Global Business Process Outsourcing Development and Its Impact Toward Indonesia

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Abstract

This paper is concerned with business process outsourcing (BPO) development growth globally and how Indonesia ranks among the world. BPO is well known theoretically in Indonesia, yet it is practically not embraced or understood by the Indonesian business world. Is this related to the country's socio-economic problem, or do factors such as foreign trade and investment opportunities, economic and financial forces, political and legal forces, and competitive forces play a part? This article then tries to answer the question by elaborating on each factor and putting Indonesia at the cross- sectional diagram in the conclusion to understand where Indonesia stands at the BPO crossroad.

Keywords: Business process outsourcing, BPO, development, growth, global, Indonesia, socio-economic

1. Introduction

1.1 Business Process Outsourcing (BOP)

1.1.1 Definition[1]

According to Tec Target, Business Process Outsourcing can be defined as...“...The contracting of a specific business task. Such as payroll, to a third-party service provider. Usually, BPO is implemented as a cost-saving measure for tasks thata company requires but does not depend upon to maintain its position in the marketplace. BPO is often divided into two categories: back office outsourcing which includes internal business functions such as billing or purchasing, and front office outsourcing which includes customer-related service such as marketing or tech support.“

Thus, BPO is the delegation of one or several business processes to a company (3rd party) that administers and manages the selected process. Typically, the 3rd party BPO provider is given specific guidelines based on the definition and measurable performance metrics.[2]

Companies usually tend to outsource specifically non-core functions such as human resources, finance and payroll, customer relationship management and IT services. This is done so the company could focus on its core activities, reducing operational costs.[3]

There are two main components of IT-Enabled BOP[i]:

I. Vertical (sector): BOP services that are industry focused. These include ICT, manufacturing, energy, financial services and transportation.
II. Horizontal (operations): BOP services that are business focused. These include human resources, order management, marketing, call centre, and telemarketing.

1.1.2 Overview of the BPO market

BPO has only seemed to reach prominence over the last 10 years but has existed in principle for decades with companies processing everything from medical claims and contracts.[ii]

In the late 1970s, the BPO focus was aimed at shoes, cheap electronics and toys manufactured in China, Taiwan and South Korea. The 1980s and 1990s brought the first wave of computers and recruiting software developers in India, Ireland, and other countries. Since the dawn of the new millennium, the proliferation of the Internet has greatly expanded the field of IT-enabled services.[iii]

The global BPO market is exploding from US $773 billion in 2002 to an estimated US $1 trillion by 2006.[iv] The primary outsourcing countries include India, Ireland, China, Philippines, Russia, Mexico, South Africa and Israel.[v]

Logistics (the management and design of supply chains), compromised the largest segment with a little over a quarter of the total spending. Other segments, such as human resource management, are poised to account for a larger share of the BOP market by 2006.

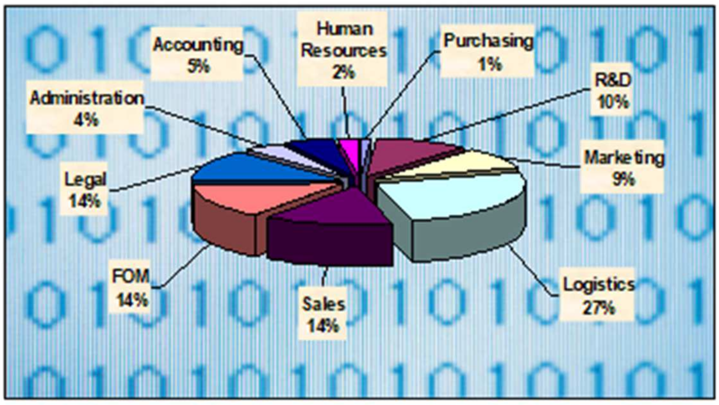


Fig. 1. Worldwide ITES-BPO sending by segments[8].

1.1.3 Benefits of outsourcing

The rapid increase in the demand for BPO is tied to its advantageous benefits. Globalization is forcing companies to rethink their strategies by focusing on their core competencies. The decreasing costs of telecommunication have also facilitated the increased demand for BPO. The following benefits provide some of the reasons why companies pursue BPO initiatives.

