Can outsourcing boost employment for low-skilled workers?

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Setting the stage

As the world has flattened, some forms of services have become easily traded across geographies, cultures, and cost structures. Many countries—most notably India and the Philippines— have accelerated their economic growth through thriving information technology (IT) and business process services exports. The outsourced[1] market for global information technology and business process services is $660-690 billion in annual revenue. Of this market, approximately 20-25 percent is delivered as service exports from one country to another. In aggregate, the services exports market has been growing 10-15 percent per year for over a decade.

The types of services comprising this market include IT application development and maintenance, IT infrastructure management, finance and accounting, procurement, supply chain, customer support, marketing, engineering, and many industry-specific activities such as insurance claims processing, clinical trials management, and airline fare audits. This array of activities utilizes a spectrum of skills, ranging from data entry to information management to analysis to communications.

In emerging countries, traditional business process outsourcing (BPO) has created millions of jobs over the past decade. These jobs are generally for college graduates, although also for high school graduates to provide basic voice-based contact center services in countries where English skills are strong (e.g., the Philippines, South Africa). Sophisticated ecosystems for labor development and placement in the BPO sector have emerged, but there are still labor shortages and only a portion of college graduates are qualified to take on such jobs. Further, attrition is a major pain point, with dropout rates often in the range of 30-50 percent per year. As the BPO industry grows, companies poach from each other, plus some workers leave the BPO industry to take other types

of roles or for personal reasons (e.g., starting a family, moving closer to aging parents).

As a part of its Digital Jobs Africa initiative, in 2014 the Rockefeller Foundation asked Everest Group to analyze options for disadvantaged populations to participate in this market for BPO.[2] The effort focused on six African countries (Egypt, Ghana, Kenya, Morocco, Nigeria, and South Africa), as well as India and the Philippines (the leading emerging economies providing business process services exports). The analysis included over 60 interviews, 30 completed data collection responses, 250 survey responses, and 14 case studies and testimonials.[3] The scope included both non-voice transactional work and voice-based work (e.g., contact center).

Who is considered disadvantaged and therefore an "impact worker"?

- Economically disadvantaged | low income areas, lack access to jobs
- Socially disadvantaged | minorities, gender groups
- Persons with disadvantageous life circumstances | disabled, health limitations

Note: This applies to a subset of the BPO workforce (e.g., most BPO employees in India are not impact workers). Economically disadvantaged applies to those below the normal, college educated standard within the large metro areas of a country

