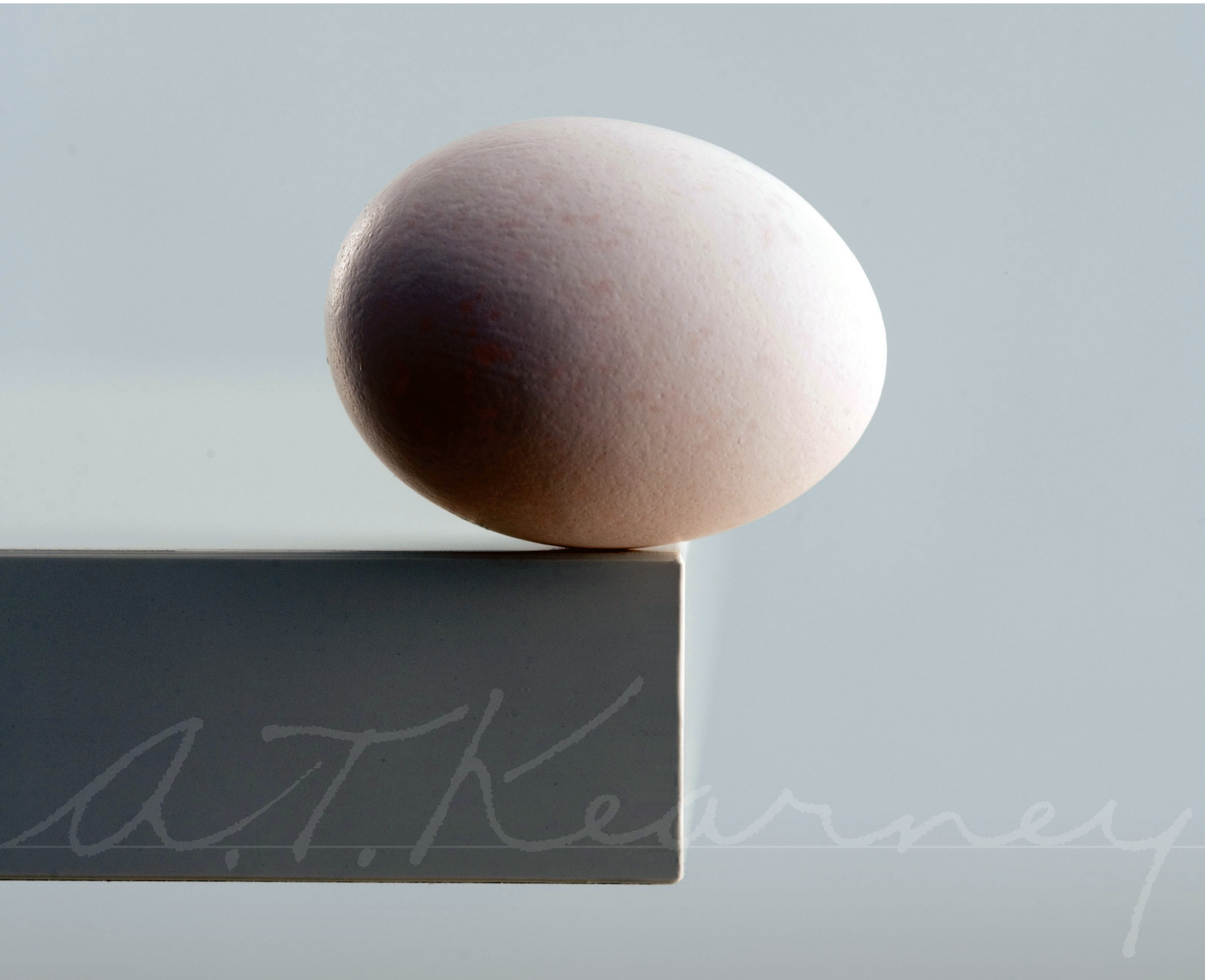
2016 A.T. Kearney
Global Services Location Index™

On the Eve of Disruption

A new business model threatens established concepts of offshoring and expands the market.



The Changing Face of Offshoring

Hardly a day goes by without a new headline declaring that our jobs are endangered by advancing automation. These dire predictions strike a chord among angst-ridden populations across many of the world's most developed economies as employment levels and real salaries struggle to return to pre-recession levels. Recent hiccups in large emerging markets, which it was hoped would pick up the slack to fuel world economic growth, only further contribute to a muted sense of unease.