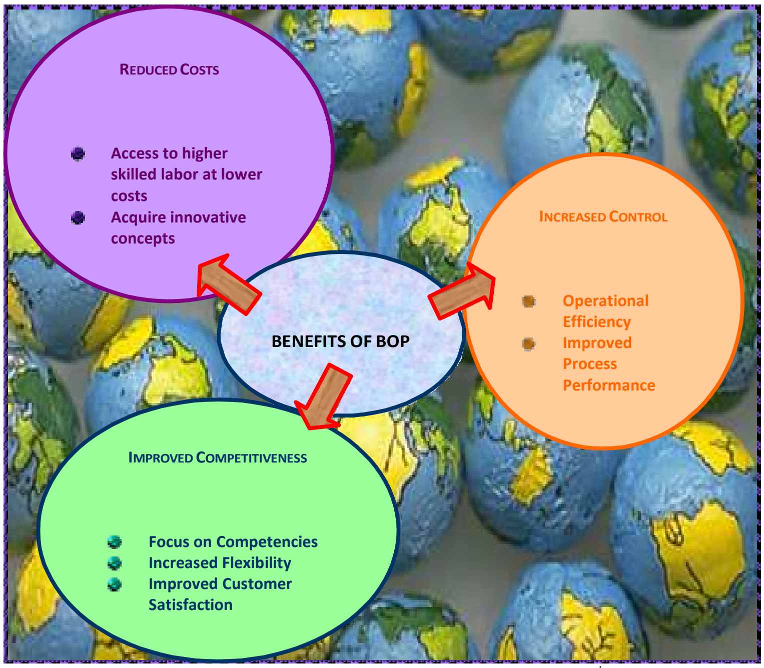


Fig. 2. Benefits of Business Process Outsourcing[vi].

Background of the Study

Indonesia is characterized by a broad economic base and its geographical vastness. This is compounded by its heavy reliance on agriculture as its main export in the past. The agriculture industry nevertheless has recently been seriously undermined because of the unstable global climate crisis and uncertainties raised over the land tenure system hovering over the predominantly Indonesian farmers[vii].

The economy of scale, geographical remoteness and forces of globalization including the forthcoming Industrial Revolution 5.0 and circular economy are issues that Indonesia must grapple with. To surface from such adversity would require the exploration of alternative pathsof development. One such development path is Information Technology-led growth, more specifically thoseafforded by Business Process Outsourcing. Since the late 1990s, the Indonesian government hasexpressed a clear interest and strong commitment to developing the IT sector into a catalyst for economic development.

Early in 2010, the cabinet sub-committee on Investment set about developing a policy statement for the Indonesian government to set directional goals. A national ICT strategy was then developed by various delegates from the government, the private sector and educational institutes who outlined several key principles (Menkominfo RI, 2022):

I. Committed leadership and champion of ICT development
II. The effectiveness of government policies and services
III. Ownership/partnership in the development of ICT policies and their implementation
IV. Equity/equality of access to ICT
V. Universal access to education
VI. Diversity/choice through competition
VII. Accountability – personal, society, and government
VIII. Transparency within the government and between enterprises and the governmentthemselves and society as a whole
IX. Decentralization of government services
X. Efficient, tolerance and respectful deliveries of government services (good governance)

This landmark workshop concluded with the participants identifying and agreeing on the following six projects as priority key initiatives.

1) Policy Issues
2) Educational curriculum to reform
3) e-Government
4) Nationwide awareness of what the Internet is all about
5) Recycling PCs, awareness, expansion of existing programs
6) Rural telecommunications and telecenters development

Background of the Study

To determine the feasibility of establishing a Business Process Outsourcing Industry in Indonesia.

1.1.5 Objectives

I. To provide a general overview of Business Process Outsourcing.
II. To present a summary of global trends, opportunities and statistics of Business Process Outsourcing.
III. To provide an analysis of the current social, economic and political factors influencing the state and potential capacity of Business Process Outsourcing in Indonesia.
IV. To provide a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis of Business Process Outsourcing in Indonesia (forthcoming research paper).
V. To provide recommendations on telecommunications infrastructure, investment incentives, training, government support and promotional strategies (forthcoming research paper).

1.1.6 Significant of the Study

The study is significant for several reasons, the chief among them is that in the new borderless world of technological innovation, the motto is *network or perishes*[viii].

A. Bridging the Digital Divide: There is always a growing fear that developing countries will be left behind as technology and knowledge increase in developed countries. Business Process Outsourcing has the potential to become a key driver for economic development. This report would provide much-needed insight into taking the initiatives inthe right direction.
B. This study proposes to comprehensively bring together the research findings detailed inother studies into a single report.
C. This report will also catalyze launching further interest and the recommendations outlined in it, a persuasive tool to lobby both government and non-government organizations.