Key findings

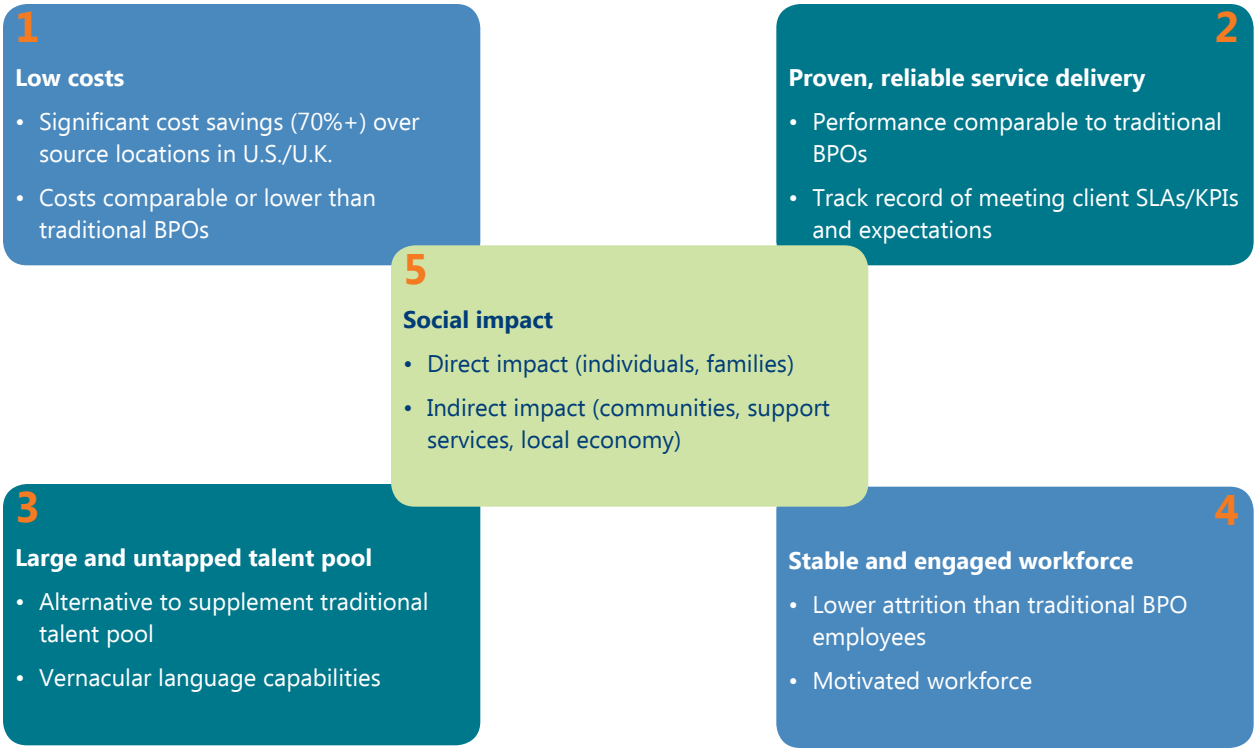
The study[4] estimated that the impact sourcing market is approximately 12 percent of the overall BPO market for the group of countries in scope, growing at 11 percent per year, and represents about 235,000-240,000 workers. Further, the analysis revealed four primary findings:

- There is a compelling *business case* for impact sourcing
- Much of impact sourcing work is *"unintentional"*
- The impact sourcing model can be effective in a *range of types of work*
- There are *notable variations* in impact sourcing across different countries

Business case for impact sourcing

Although many initially assume that impact sourcing is motivated primarily by social responsibility objectives, the analysis revealed a solid business case for adopting impact sourcing. The business case rests on five components, as show in the following Figure 1.

Figure 1: The five components of impact sourcing



1. Low cost

In comparison to traditional BPO models that utilize lower cost offshore destinations, impact sourcing offers similar or greater cost savings. Traditional BPO models offer 60-70 percent operating cost savings in comparison to onshore (higher cost labor) delivery models from tier-2 cities in the United States. Impact sourcing lowers offshore delivery costs by an additional 5-20 percent, resulting in a total cost savings potential of 66-82 percent, depending on location and type of work.

2. Proven, reliable delivery

Impact sourcing work has also shown to be competitive in terms of quality of service provided. Although impact workers often require a longer period to adjust to the work environment and business context, they are viewed as providing similar levels of accuracy and timeliness compared to non-impact workers.

3. Large and untapped talent pool

For organizations seeking to manage a portfolio of service delivery work, the impact worker market helps increase the available talent pool. Impact workers are typically from populations that have higher levels of unemployment and for which an office-based job is highly attractive. Although not all individuals will be suitable for impact sourcing work, the potential available talent

pool is dramatically increased for certain types of work such a domestic voice support, data entry, rules-based data manipulation, and so on.

4. Stable and engaged workforce

Organizations using impact workers report 15-40 percent lower attrition than for their traditional employee models. Lower attrition means impact sourcing is competitive, since it reduces the costs of hiring and training replacement staff. While impact workers are not paid less than others, they tend to be less costly to employ since they are less likely to quit. Impact workers tend to be more deeply bonded to their employer and there is a stronger fit of the employment value proposition. The combination of increased stability and engaged workforce provides more predictable service delivery and associated client satisfaction.

5. Social impact

And, of course, there is a positive social impact that sweetens the overall attractiveness of impact sourcing. This social impact is not only for the impact worker, but also their family and community. The increased compensation results in a tripling or quadrupling effect for the local economy. Additionally, the workers develop enhanced skills that last beyond the role, increasing their long-term ability to make key investments such as in their children's health and education.