And indeed, in our 2014 A.T. Kearney Global Services Location Index™ (GSLI) report *A Wealth of Choices: From Anywhere on Earth to No Location at All*, we observed that "no-shoring," better known as automation, represents a third wave of back-office arbitrage that is in rapid development although still in its infancy. As we highlight in this year's report, automation combined with business process as a service (BPaaS) has the potential to be an even more powerful force for disruptive change. This paper begins with an overview of these trends and the implications for countries and companies alike.

In the following section, we present the 2016 findings of the GSLI, which seeks to bring rigor to companies' decisions about where to locate offshore operations. Now in its seventh edition, the Index tracks the contours of the offshoring landscape in 55 countries across three major categories: financial attractiveness, people skills and availability, and business environment. Based on an assessment of 38 metrics, we identify the countries with the strongest underlying fundamentals to potentially deliver information technology (IT), business process outsourcing (BPO), and voice services (see appendix: About the Study on page 11). We also discuss emerging tier 3 cities and social impact sourcing, and the latter's implications for business and society.

Automation and Standardization: A Powerful Combination for Disruption—and Growth

In the 2014 GSLI report, we cited automation—or "no-shoring"—as the third wave of arbitrage in business services. While this third wave has yet to mature, a fourth wave is already breaking onto the scene: BPaaS. Together, they will have a profound impact on the offshore industry.

Automation: robotic process automation

Just as robotics have been transforming manufacturing and process industries in recent years, so robotic process automation (RPA) will continue to ripple through the service economy over the next decade. After all, back-office employees spend roughly one-quarter of their time on rules-based, repetitive tasks—precisely the ones that are easiest to automate. RPA software processes operations three times faster than the average human—around the clock, with no errors, no absences, and no diminishing returns. On average, a software robot (in essence, an RPA license) costs one-third as much as an offshore employee and one-fifth as much as onshore staff. And scaling up or down the number of RPA licenses is much less nettlesome than hiring and training new recruits or managing redundancies. As a result, RPA can produce savings of between 25 and 50 percent in select back-office processes.

The advantages of RPA are evident for BPO customers. Barclays Bank, for instance, attributes a savings of more than 120 full-time equivalent employees and an annual reduction in bad debt provisions of $250 million. Telefónica O2, which uses more than 160 robots to automate 15 core processes and nearly half a million transactions per month, claims a three-year return on its RPA investment in excess of 650 percent.

Most RPA software providers today are focused solely on RPA. Significant players include Blue Prism (which founded the field), Automation Anywhere, and New York-based WorkFusion, a privately held company that grew out of research at MIT's Computer Science and Artificial Intelligence Lab pairing people with machine-learning algorithms. A few companies in the RPA space, however, are IT giants. IBM, for example, created a business unit around Watson in January 2014, and Xerox announced its RPA offering in May 2015.

BPaaS dramatically lowers the entry barriers, opening the floodgates to new companies emerging from their proverbial garages worldwide.

Business process as a service

There are a number of differences between RPA (automation) and BPaaS (standardization). In RPA, robots are taught to emulate what humans do using the company's own user interfaces for the different processes. In BPaaS, service providers use a standardized interface and process across multiple customers—with varying degrees of automation—to quickly deliver outcomes at any scale. They train people in the system's process—which is applied indistinctly to all customers—rather than in each customer's *company-specific* processes. Whereas RPA can be either insourced or delivered remotely, BPaaS is by definition outsourced and based in the cloud. Pricing is also different: BPaaS costs are variable, with customers paying a fee per unit of output or acquiring some type of usage-based subscription, as opposed to a software licensing fee (for RPA) or the classic amount per employee (in traditional outsourcing).

In 2014, the global BPaaS market billed nearly $18 billion, a considerable amount despite being a modest share of the roughly $160 billion global BPO market. More importantly, BPaaS can unlock an enormous potential for growth in BPO services by dramatically expanding the customer pool to smaller and midsized customers, as the minimal fixed costs required to accommodate additional customers and volumes render scale virtually irrelevant. At the same time, the standardized offerings of BPaaS are particularly well suited to smaller companies, which have neither the volume to enter into large contracts nor the need to outsource more than a few relatively simple processes.

For larger companies that already work with non-cloud-based BPO service providers, the business case for switching to BPaaS may be less immediately clear, as they already achieve economies of scale at current service levels. However, as contracts expire, current enterprise resource planning systems become outdated, and BPaaS service quality improves, a change to BPaaS will make sense—and could even provide savings of approximately 10 percent versus traditional BPO.

