

SUPPLY CHAIN
Marc Tanowitz on driving
sustainable outsourcing success

TOP TEN
Marcel Horst on getting your
location decision hot-spot-on...

WARBURG PINCUS
The inside story of the buy,
build and sale of WNS

outsource

PEOPLE
TECHNOLOGY
SOLUTIONS

Issue 31 Spring 2013

www.outsourcemagazine.co.uk

In association with



Turning you on

How suppliers are
embracing the
mobile revolution



PAUL BARTLEY
We meet the man
at the helm of one
of America's most
important public
sector SSOs



MARK ROSS
Thoughts on LPO
2.0 – and the
implications for
the global legal
sector...



KATE VITASEK
How companies
are breaking
the outsourcing
conundrum, one
win-win at a time...

FEATURE IMPACT SOURCING



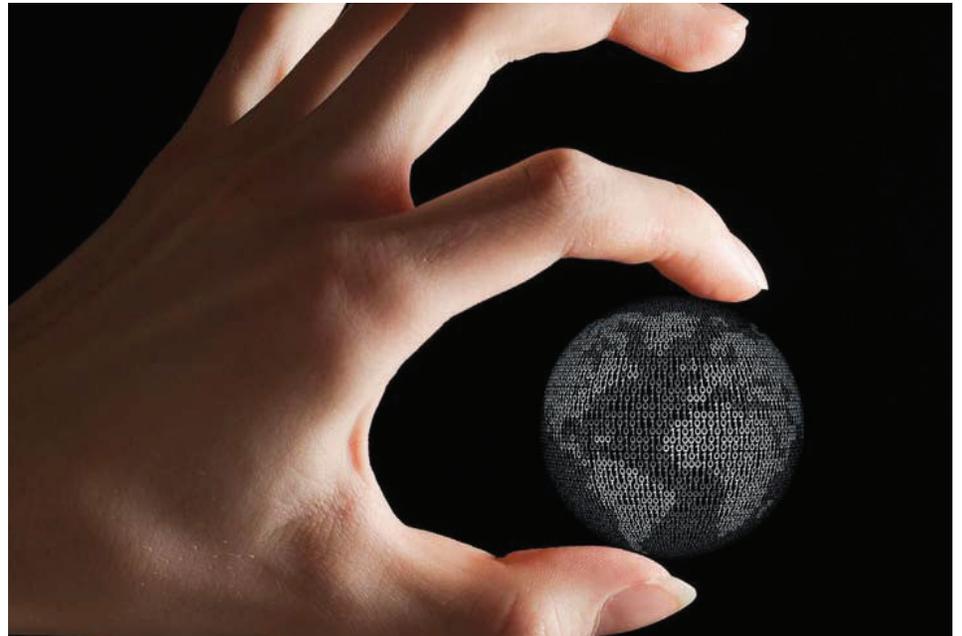
Kevin Parikh, Avasant

Kevin Parikh is the CEO and Partner of Avasant, specialising in IT and business process outsourcing contract and service-level negotiations, strategic management, business risk evaluation and software licensing. His practice engages in both nearshore and offshore sourcing solutions.

History tells us that innovation and technological change have been important catalysts for economic growth, social transformation and improvements in standards of living. However, the benefits of this change in the current globalisation era have often flown disproportionately to the wealthiest, the best skilled and those living in the most politically stable environments, while others have fallen into deeper relative poverty, exacerbating socio-economic gaps.

Globalisation of technology services is the latest in a series of transformational events that is reshaping our economy and has the potential to alter the socio-economic trajectory of millions around the world. These advancements, along with the telecommunication boom, have enabled private and public entities to leverage the skill sets and differential costs of labour markets around the world. Private and public sector entities have taken advantage of these opportunities to outsource tasks associated with business and operational functions to third parties located in nearshore and distant offshore locations in order to drive efficiency, lower costs and provide for more capital reinvestment. This growth in demand for outsourcing has reshaped the economies of several developing countries.