"Unintentional" use of impact sourcing

One of the most interesting findings is the extent to which many organizations are integrating impact sourcing into their normal talent models without specifically attempting to do social good. In fact, of the 235,000-240,000 impact workers in the scope of the study, 63 percent are working in employment contexts for which the use of impact workers was unintentional and programs and policies specific to impact workers have not been developed. Further, of the 37 percent in intentional impact sourcing models, only 12 percent were undertaken by organizations purely focused on impact sourcing.

This poses an interesting dilemma. On the one hand, this unintentional phenomenon demonstrates the commercial viability of an impact worker model and shows that market forces lead organizations to tap alternative labor pools. Further, it suggests that impact workers are able to enter the traditional BPO sector and perform and develop as well as more advantaged workers. On the other hand, it suggests many people (service providers, customers) are poorly informed about the possibility of impact sourcing work. Also, the unique needs of impact workers are not being fully addressed, thereby limiting its potential.

There are multiple scenarios through which impact work might be structured. Some organizations directly employ impact workers in their own delivery centers. Others may unintentionally be utilizing impact workers through the work delivered by their outsourced BPO provider. And

yet others will intentionally seek out impact workers and contract with an impact sourcing service provider (ISSP).[5] Training institutes play a critical role in some markets. They help employers of impact workers identify appropriate resources for their particular service model and may have costs subsidized by government or non-government programs. Further, they can continuously and efficiently operate at scale for basic training (bringing impact workers up to par with traditional sources), after which more advanced and specific training by the eventual employer is provided.

Types of work delivered by impact sourcing

Impact sourcing models can deliver a wide array of services within the broader BPO sector; however, not all BPO work is appropriate for impact sourcing. The most common types of work delivered by impact workers include:

- **Contact center:** language and communication skills for customer support, telemarketing, technical helpdesk, etc.
- **Data processing:** transactional work using a computer such as data entry, data mining, document digitization and archiving, data validation, and transcription
- **Content services:** requires some domain knowledge and language skills to provide editing, copy writing, digital marketing, translation, and image cleanup
- **Data analysis:** requires more extensive domain knowledge and computer skills for online research, content tagging, image tagging, etc.
- **Finance & accounting:** required domain and computers skills vary in order to support the specific attributes of activities such as invoice processing, image validation, indexing of invoices, etc.

Impact sourcing is most highly adopted for contact center and data processing types of work since the required skill sets are most aligned to impact workers' capabilities. For contact centers, much of the work is in support of domestic market outsourcing (e.g., India impact workers supporting customers in India).

Notable variations by market

Across the eight countries included in the analysis, variations in the level of adoption of impact sourcing and the type of impact sourcing work are clearly evident. India, South Africa, and the Philippines comprise 96 percent of the total impact workers analyzed. Of the other five countries, Egypt, Ghana, Morocco, and Nigeria are roughly equal in size in terms of the extent of impact sourcing, and Kenya is almost twice the size of the others.

Factors that seem to explain these variations include languages and dialects spoken and their relevance to other geographic markets, maturity of the domestic market services sector, perceived

attractiveness of services industry roles to workers, and availability of educated resources and training programs outside of major metropolitan centers.

Although impact sourcing models can operate in almost any environment, market conditions that appear to increase the adoption rates of impact sourcing include a mature BPO domestic market; tier-2 and tier-3 cities with basic education and training programs; internet connectivity; and English as a major language. The combination of these factors creates the conditions to more easily create a service delivery operation with access to a plentiful, capable, and interested workforce.

