development, and infrastructure development initiatives must be put in place in order to create a sustainable IT-BPO ecosystem. Out of the discussions above, the following points serve to highlight important insights to consider.

### **Systemic Perspective in IT-BPO Industry Development**

In promoting the IT-BPO industry in national development, governments should adopt an integrated and systemic approach in attaining industry productivity. This means that there are structural components that are involved in the development process for IT-BPO – which in this case were highlighted as industry strategic planning, talent development, and industry development. More importantly, it is important to note that these components are interconnected such that building on one component calls for the development of the other components. For instance, enacting legislation on increasing the capabilities of the labor pool would translate into talent development initiatives such as finishing schools, and conversely, the institution of finishing schools would work more efficiently with the provision of legislation and State intervention. Thus, one should also realize that the gains and setbacks experienced would have an impact on the entire system. For instance, an effective implementation of talent development initiatives would then translate to better quality services that would ensure state revenues that in turn could translate to further development of telecommunication infrastructures and roads.

Most importantly, because of these characteristics, the IT-BPO ecosystem is deemed sustainable in nature, serving as a platform for innovation not only in the quality service delivery, but also in strategic planning for law-makers and government entities. Given the current recessionary conditions across major economies, services outsourcing is becoming a more viable solution not just in attaining profit margins for private companies, but also ensuring GDP growth rates for services-oriented economies like those of Latin America. Because of this, as the next section will discuss, the role of the State will have a more crucial role to play in building and sustaining industry and national economic growth.

### **Highlighting State Capacity and Efficiency in National Planning**

In the process of instituting the IT-BPO industry in national development, the State has a crucial role to play, serving as the catalyst that will set the stage towards industry growth. In national planning, it is members of government that will set prospective growth industries and set a prospective country's long-term growth agenda. Because of this, on the onset, government must lobby for the institution of IT-BPO as a competitive sector for national development. This will serve to propagate the creation of a country's outsourcing ecosystem. Consequently, in rolling out and building on a location's IT-BPO ecosystem, the state should be able to institute partnerships with stakeholders and provide effective avenues in consolidating initiatives for IT-BPO industry growth. The above discussion on the creation of a lead outsourcing agency highlights the importance of the institution of partnerships among all stakeholders. Such forums and dialogic processes among stakeholders serve to finally translate towards relevant and effective initiatives towards industry development. Also, there is more communication among stakeholders, allowing

for more effective monitoring of progress towards industry development. Because of this, governments in Latin America should strive to promote means dialogue and communication in growing their respective outsourcing ecosystems.

Fulfilling the roles of instituting outsourcing in national development planning and systematically building a location's IT-BPO ecosystem highlights the State's capacity and efficiency in attaining national goals. This means that government has sufficient control over its resources and is able to institute changes and garner support from all relevant stakeholders. This then would paint a more predictable and favorable environment to do business with, thus attracting more investments, and further accelerating national development objectives.

In the case of Latin American countries, the opportunities are already in their midst. While there are highly notable practices and initiatives coming from individual locations, what is most important to realize is that more than opportunity, it is the development of sound strategies that will truly bring about industry growth, greater productivity, and ultimately - national development.

## About Tholons

Tholons is a Services Globalization and Investment Advisory firm that combines "Best of Breed" consulting experience with deep execution expertise and investment insights to deliver truly effective services to its clients. Tholons offers a detailed understanding of business processes and combines it with practical hands-on expertise in executing the strategy. Tholons draws upon the considerable experience of a hand-picked team, which has successfully formulated and executed globalization strategies to unlock value for Global Fortune 1000 companies. Service providers leverage Tholons expertise to optimize their global delivery model. Tholons advisors engage with government bodies to build compelling strategies for making countries attractive destination for outsourcing.

Author:  
**Francisco Iñigo P. Garde**  
Research Analyst

Editor:  
**Manuel Ravago**  
President – Research

## THOLONS Global Offices

### North America

5 Penn Plaza, 23rd Floor  
New York, NY 10001  
Phone: +1-646-290-9320  
Fax: +1-646-349-3546

### South America

Av. Italia 6201  
Latu Los Sauces  
11500 Montevideo, Uruguay  
Phone: +598-9848-5225

### Europe

2505 The Landmark West Tower  
22 Marsh Wall, London  
E14 9AL  
Phone: +44-1628-566140

### Asia Office

#### India

2/10, 2nd Floor, 80 Ft Road  
RMV Extension Stage II  
Bangalore 560 094, India  
Phone: +91-80-23519760

#### Sri Lanka

Regent Building, No. 345  
R A De Mel Mawatha  
Colombo 3, Sri Lanka  
Phone: +94-777-427761

### Philippines

Unit 803, Richmond Plaza  
21 San Miguel Avenue, Ortigas Center  
Pasig City 1600, Philippines  
Phone: +63-2-635-9236

## Copyright Notice

This Tholons document was published as part of the Tholons Advisory, Investments and Research Services portfolio, covering all consulting projects and publications.

For further information related to this document, reprint rights or general inquiries regarding other Tholons services, contact [info@tholons.com](mailto:info@tholons.com) or call any of our global offices.

Reproduction of this document and all content within is prohibited unless authorized by Tholons. All rights reserved.

For more details about Tholons' Services Globalization and Investment Advisory capabilities, please visit our website at:  
**[www.tholons.com](http://www.tholons.com)**

You may also contact: [info@tholons.com](mailto:info@tholons.com)