1.2 Scope of Work

This article will attempt to identify the real available opportunities and problem areas that inhibit the development of the BPO industry in Indonesia. It will draw on several key resourcesand present findings that have been attained in close collaboration with Key Players, both private and public, involved in the development of the ICT sector in Indonesia.

1.2.1 The Scope of Worked covered in the Study Includes:

A detailed Overview of the BPO model
A snapshot of BPO global markets and trends, the size and also an analysis of some of the major players.
The current Indonesia BPO socio-economic and political environment in terms of existing BPO activities.
A SWOT analysis of the BPO sector in Indonesia (forthcoming article).
Recommendations about (in a forthcoming article):

- Infrastructural improvements, investor incentives, human resources and training, government support mechanisms, etc.
- Specific types of outsourcing activities to be promoted by Indonesia.
- Promotional strategies

Indonesia is characterized by a broad economic base and its geographical vastness. This is compounded by its heavy reliance on the agriculture sector as its main export in the past. The agriculture industry nevertheless has recently been seriously undermined because of the unstable global climate crisis and uncertainties raised over the land tenure system hovering over the predominantly Indonesian farmers.

2 Methodology

The methodology employed in this study relied heavily on content and descriptive analysis appropriately using both qualitative and quantitative measurement techniques to validate the conclusions of this research.

2.1 Content Analysis

Limited library resources were available, and the research centred on material accessed from the World Wide Web. Most of the searches were carried out and sourced mainly from reliable Educational and Industrial websites. Search engines used to locate educational journal articles at these institutions include the advanced Google search engine (www.google.com/advanced), searchedu.com and northern lights (search engines focused mainly on educational resources). Other extremely useful sites providing background information on this thesis were the International Telecommunications Union (www.itu.com) and the Institute of Supply Management (www.ism.ws).

2.2 Data on Indonesia BPO prospects were obtained through

Brochures, pamphlets and white papers.
IT-enabled papers written by academics.
Data and statistical reports issued by various Indonesian ministries such as the Ministry of Communications, the Ministry of Urban Planning, the Indonesia Bureau of Statistics and the

Indonesia Bureau of Trade and Investment.
Surveys (mainly by e-mail) with key informant interviews on target markets, etc.
Internet-published materials.

2.3 Data gathered on the global BPO market were gathered from

Published reports/surveys on the global BPO market, trends, etc.
Case studies of established BPO locations and their features

This article will employ the footnote methodology of referencing.

Websites and e-newsletters.

2.4 Limitations of the Study

The major limitation of this study was the collection of recent data regarding the current state of BPO in Indonesia. The latest published report is from 2003. This lack of educational resources was mainly due to the novelty of IT-enabled industries in Indonesia. The other reasonwas our inability to be physically present to conduct face-to-face interviews with various stakeholders. Another barrier was the lack of enthusiasm for some of the private companies in disclosing details on their proposed IT-enabled initiatives. An interview with a famous professorof economics at one university in Indonesia revealed that e-strategies were an important part of establishing and maintaining a competitive advantage.[ix]

3 Result

3.1 Types of Processes Outsourced

BPO encompasses a wide range of services such as call centres, medical transcription, data digitization, revenue accounting, data processing, web content development, animation, etc. BPO activities can normally be outsourced according to the following categories[x].

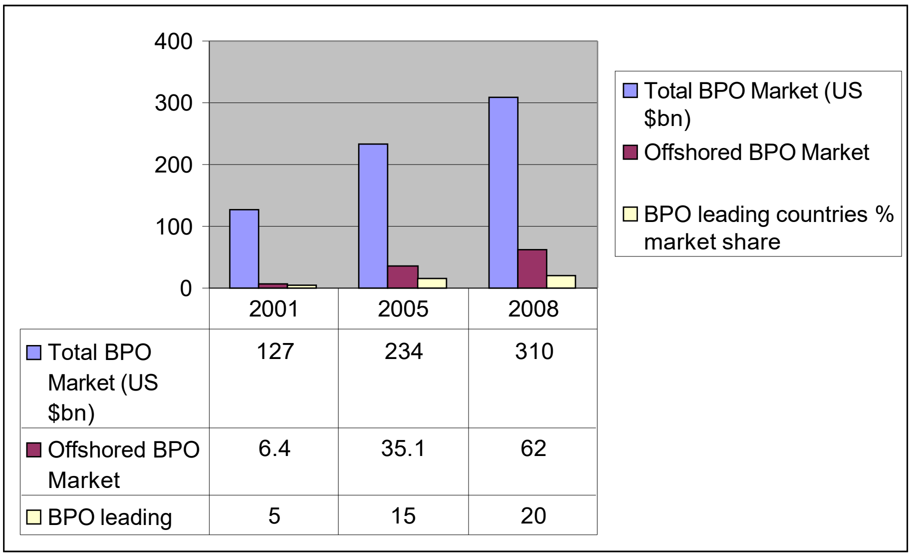
Fig. 3. BPO Services.