BPaaS dramatically lowers the entry barriers, opening the floodgates to smaller and newer companies emerging from the proverbial garages in innovation centers around the world.

These start-ups can cherry-pick a narrow array of processes to offer to a broad customer base; some can tack add-ons onto existing software-as-a-service (SaaS) technologies or even directly partner with SaaS providers, as Cloud Sherpas has done with Salesforce, Google, and ServiceNow. Software companies, too, are becoming a BPaaS force in their own right by providing outcomes and not just the tools to achieve them. For example, HP and Microsoft have partnered to deliver BPaaS solutions in the automotive, public sector, and financial services industries.

Winners and losers of disruption

The combination of automation and standardization changes the game for incumbent BPO providers, which are coming up against a model where standardization and automation displace labor—precisely when most incumbents have built their comparative advantage around efficiently managing large labor forces and optimizing processes. In the end, BPaaS will challenge incumbents to decide if they want to play the role of BPO disruptors or defenders. Those that choose to be disruptors will need to redefine their business models, skillfully managing the cannibalization of existing sales to remain a viable business in the long run. Meanwhile, those that opt to defend the status quo will need to refresh their sources of competitive advantage in an attempt to continue to thrive after the disruptors have done their work.

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Another major implication is that, in an era when small companies are disrupting the business models of large companies across a number of industries, this shift in the BPO model arms disruptors with another arrow in their quiver: the ability to ensure world-class execution of their back-office processes.

Moreover, host countries that have been relying on BPO to create hundreds of thousands of jobs may find that their citizens are up against a ruthless new competitor for highly standardized, mature, high-volume business processes. The advent of RPA and BPaaS means policy makers will need to prepare for the end of "easy" BPO work opportunities, where equipping workers with basic language and literacy skills was sufficient to make them employable to handle routine processes. As standardization and automation come to dominate the simpler processes, offshorers will demand skills of a more analytic nature. As a consequence, countries that have been able to funnel thousands of graduates into BPO centers will find they must adjust their curricula to better prepare the labor force for higher-level tasks. Workplaces, too, will need to evolve to cater to more creative workers who can be tempted by opportunities in attractive alternative professions.

Among countries, no clear winners have yet emerged, although some are clearly better positioned than others. One set of countries that starts off with an advantage is those that complement advanced traditional BPO skills with the requisite soft skills that machines cannot replace: India and the Philippines, for sure, but also Sri Lanka, Costa Rica, and South Africa. Another group of likely winners is cities with cutting-edge innovation hubs that will host the entrepreneurs capable of riding the wave of technological breakthroughs. San Francisco, Berlin, Tel Aviv, and Seoul come to mind as centers for innovation that can shape the future.