Avasant and The Rockefeller Foundation, through its Poverty Reduction through Information and Digital Employment (PRIDE) initiative, seeks to harness the potential of global technology services to reach those populations that have historically been unable to tap into the job opportunities in the sector. This is called



GLOBALISATION OF TECHNOLOGY SERVICES IS THE LATEST IN A SERIES OF TRANSFORMATIONAL EVENTS THAT IS RESHAPING OUR ECONOMY

Impact Sourcing. In addition to direct employment resulting in income generation, Impact Sourcing provides transferable skills to empower people to work in a range of sectors. In this way, Impact Sourcing has the potential to extend the benefits of globalisation and enable upward economic and social mobility in Africa and Asia, as well as in regions like the United States suffering from chronic unemployment.

SO, WHAT REALLY IS IMPACT SOURCING?

Impact Sourcing (IS) is a by-product of the globalisation of technology services, and specifically derives from the outsourcing

of business processes relating to key operational functions (e.g. finance and accounting, human resources and travel and expense functions). Private and public sector entities (including multinational corporations and large governmental entities) are aggressively driving customer demand to outsource operational tasks to enhance efficiency. Increasing demand for outsourcing services will require expansion of the outsourcing sector to new locations and new populations.

In a typical Impact Sourcing model, outsourced business process services are first broken down and grouped into smaller subsets of tasks that can be performed by

"A life is not important except in the impact it has on other lives." – Jackie Robinson



FEATURE IMPACT SOURCING



WITH ASSISTANCE OF GOVERNMENTS OR NGOS, BUYERS OF BPO SERVICES CAN BE CONNECTED TO AN EXPANDED POOL OF SELLERS OR PROVIDERS.

individuals with at least some high school education. Next, locally based entities that can hire and train individuals from the poorest sections of society to perform such tasks offer their services in the marketplace to perform the work. With assistance of governments or NGOs, buyers of BPO services can be connected to an expanded pool of sellers or providers. A typical Impact Sourcing model includes low costs of service, employing individuals at the bottom of the pyramid who previously would not have had opportunity for employment. This enables growth through BPO services and higher wealth generation that contributes to overall economic and social development. Impact Sourcing aligns well with many government policy agendas related to IT-enabled economic growth.

HOW WIDE IS THE IMPACT?

It is estimated that the size of the Impact Sourcing industry is approximately 561,000 employed individuals worldwide, which is approximately 10 per cent of the total currently employed global BPO workforce. This includes "pure play" Impact Sourcing service providers (ISSPs) and mainstream

BPO service providers as well as captive centres that hire poor and vulnerable people. Some of the leading countries to have achieved significant benefits through Impact Sourcing are mentioned below:

Country	Estimated IS Employees
South Africa	126,000
Kenya	2,800
Ghana	1,750
India	251,000
Rest of the World	179,300
TOTAL	560,800

It is estimated that by 2020, impact sourcing will grow to about 23 per cent of the global BPO market at about \$55.4 billion employing around 3 million people.

HOW DOES ONE CREATE THE IMPACT?

To provide employment opportunity for a large number of people, PRIDE has adopted a systems approach to catalysing the IS sector. There are two primary routes to growing IS: Impact Sourcing

service provider development and direct employment of poor and vulnerable people by traditional BPO service providers. ISSPs have a proven ability to create more equity by reaching people as part of their mission, but they experience challenges with scale. On the other hand, traditional BPO service providers have a proven ability to scale but typically do not employ poor and vulnerable people. The Rockefeller Foundation has identified three key archetypes to test the two routes to growing Impact Sourcing as mentioned below:

Impact Sourcing service provider (ISSP) development: ISSPs refer to service providers that have been formed with a specific objective of poverty alleviation in sections of the society with the highest poverty rates.

Traditional BPO service providers: large traditional BPO service providers have started employing people from the "bottom of the pyramid" with the dual purpose of addressing rising cost pressures and the need for additional labour to match buyer demand, and as a corporate social responsibility initiative.