3.2 The World BPO Markets and Trends

The NASSCOM McKinsey Study[xi] 2002 estimates the global market size of BPO to increase from US $127 billion in 2001 to US $234 billion in 2005 and $310 billion by 2008. Theshare of the market by outsourcing countries (India, Philippines, China, Mexico, Ireland, Poland, Australia, Hong Kong, Russia and New Zealand) is expected to increase from 5% in 2001 to around 20% by

2008.

Table 1. Forecasted Offshore BPO Market.



The table below outlines the worldwide Information Technology Enabled BPO spending by region in US$ million in 2001.

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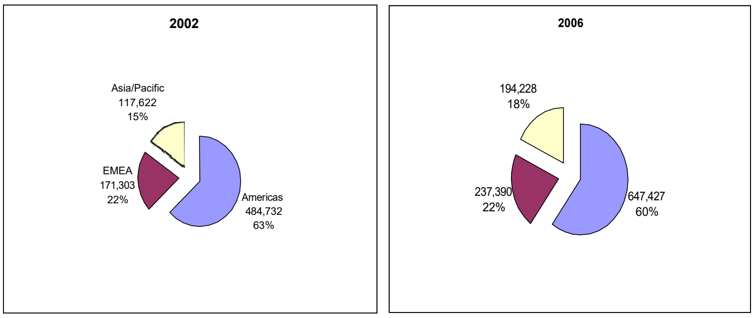


Fig. 4. Worldwide ITES-BPO Spending by Region 2002 – 2006 (US $ million).

The worldwide ITES-BPO spending by a segment of different categories of BPO services in US$ million in 2001 and 2006 is as follows:

As the above table highlights, logistics accounted for over 25% of the world's Information Technology Enabled Services for Business Process Outsourcing in 2001. Its percentage of the ITES-BPO market is projected to decrease to about 20% in 2005, with human resources in the segment with the most projected growth.

Segment		**2001**		**2006**		**2001-2006 growth rate**
		US$ million	**%**	**US$ million**	**%**	%
Human Resources		7,373	2.1	25,555	1.0	246.6
Logistics		140,700	25.7	308,651	19.8	119.4

Purchasing		5,288	1.0	12,185	0.7	130.4
Engineering/ R&D		69,798	10.3	123,882	9.8	77.5
Marketing		76,666	9.0	108,340	10.8	41.3
Sales		107,412	13.8	165,736	15.1	54.3
Administration		36,644	4.5	53,396	5.1	45.7
Legal		111,273	13.7	163,962	15.6	47.4
Finance/ Accounting		36,356	5.4	64,872	5.1	78.4
Other		120,635	14.4	172,329	16.9	42.9
TOTAL		712,145	100.0	1,198,908	100.0	68.4

Table 2. Worldwide ITES-BPO Spending by Segment for 2001 and 2006[4].

3.3 Established BPO Locations
3.3.1 Target Markets

The technological race among developing countries for a share of the BPO market hasled to the establishment of BPO industries from Ireland to Russia. Although India has recently stamped its dominance on the market, emerging countries such as China and Russia with their large supply of cheap labour are future contenders for a larger share of the pie.

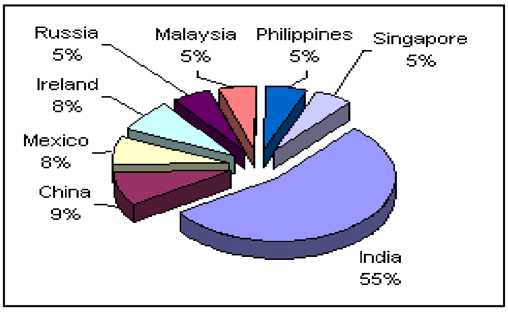


Fig. 5. 2003 Global Outsourcing Destinations.

Fig. 6. Global Sourcing Powers: Status and Perspective.

The choice by companies of which country to establish BPO initiatives in is mainly a trade-off between cost and quality, graphically shown in Figure 7.

Fig. 7. Global BPO Countries – Cost Vs Quality.

3.3.2 Country Specialization

Early on in the evolution of BPO-related industries, countries generally tended to specialize in BPO services that best suited their social, economic and political circumstancesas the following table highlights. Human resource-intensive countries, such as China, India and the Philippines, with their low wage rates, established call centres. Russia, on the other hand, which has the highest scientist per capita in the world, focused on more technically oriented BPO initiatives, while still maintaining their low wage rates.