Figure 1

2016 A.T. Kearney Global Services Location Index™

Rank	Δ	Country	Financial attractiveness	People skills and availability	Business environment	Total
1	0	India	3.22	2.55	1.19	6.96
2	0	China	2.28	2.71	1.51	6.49
3	0	Malaysia	2.75	1.42	1.89	6.05
4	4	Brazil	2.34	2.07	1.59	6.00
5	0	Indonesia	3.23	1.54	1.22	5.99
6	0	Thailand	3.04	1.44	1.44	5.92
7	0	Philippines	3.17	1.43	1.29	5.88
8	−4	Mexico	2.71	1.56	1.61	5.87
9	4	Chile	2.58	1.26	1.88	5.72
10	1	Poland	2.41	1.37	1.90	5.68
11	1	Vietnam	3.19	1.25	1.22	5.66
12	−3	Bulgaria	2.99	0.94	1.66	5.60
13	5	Romania	2.79	1.16	1.64	5.59
14	2	Sri Lanka	3.37	1.03	1.14	5.54
15	−1	United States	0.52	2.88	2.11	5.51
16	−6	Egypt	3.20	1.29	0.96	5.45
17	4	Russia	2.23	1.80	1.34	5.38
18	5	Latvia	2.70	0.99	1.64	5.33
19	5	Costa Rica	2.70	0.90	1.72	5.32
20	23	Colombia	2.48	1.38	1.46	5.32
21	18	Turkey	2.37	1.40	1.54	5.31
22	4	Bangladesh	3.34	1.10	0.87	5.31
23	−6	Germany	0.84	2.14	2.32	5.31
24	17	Ukraine	3.03	1.14	1.12	5.29
25	2	United Kingdom	0.67	2.28	2.33	5.28
26	7	Czech Republic	2.19	1.14	1.94	5.27
27	−12	Lithuania	2.59	0.93	1.73	5.24
28	−3	Pakistan	3.26	1.30	0.64	5.20
29	0	Ghana	3.27	0.85	1.07	5.19
30	6	Mauritius	2.55	0.94	1.68	5.17
31	−1	Panama	2.69	0.76	1.69	5.14
32	−1	Hungary	2.28	1.14	1.71	5.14
33	−11	Estonia	2.29	0.94	1.87	5.09
34	0	Morocco	2.80	0.93	1.34	5.07
35	−15	Jordan	2.86	0.89	1.31	5.07
36	2	Argentina	2.36	1.50	1.20	5.06
37	−18	United Arab Emirates	1.93	1.06	2.07	5.06
38	−10	Tunisia	3.04	0.82	1.18	5.05
39	NA	Kenya	3.06	0.86	1.11	5.03
40	4	Portugal	1.72	1.26	2.05	5.03
41	5	France	0.71	2.10	2.15	4.96
42	NA	Trinidad and Tobago	2.51	0.99	1.46	4.96
43	2	Jamaica	2.58	1.02	1.31	4.92
44	−7	Canada	0.56	1.97	2.36	4.89
45	−5	Senegal	3.06	0.70	1.13	4.89
46	−14	Spain	0.94	1.88	2.06	4.88
47	NA	Peru	2.43	1.12	1.26	4.82
48	−1	South Africa	2.20	1.08	1.50	4.77
49	−14	Slovakia	2.03	0.97	1.74	4.74
50	−2	Singapore	0.74	1.48	2.45	4.67
51	−9	Uruguay	1.97	0.94	1.62	4.53
52	−3	Australia	0.36	1.64	2.34	4.34
53	−2	Ireland	0.44	1.71	2.09	4.25
54	−4	Israel	1.15	1.27	1.65	4.07
55	NA	New Zealand	0.64	1.22	2.19	4.05

Notes: Δ represents the change in rank since the 2014 index. For France, Germany, the United Kingdom, and the United States, tier 2 locations are assessed. Scores lower than 0.4 are not displayed.

Source: 2016 A.T. Kearney Global Services Location Index™

The Index, Country by Country

Competition in the A.T. Kearney GSLI is as heated as ever, although India and China continue to occupy the top two spots in the Index, followed at some distance by Malaysia (see figure 1 on page 4). The Asia Pacific region immediately comes to mind when talk turns to offshoring, and, not surprisingly, eight of the top 20 countries—and six of the top 10—are located there. High-scoring countries in Asia Pacific typically show strong performance along two dimensions: financial attractiveness on the one hand and people skills and availability on the other. Latin America and Eastern Europe both have five countries in the top 20, with the former region showing a spike in people skills and availability and the latter in business environment.

Asia Pacific

India (1) continues to lead the Index. Offshoring to India remains a highly attractive proposition for many companies, and it is the undisputed industry leader. Consider, for example, that no fewer than five Chinese handset manufacturers have announced plans to establish R&D centers in India, which is expected to become the world's second largest buyer of handsets. These companies hope to employ the talent of India's engineers to develop products. Huawei, the world's fourth largest smartphone vendor, set up its first overseas R&D center in Bangalore in 1999, where it currently employs 2,700 engineers. And in February, it announced it will invest $170 million in a new, eight-hectare (20-acre) campus that can accommodate as many as 5,000 engineers.

China (2) is closing in on India, thanks to major gains in educational skills and cultural adaptability. Additionally, the renminbi's recent drop in value against the U.S. dollar should increase the country's financial attractiveness. Furthermore, China is making progress in improving governance and liberalizing financial markets. However, the U.S.-China Business Council's 2014 China Business Environment Survey found that nearly half of companies expressed reluctance to invest in R&D in China because of weak enforcement of intellectual property (IP) rights. And 40 percent say air pollution makes it difficult to attract expatriate staff to work in China, while also increasing the amount of sick leave. In any event, given the country's size and the growing number of major multinational players, China is much more likely to become significant in the BPO market as a customer rather than a provider. International companies wishing to compete for their business will need to hire staff proficient in Chinese language skills—an area where regional players such as Indonesia, with a significant ethnic Chinese minority, might have an advantage.