"If you think you're too small to have an impact, try going to bed with a mosquito." – Anita Roddick



FEATURE IMPACT SOURCING

6 DIGITISATION OF POPULATION CENSUS, BIRTH AND DEATH RECORDS, AND LAND RECORDS CAN HELP CREATE OPPORTUNITIES FOR ISSPS TO SUSTAIN AND SCALE OPERATIONS. 9

Traditional BPOs subcontracting to **Impact Sourcing service providers**: in order to achieve scalability and reduce costs, traditional BPO service providers often subcontract a part of their business to ISSPs. This model has helped ISSPs obtain steady workflow with limited sales and marketing expenditure. This model is commonly observed in more mature BPO destinations such as India.

HOW DOES ONE SCALE THE IMPACT?

Proactive governments, investment-promotion bodies and service providers, as well as buyers of outsourcing services, will have a major role to play in the growth of the Impact Sourcing sector in coming years. Governments and policymakers need to adopt a multi-pronged approach to enhance the Impact Sourcing ecosystem by supporting demand creation and strengthening the supply side in terms of trained human capital and infrastructure by building capacity, as well as encouraging an enabling environment in terms of policies and incentives (e.g. tax breaks and grants).

In order to scale the Impact Sourcing sector, policymakers need to implement initiatives that develop capacity, stimulate demand and improve the enabling environment. Governments will have to work closely with service providers and investment-promotion and trade bodies to create policies conducive to growth.

KEY RECOMMENDATIONS FOR OVERALL DEVELOPMENT OF THE SECTOR ARE AS FOLLOWS:

1 **Simplification of policy incentives to facilitate better adoption and create deeper impact for Impact Sourcing**

A strong focus by policymakers on simplifying existing policies and devising new incentives with few riders, followed by effective on-the-ground implementation of these policies, would enable the ISSPs to leverage these benefits.

2 **Promoting digitisation in government processes and amending procurement policies to actively include ISSPs**

Governments have a unique opportunity to generate demand, especially with the numerous e-governance initiatives. Digitisation of population census, birth and death records, and land records can help create opportunities for ISSPs to sustain and scale operations. This would require building awareness and educating various government departments on the concept of outsourcing.

3 **Enabling broad-based infrastructure development to develop the overall BPO industry**

Infrastructure is the backbone of the IT

and BPO industries, and it is particularly important for the Impact Sourcing industry, where targeted investments are required to enable an environment for business to take advantage of lower-cost skilled labour to perform subsets of BPO service tasks.

4 **Promotion of incubation centres / mini-tech parks in smaller locations and rural areas by the government**

Expansion to tier2/3 locations is key to the development of the Impact Sourcing sector, as they typically have a convergence of sufficiently skilled labour that otherwise would have limited opportunity for employment to perform BPO tasks.

5 **Generating demand by promoting outsourcing to organisations with "Socially Committed Business" certification / scores**

One method of promotion is to have governments or independent organisations adopt a certification program, such as "Socially Committed Business," to promote BPO companies that proactively employ poor and vulnerable populations. Such a certification process would help build awareness and enable service providers to leverage certification as a successful marketing and positioning tool while also providing employment to poor and vulnerable people. 

Avasant with support from the Rockefeller foundation developed a detailed study to provide recommendations to the governments on best practice and policies to implement Impact Sourcing. Avasant reached out to a diverse set of stakeholders in the industry and leveraged a multi-pronged approach for data collection and gathering best practice. The study included public and private stakeholders from across 24 countries. The key objectives of this study include:

- *Identifying the best practice of incentive and policy implementation to encourage IS adoption.*
- *Examining the inventory of policies and incentives implemented globally to adopt and grow IS.*
- *Identifying countries that show the most promise for policy change and incentive implementation to encourage the growth of Impact Sourcing.*

This report can be accessed at www.avasant.com/research/impactsourcing



"Small gestures can have a big impact." – Julianna Margulies