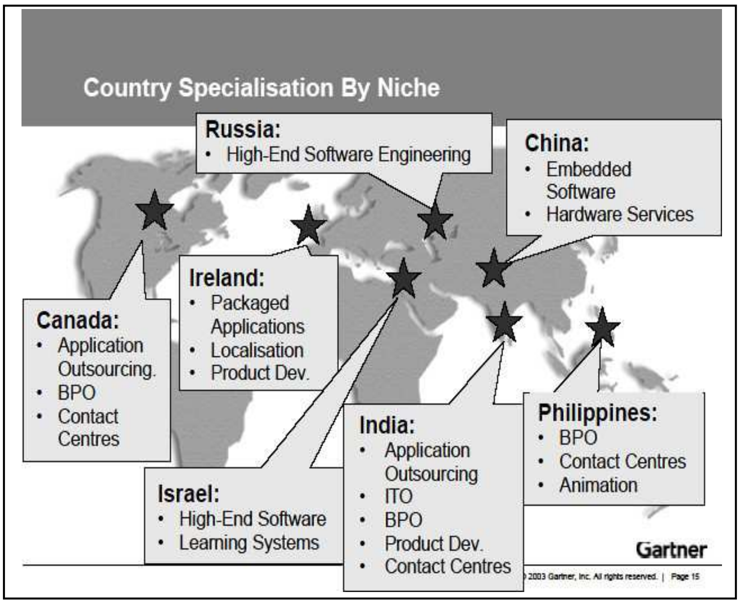


Fig. 8. Country Specialization by Niche[5,17].

3.3.3 Major Companies Engaged in Outsourcing

The massive cost savings prompted by BPO initiatives have attracted some 300 Fortune 500 companies such as General Electric, American Express, Standard Chartered, HBC, Delta Air Lines and America Online to actively utilize these services[xii]. Other companies such as consulting firms IBM, EDS, Accenture and KPMG have expanded their facilities to BPOintensive countries such as India. The cost savings and economies of scale have been signed with major companies like GE stating that it saved $500 million because of its ITES set-up in India.

	People	Est revenue FY03 (US$m)	Clients	Activities
Captive units				
GE Capital Intl. Services	8,000		GE	Help desk, transaction processing, call centres, risk-modelling, data mining, remote network management
eServe	2,700		Citibank	Call centre, Transaction processing, collections
American Express	1,000		American Express	Card processing, account receivable and payable, payroll
BPO operations of Indian IT service majors				
Spectramind	3,200	45	Amex, Dell, Delta Airlines	Call centre, finance and accounting, transaction processing, e-mail
Msource	1,635	23	Citibank, Capital One	Call centre, inbound and outbound, transaction processing, e-mail
Progeon	300	5	Greenpoint Mortgage	Transaction processing
BPO units of other companies				
GTL	600		na	
ICICI One Source	550		na	Call centre, e mail and web chat, outbound calling, collections
Start-up BPO operations				
Conseco EXLService	2,000		na	Call centres, HR, claims processing, payroll, data processing
Daksh	2,000	35	na	Email, real-time chat, call centre
eFunds	1,800		Citibank	Call centre, remote data entry, accounting and finance
World Network Services	1,400		British Airways	CRM, accounts, data capture and analysis, document processing
Airline Financial Services	1,000		na	Cargo accounting, passenger revenue accounting, yield management, frequent flier program
Tracmail	1,000		na	Web chat, e mail support, call centre
First Ring	700		na	Call centre
Caretel	500		na	Call centre, web services
Ienergiser	450		na	Call centre, e mail and web chat, credit collections, tele-marketing
India Life Hewitt	300		na	Pension administration and payroll
Comat Technologies	300		na	Data conversion, medical transcription
Iseva	300		na	Call centre, e mail help, web chat
24/7Customer.com	300		na	Call centre, e mail and web chat
Transworks	300		Citibank	Call centre
Vision Healthsource	250		na	Data entry, accounts
Talisma	250		na	Call centre, transaction processing
Compass Connections	200		na	Accounts
iBackoffice.com	200		na	Call centre, e mail and web chat
Paramount Healthcare	200		na	Call centre, insurance claims processing
Cross Domain Solutions	150		na	Payroll, accounting
itAccounts BPO India	100		na	Claims processing, back-office
Total	**31,685**	**c.540[1]**		

[1]Assuming US$1.8m in revenue per 100 people. Source: CLSA Emerging Markets, Industry sources

Table 3. A Brief Profile of Major BPO Players[6].