Malaysia (3) holds steady in the ranking, thanks to minor improvements in IP security and compensation costs that give the country a leg up over Brazil. Not leading in any category, Malaysia turns in a solid performance across the board, and that has ensured third place in the Index since its inception. In addition to Kuala Lumpur, where Tech Mahindra is launching a center of excellence for Google Technologies, Malaysia has developed a major offshoring hub just 160 kilometers (100 miles) south of the border with Thailand in Penang, where a new IT and BPO park is being built to house as many as 21,000 new jobs by 2020.

The **Philippines** (7) is second only to India as a player in the global outsourcing industry, where it began in contact centers and gradually climbed the value chain to now incorporate most functions in BPO and IT. Since the 2014 GSLI, the Philippines has registered gains in its scores in infrastructure, environment, and tax and regulatory costs. Significant recent offshoring activity includes the opening of Accenture's third delivery center in the country in Ilocos to complement its operations in Manila and Cebu City. Both Convergys and Sutherland are expanding their contact centers in Davao City, which will create as many as 4,000 new positions. Davao City is just one of several tier 2 and tier 3 cities targeted under the Philippines' Next Wave Cities Program, a public-private partnership developed between the Information Technology and Business Process Association of the Philippines and the Department of Trade and Industry (see sidebar: Tier 3 Cities). This program offers the country's 100 million inhabitants new opportunities that may alleviate the need for many to migrate in search of work abroad.

Latin America and the Caribbean

The value of the Brazilian real has slipped from an average exchange rate against the U.S. dollar of 1.95 in 2012 to 2.35 in 2014, reaching 3.50 in August 2015. Largely as a result of that currency devaluation, **Brazil** (4) has risen four positions in the GSLI, despite a mild decline in its relative scores for IT and BPO experience. Significant recent developments include Softtek's November 2014 launch of an IT R&D center in partnership with the University of Fortaleza, the opening of GE's oil and gas research center near Rio de Janeiro, and the Italian Gi Group's July 2015 acquisition of Brazilian BPO firm Holomática.

Mexico (8) swaps positions with Brazil versus 2014 as a result of small declines in its scores as other countries posted improvements. Mexico has many strengths that make it a favorite nearshoring destination for U.S. companies: a well-developed telecom infrastructure, a large population of information and communications technology (ICT) and engineering professionals, travel times similar to those of U.S. domestic destinations, and a growing pool of English-speaking talent thanks to immigration flows with its northern neighbor. Mexico also shows much promise as a base to provide nearshore services to companies serving the U.S. Latino population, as well as businesses in other Latin American countries. Notable announcements of companies expanding their offshore presence in Mexico include Citigroup's plans to spend more than $1.5 billion to boost technology systems and back-office support, Huawei's decision to build a new IT R&D center that will create 1,100 jobs, and IBM's new IT cloud center in Querétaro.

Costa Rica (19) returns to the top 20 this year thanks to a solid gain in its infrastructure score. This result is perhaps less surprising if one considers that, according to the United Nations,

Tier 3 Cities

India and the Philippines are still top of mind when it comes to offshoring, but the hunt for new talent is now taking companies beyond the capital and major cites to tier 3 locations such as Surat, Nagpur, and Lucknow in India and Bacolod and Iloilo City in the Philippines.

One advantage of tier 3 cities is the relative affordability of real estate. For example, facilities in Nagpur and Ahmedabad cost between 25 and 30 percent less than in Kolkata and Delhi. Government initiatives to build infrastructure, provide educational programs in business management, and create special economic zones have played a vital role in promoting these locations as cities of the future.

Another advantage of tier 3 cities is the relative availability of labor, its lower cost, and lower attrition rates. Many of these cities have a highly developed educational infrastructure, ensuring fresh crops of qualified graduates for the foreseeable future.

State and local governments are more attuned to some of the indirect aspects that make a city congenial to international business. For example, many are working to improve international air connections and encourage the construction of world-standard hotel accommodations.

Costa Rica invests a greater percentage of its gross domestic product (GDP) in economic infrastructure than any other country in Latin America. Costa Rica's labor force is small and relatively more expensive than in other countries in the region, but social cohesion is high, the business environment is friendly, workers connect well with U.S. culture, and work quality makes up for the cost differential. According to the Costa Rican investment promotion agency, the export of computer services, management, and other business functions accounts for 5.8 percent of the country's GDP. Perhaps even more impressively, value-added services represent 34 percent of Costa Rican exports.