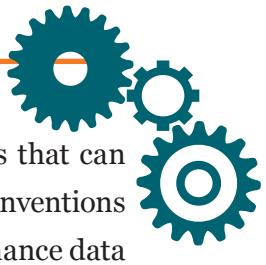
Challenges to reaching the potential

Despite the compelling case for impact sourcing, four challenges hinder impact sourcing from reaching its potential. First, market awareness and consideration for intentionally pursuing impact sourcing is fairly limited. Many organizations already view global service delivery as a complicated and sensitive matter (e.g., regulatory issues, risk) and are therefore reluctant to attempt using an unorthodox model that may require altering their traditional approaches (e.g., location selection, contractual guarantees, provider selection, monitoring). With sufficient education and case studies, this can be moderated over time, but will continue to be a constraint.

Second, impact sourcing requires embracing a different talent model. Since most organizations are already struggling to integrate onshore and offshore, internal and outsourced delivery, and transactional and judgment-oriented talent models, a further dimension of potential complexity can be daunting. The key is to focus on service requirements for which impact sourcing is uniquely positioned to meet the need.

Third, emerging technology capabilities such as automation and cognitive computing are removing the need for human intervention for some basic work, which is instead completed by computers. This then leaves more complicated tasks for people to complete and is generally less amenable to impact sourcing skill sets. Robotic process automation (RPA) is a particularly powerful tool because the technology mimics an actual worker and can function across multiple systems as a human would without requiring changes to the existing underlying systems. The market for RPA technologies was only $70 million[6] in 2015, but is growing by 70 percent per year and forecast to double every year for the foreseeable future. In the first half of 2016, some technology providers report reaching annual growth rates in excess of 200 percent. RPA is clearly a thriving market, but also still fairly nascent and it is unclear how much it will actually impact employment.

Although there are good arguments that these technologies may reduce the aggregate potential for impact sourcing, there are some new types of demand that are created by these changes in technology. Most notably,[7] machine learning technologies (e.g., image recognition, recommendations, predictive models) require extensive amounts of data to analyze and calibrate their algo-



rithms. Much of the data required may not be readily available or structured in ways that can be accurately processed (e.g., missing contextual tagging information, inconsistent conventions across data sets). In these situations, impact sourcing is valuable because it can help enhance data sets in a cost-effective way and do so rapidly due to the ability to quickly scale the available resources. In fact, many impact sourcing service providers find that startups are among their most attractive customers.

Finally, having sufficient access to appropriately-skilled talent pools is a concern. Although the theoretical talent pool is large, the rate at which those individuals can learn the basic skills to operate effectively in a service delivery model is often slower than demand can absorb. Accelerating the growth of training institutes that collaborate across industry and communities is a key leverage point for helping unlock a greater flow of talent.

Impact sourcing is already providing value to many organizations and to the impact workers serving them, but there is a compelling case for expansion. Increasing awareness and basic training capabilities are important parts of the journey. Additionally, advances in technology will pose both a risk to and an opportunity for scaling up the model.

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1 Outsourcing is contracting with a third-party organization for the delivery of a service—regardless of where service delivery is occurring. Offshoring is delivering a service from a low-cost country—which may be via an outsourced agreement or may be through a "captive" operation of the organization receiving the service (in which case the workers are employees). Outsourcing refers to "who" does the work; offshoring refers to "where" the work is done.

2 The effort excluded IT services, for which disadvantaged populations are rarely utilized. The term "BPO" is used in this analysis to refer business process services delivered by individuals working through third-party outsourcing agreements and those doing similar work, but employed directly by the company receiving the services (the "captive" model).

3 From organizations such as Accenture, Aegis, Deloitte, Infosys, Microsoft, Pangea3, RuralShores, SureHire, TCS, Teleperformance, and Valeo.

4 Full report and associated case studies and testimonials available at http://www1.everestgrp.com/impact-sourcing.html

5 Examples include Adept Technologies, B2R, CloudFactory, Daproim, Digital Divide Data (DDD), Head Held High, Piramal Ugdam, RuralShores, Samasource, and Techno Brain.

6 Everest Group 2015. Service Delivery Automation (SDA) – The Story Beyond Marketing Messages and an Assessment of SDA Tools.

7 The Internet of Things (IoT) is another technology advancement which produces significant data and may require increased levels of services appropriate for impact sourcing. However, these use cases are not yet readily evident.