3.4 Indonesia's Competitive Standing on the International BPO Scene

As Indonesia attempts to establish itself in the worldwide BPO arena, it must determine its competitive standing among more BPO-developed countries.

The Competitor Analysis Report (2000)[xiii] by Tarpnz[xiv] pointed out various countries that Indonesia had to compete with. It firstly classified countries that had a physical IT infrastructure in place, actively developing their IT-enabled service sector and were geographically comparable. The following countries were deemed as direct competitor countries by the report.

1. India
2. China
3. USA
4. Philippines
5. Singapore
6. Malaysia
7. New Zealand
8. Australia
9. Thailand
10. Indonesia

All the above countries will be in direct competition for corporate investment and resource allocation. Although technically all countries with an IT-developed infrastructure could theoretically compete with Indonesia, a major factor in the choice of companies in selecting a region would be on a regional basis[xv].

The Tarpnz Competitor Analysis Report (2000) compared these countries using a scale of 1 -10 and several criteria for each of the following 4 sections.

A. Foreign Trade and Investment Opportunities
B. Economic and Financial Forces
C. Political and Legal Forces
D. Competitive Forces

The following is a summary of Indonesia's standing in terms of policy comparisons with the 10 countries. Instead of giving an analysis of each of the 4 assessment sections, an overall conclusion taking into consideration all these factors will be presented. This is so as not to provide an over-specific analysis but an overall impression of Indonesia's global competitiveness.

A. Foreign Trade and Investment Opportunities

The methodology employed by Tarpnz consisted of a point system where policies were graded according to their greatest effect on a potential MNC. For example, if Singapore offered tax incentives of 100% for 10 years and New Zealand 50% for 5 years then Singapore would score higher on a scale of 1 – 10.

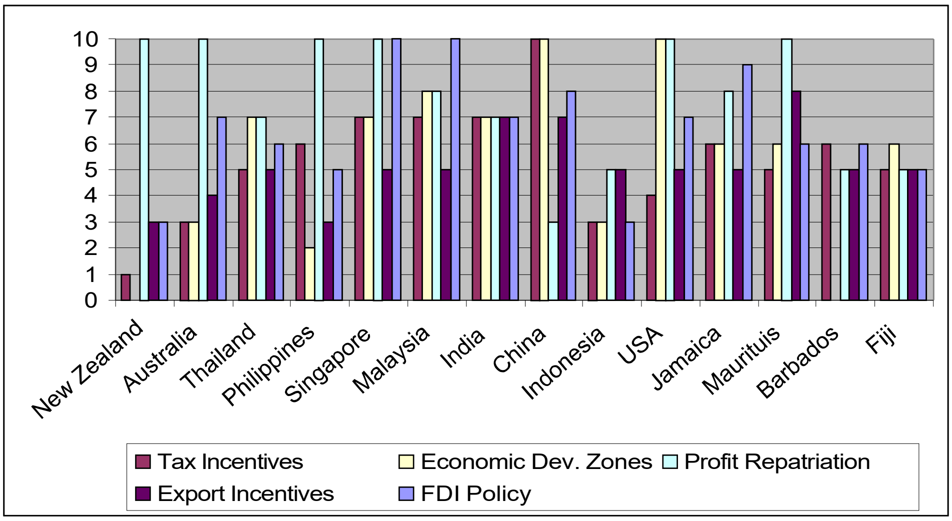


Fig. 9. Foreign Trade and Investment Opportunities.

B. Economic and Financial Forces

This assessment focused on the economic and financial forces of these 14 countries. This included overall economic indicators such as GDP growth and per capita income.

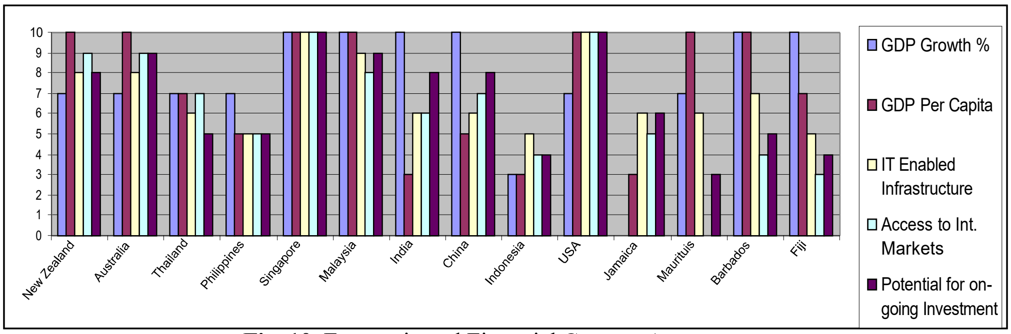


Fig. 10. Economic and Financial Country Assessment.