Walmart directs its supply chain in Central America out of Costa Rica, and Amazon offers high-end English-language customer support from the country. In June 2015, Cargill opened a shared services center employing 200 people to handle the finance and human resources functions for its operations in the Americas, with plans to add IT, strategic sourcing, transportation, and logistics in the future. And in February, Indecomm started IT operations in Costa Rica, with 100 software engineers to support North American clients.

Costa Rica invests a greater percentage of its GDP in economic infrastructure than any other country in Latin America.

Colombia (20) leaps 23 spots in the ranking, marking the largest advance of any country in the 2016 GSLI. The reason: solid gains in IT and BPO experience and in country infrastructure, coupled with improvements across the board in financial attractiveness, largely fueled by the depreciation of the peso. Since 2012, the country's Digital Talent Initiative has funded IT studies for more than 6,100 Colombians. The country is also connected with six submarine cables and has infrastructure to support 4G technology. Given these advantages and the company's ranking at the top of the World Bank's Ease of Doing Business index in the region, it is hardly surprising that EXL inked an agreement with Colombia's Carvajal Tecnología y Servicios to provide Spanish and English-language operations support from Bogotá and Cali. Atento has also announced it will open a new contact center before the end of the year in Pereira, where 2,000 new employees will serve Chilean and Colombian clients in the financial, health, and communications sectors. In 2016, Atento plans to set up another contact center in Bogotá that will employ 1,500 workers.

Trinidad and Tobago (42), a country of nearly 1.4 million inhabitants just off the coast of Venezuela, enters the GSLI for the first time as it turns its experience in serving the energy industry to other sectors of activity. The country scores quite favorably on language skills and infrastructure costs but has significant room for improvement in nearly all other categories, especially IT and BPO experience, labor force availability, and IP security. Literacy rates are high (99 percent), more than 7,000 people graduate each year from tertiary learning institutions, and perhaps most importantly, Trinidad and Tobago is one of the largest sources of native English-speaking talent in the Western Hemisphere (outside of Canada and the United States). Add to those advantages a strong telecommunications infrastructure, a nearshore location to the United States, and a host of tax incentives, and it becomes easy to understand why Canada's Scotiabank runs its Caribbean finance and administration service operations from Trinidad and Tobago and why Delta Airlines also operates a contact center in the country.

Peru (47) is another new entrant in the Index. Infrastructure costs in Peru are competitive, but more attention is required to improve the quality of the infrastructure outside of Lima and the population's labor skills. Construction of the National Fiber-Optic Backbone Network, slated to begin in 2016, will connect the country's provincial capitals, including Arequipa, Trujillo, and Chiclayo, with high-capacity networks. Labor costs in Peru are relatively low. According to Everest Group, workers in business processes and IT cost around one-third of their counterparts in tier 2 UK cities and one-fourth of similar workers in tier 2 cities in the United States.

Many of Peru's call centers cater to Spanish-speaking customers. Lower consumer spending and higher unemployment in Spain have made a dent in the business of many call center providers, which have lowered their prices and are scurrying to attract business from other Latin American countries such as Argentina and Chile. Despite the difficulties, there are bright spots. For example, Atento has announced that in January 2016 it will open a call center in Tacna near the Chilean border, where it will generate more than 1,000 jobs.

Eastern Europe

Poland (10) moves into the top 10 this year thanks to a strong improvement in compensation costs, despite slight declines in scores for regulatory costs and for IT and BPO experience. According to Poland's Association of Business Service Leaders, the country's business services sector is on track to reach 170,000 employees by the end of 2015. The financial services industry alone will create approximately 5,000 new back-office jobs this year, thanks to companies such as UBS, Credit Suisse, and BNY Mellon. Many of the largest offshoring operations are based not only in Warsaw, but also in Kraków, Wrocław, Katowice, and Lodz. The presence of multiple centers for the industry gives Poland a considerable edge over smaller competitors in Central and Eastern Europe. The large number of Poles who have worked overseas, learned the languages and the culture, and returned to Poland is another advantage. The challenge for the country will be to ensure that the rising labor costs are offset by a concomitant increase in skills and value added.

Another European Union member state, **Romania** (13), has risen five positions. Labor costs in Romania are lower than in Poland, but the business environment is still trying to catch up. According to the Employers' Association of the Software and Services Industry in Romania, large international IT vendors currently operate approximately 50 centers, most of them BPO- and IT-related. About 50,000 Romanians work in the outsourcing industry, and the country has a deep pool of skilled IT workers to draw on. Major centers include not only Bucharest, but also Cluj-Napoca in Transylvania and Timisoara in the west.

Ukraine (24) has been in the headlines as a center of geopolitical tension, but not all the news is bad. The country has moved up 17 positions in the GSLI, as currency depreciation led to a major gain in its compensation cost score, accompanied by improvement in the competitiveness of its tax and regulatory costs. The increase in political risk is partly offset by the government's implementation of reforms that boosted the country's competitiveness. The Ukrainian IT industry comprises more than 500 outsourcing companies and 100 global R&D centers, and it employs more than 50,000 engineers.

Western Asia and Africa

Egypt (16), despite its very large and highly educated population, continues its slide down the GSLI because of significantly lower scores for the country's environment. Nonetheless, Egypt remains a popular destination for ICT outsourcing and is poised to recover once political stability is consolidated. Agreements signed earlier this year between the Egyptian Information Technology Industry Development Agency (ITIDA) and eight multinationals—IBM, P&G, HSBC, Nestlé, Axxcelera, Mobinil Contact Services, Teleperformance, and EMC2—promise to create 6,000 new jobs in the coming months. Of the 90,000 jobs in Egypt's outsourcing and shared services sector, about 50,000 are offshore related, according to ITIDA. And Everest Group estimates that the country's offshore global services industry is growing at 7.5 percent annually. One bulwark of the Egyptian outsourcing industry is business from companies headquartered in Saudi Arabia and in the Gulf, where many Egyptian nationals are employed as managers.

Turkey (21) registers the second largest increase in ranking this year, vaulting 18 positions up the Index. The Eurasian nation posts modest but consistently improved scores along several dimensions—particularly compensation costs, infrastructure costs, and labor force availability—with no significant decline in any other dimension. Turkey's outsourcing industry continues its steady growth, with the BPO sector increasing from $1.4 billion in value and 70,000 employees in 2013 to $1.6 billion and 80,000 workers in 2014.

Kenya (39) is the highest-ranking newcomer to the GSLI thanks to a top-10 score in financial attractiveness, primarily because of strong ratings in compensation and infrastructure costs. Roughly 7,000 employees currently work in BPO, mostly in voice-based services and transactional back-office services. Local outsourcers are finding it difficult to wrest customers from more mature competitors in India and Southeast Asia, despite certain advantages such as a time zone compatible with Europe. Many local firms have based their growth on serving customers in Kenya and in the neighboring countries of Uganda and Tanzania—in a dynamic similar to what can be observed in Rwanda.

Social Impact Sourcing Lifts Up Disadvantaged Communities

Offshoring has been nothing short of transformational for millions of people in India, the Philippines, and many other countries around the world, where it has provided high-quality jobs and economic growth to lower-income economies. But so far, this social transformation—at least from the transnational business perspective—has been a beneficial side effect rather than an intentional consequence of the offshoring movement.

Today, however, companies are beginning to purposefully focus on hiring "impact workers" to broaden the talent pool. This includes people from disadvantaged groups such as those from lower-income backgrounds, disadvantaged minorities, and difficult life circumstances.

In 2014, social impact sourcing in the BPO industry grew by 11 percent over the previous year, as opposed to 9 percent growth for the industry overall. Much of the activity in this emerging segment is in traditional offshore locations such as India and the Philippines, but South Africa is another leader as social impact sourcing has been a priority for both industry and the government.

So far, large corporations such as Microsoft have been the main drivers of social impact sourcing, whether by introducing recruiting goals for their own captive service centers or by including impact sourcing requirements in their tenders. BPO providers that can offer impact sourcing and track its progress can carve out a competitive advantage in such tender processes. In fact, a group of specialized BPO providers has emerged, known as impact sourcing service providers (ISSPs). These players, which include companies such as CloudFactory, adopt an explicitly social mission by operating in frontier markets such as Kenya and Nepal and focus on simpler processes and flexible work arrangements. For CloudFactory founder Mark Sears, entering the BPO industry was almost accidental. His main objective, he says, was to provide employment to talented yet disadvantaged people in Nepal, and BPaaS was the best way he found to do that. Some ISSPs directly serve corporate buyers, while others sell their services through traditional BPO providers.