C. Political and Legal Forces

This section assesses how the current policies are likely to affect prospects. It is thuscentral to Indonesia's attempt at gaining a footing in the global BPO market.

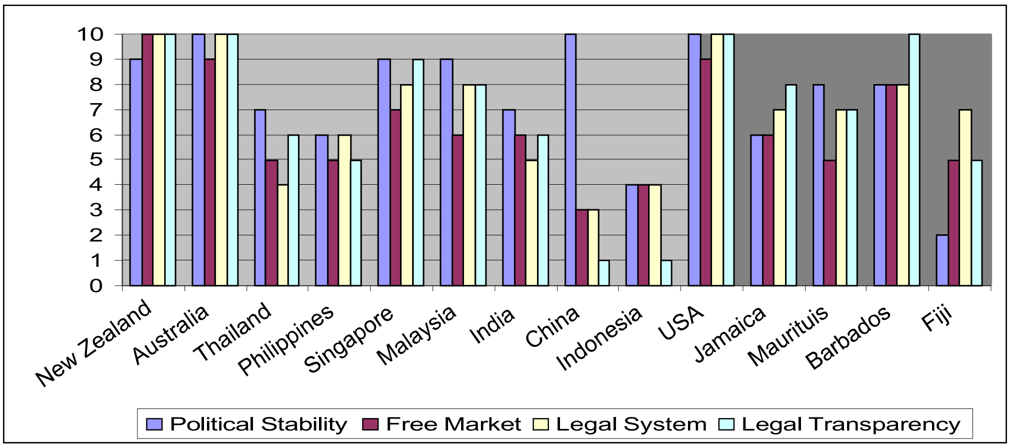


Fig. 11. Political and Legal Forces.

D. Competitive Forces

This section focuses on how each country provides a competitive value to the corporation. The Tarpnz Report utilized 4 criteria for assessing competitiveness. These were Market Size Access (home market and access to larger regional markets), Intellectual PropertyProtection (legal standards), Skill level of employment Base and Labor Pool Size (number of workers investors have access to).