South Africa (48) falls one position, despite a significant improvement in its infrastructure cost score. According to Business Process Enabling South Africa (BPeSA), the country's BPO trade association, more than 210,000 South Africans work in the BPO or contact center industry, and more than 25,000 jobs in the industry service the international market—particularly the United Kingdom and Australia. Many companies outsource their call center operations to South Africa not just for the cost, but because they find the service quality to be equal or superior to that of onshore centers. The country's educational system is unequaled in Africa, and the business environment and judicial system offer a high degree of security to foreign investors. Cape Town, for example, offers standards similar to Europe at a fraction of the cost, and Johannesburg is also a world-class business center. Notably, the Rockefeller Foundation is working with BPeSA to promote the adoption of impact sourcing to tap into high-potential youth who would otherwise have limited access to jobs (see sidebar: Social Impact Sourcing Lifts Up Disadvantaged Communities on page 9).

The Dawn of a New Day

The number of people who can participate in the global services value chain is larger than ever. Expansions to new frontier locations, freelance models, and deliberate recruiting from disadvantaged communities means that the labor force is more diverse than ever. However, technological evolution means that new digital solutions increasingly reduce the labor component of back-office services, continuing the "no-shoring" trend.

Once the disruptor, the BPO industry now itself faces disruption through the double impact of RPA technology and BPaaS-centered business models. A combination of start-ups and established SaaS players moving into the traditional BPO space are mounting a challenge to the status quo as back-office operations are becoming both more efficient amid automation and specialization. The disruption goes beyond companies. Many countries that have relied on the industry for economic development now see the era of easy work coming to an end.

The winners are the countries that have had time to develop sophisticated labor forces that can keep ahead of machines. India and Philippines are good examples. Global innovation hubs driving the disruptive development also stand to benefit. Ultimately, the biggest winners are the end users of back-office services. They will see more efficient solutions reduce the costs and improve the quality of their essential but ultimately non-core activities, allowing them to focus even more on sharpening their competitive advantages.

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The authors wish to thank Diana Damyanova, Priyanka Paul, Victoria Pisini, David Siegel, and Uday Singh for their valuable contributions to this paper.

Appendix: About the Study

The 55 countries in the 2016 Global Services Location Index were selected on the basis of corporate input, current remote services activity, and government initiatives to promote the sector. They were evaluated against 38 measurements across three major categories: financial attractiveness, people skills and availability, and business environment (see figure).

The metrics used to evaluate location attractiveness were determined from responses to A.T. Kearney surveys, other industry questionnaires, and knowledge obtained in client engagements over the past five years. The relative weights of each metric are based on their importance to the location decision, again derived from client experience and industry surveys. Because cost advantage is typically the primary driver behind location decisions, financial factors constitute 40 percent of the total weight in the published Index. The two remaining categories—people skills and availability and business environment—each constitute 30 percent of the total weight.

Figure
Assessment criteria

Category	Dimensions	Metrics used
Financial attractiveness (40%)	**Compensation costs**	• Average annual wages • Average compensation costs for relevant positions (BPO analyst, IT programmer, contact center representative)
	Infrastructure costs	• Average cost of infrastructure (occupancy, electricity, telecommunications) • Blended travel cost to major customer destinations (New York, London, Tokyo)
	Tax and regulatory costs	• Relative tax burden, costs of corruption, and exchange rate movements
People skills and availability (30%)	**Cumulative services experience and skills**	• Estimated size of IT and BPO sectors • Quality and skill ratings for relevant positions (quality of management school, college education quality, relevant industry certifications for IT, BPO, and contact centers)
	Labor force availability	• Population ages 15 to 39 • Total tertiary enrollment
	Educational skills	• Scores on standardized tests to assess student performance
	Language skills	• Scores on standardized education and language tests
Business environment (30%)	**Country risk (economic and political)**	• Economic risk (overall business environment; foreign direct investment confidence levels from A.T. Kearney's Foreign Direct Investment Confidence Index™, a survey of global investment outlook of executives from the world's largest corporations) • Political risk (political stability, terrorism risk, regulatory burden)
	Cultural adaptability	• A.T. Kearney Globalization Index personal contact rank
	Country infrastructure	• Blended metric of country infrastructure quality (telecom, electricity) • Overall local infrastructure quality
	Security of intellectual property (IP)	• Ratings of intellectual property protection • ISO information security certifications • Software piracy rates

Note: BPO is business process outsourcing. IT is information technology. ISO is the International Organization for Standardization.
Source: 2016 A.T. Kearney Global Services Location Index™

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