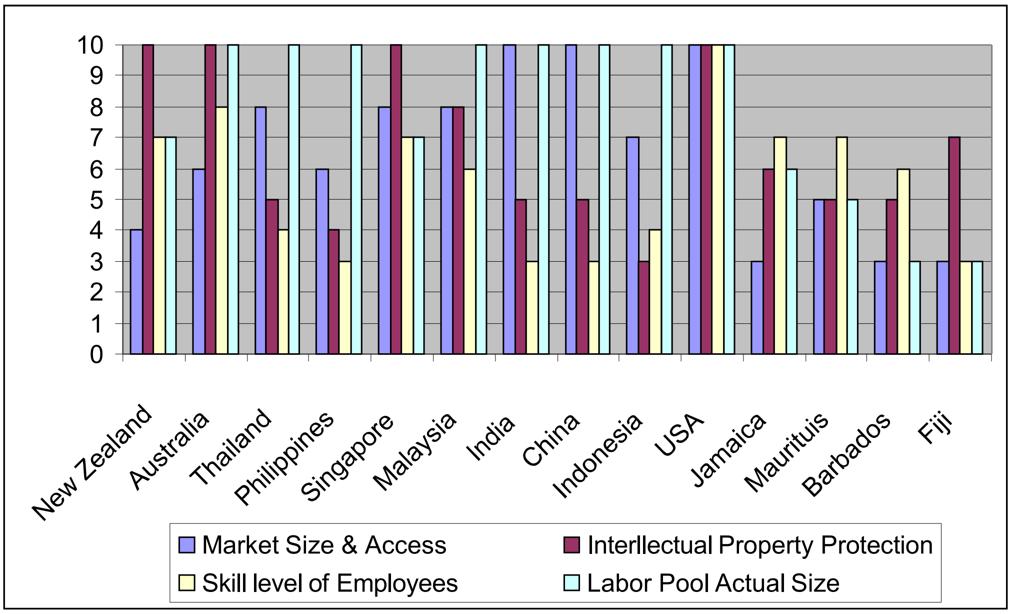


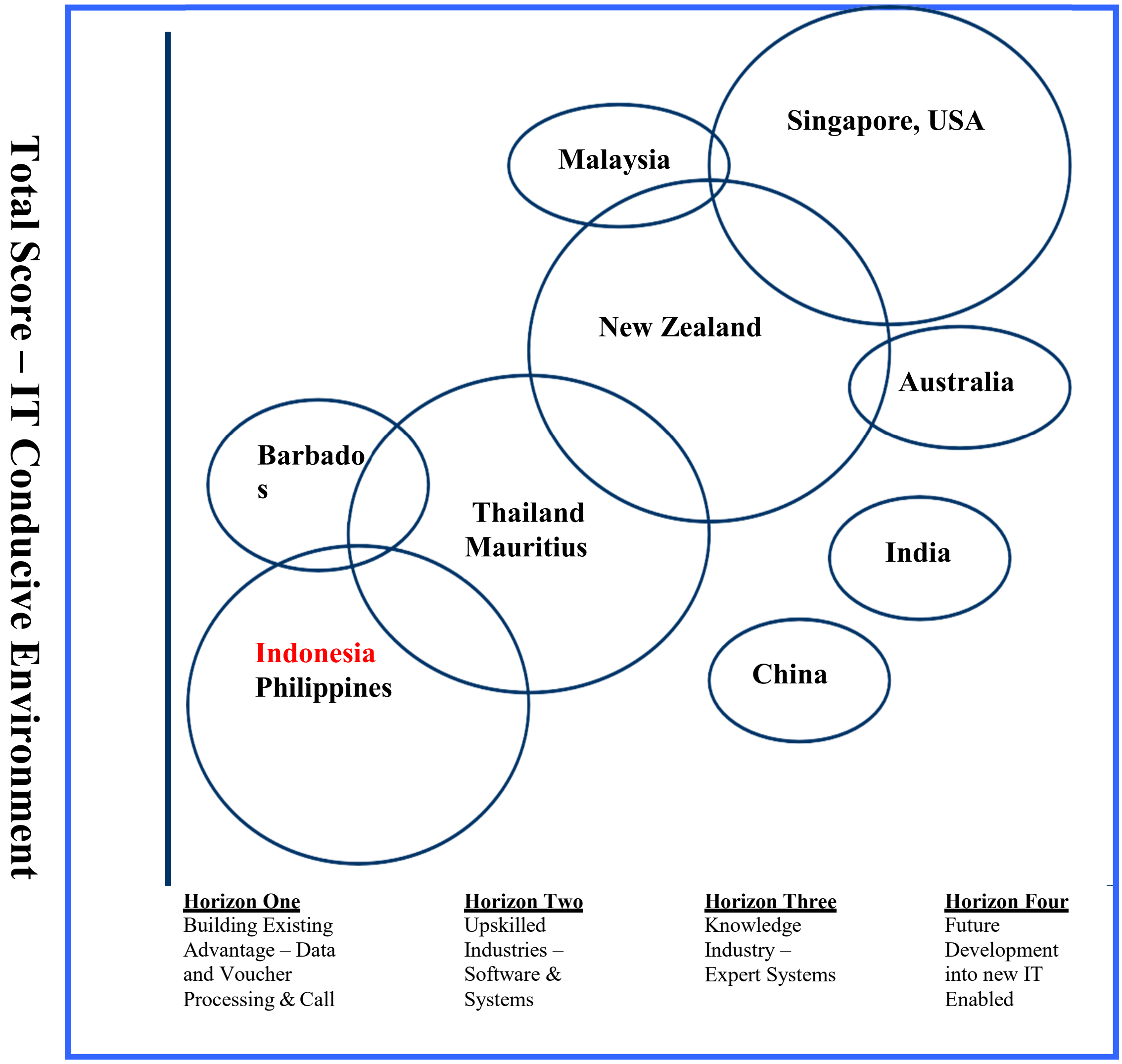
Fig. 12. Country Comparison of Competitive Capacity.

4 Conclusions

The choice of potential investors to set up a BOP operation in a country is dependent primarily on costs. In the above analysis, the Tarpnz report highlighted at least 18 other factors, both positive and negative, that contribute to making that decision.

The Tarpnz study concluded that the 14 countries could be divided into 4 main horizons or categories. Horizon 1 was countries that scored below 100 aggregate points (Indonesia, etc.), and Horizon 2 that were in the advanced stage of developing its IT-enabled BOP sector. Horizon 3 is countries such as Australia that have already a firmly established BOP sector. Horizon 4 is countries that scored over 150 points and were at the forefront of IT services development and implementation.

Fig. 13. Country Comparison – IT Conductive Environment



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