Outsourcing to Pakistan: The Potential and the Barriers

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Abstract— Outsourcing is defined as "the process of purchasing goods and services from outside vendors rather than producing the same goods or providing the same services within the organization." Outsourcing does not come without risks, but it also has its benefits as well. Gaining services or products from outside sources can be very beneficial, considering the alternative that the firm will have to produce them themselves. However, on main risk that is incurred when outsourcing is that when a firm does outsource, they leave the supply of that product or service in the hands of someone of whom they cannot control, contrary to controlling their own supply. Ethical issues are at hand here, as well as trust issues. As you will see in this paper, different aspects that why a company should or shouldn't outsource its project in Pakistan . Management teams and management leaders are the head personnel that weigh the pro's and con's of outsourcing, and this paper will briefly summarize the various opinions, pro's, con's, large benefits, and ethical issues dealing with outsourcing.

Keywords— Project Development, CM, Outsourcing, Employment, Software organization

I. INTRODUCTION

Pakistan is a country of population over 170 million approximately. It is the sixth largest population in the world. The average salaries compared to the developed countries are very low. The country's main source of income is Agriculture. There is a lot of potential in the field of Technology but due to insufficient opportunities there is not much advancement. In the past decade or so, a new form of business is has come across which is known as Outsourcing. Due to outsourcing, cheap labor countries like India, Bangladesh and Pakistan are now advancing in the field of Technology. The basic concept is to get the projects from the developed countries and execute them on your soil at comparatively very low rates.

Pakistan in last few years is going through a global crisis of war on terror and also the inconsistencies and corruption in government. These factors are effecting the reputation of the country and causing hurdles in getting Projects from abroad. In this paper we will discuss all the hurdles along with some known hurdles such as management and etc and the advantages of outsourcing in Pakistan. Also we will suggest solutions to make the current scenario better.

II. LITERATURE REVIEW

Outsourcing Relationships: *Why they are so different to manage*
The literature on outsourcing value is unequivocal. Some of the major benefits include the management skills needed to run any projects; cultural differences; inflexible outsourcing agreements; inadequate service level specification and metrics.
It is crucial that buyers understand the basic premise of outsourcing. In outsourcing, the buyer turns over the control of its business process or function to the supplier. The parties to an outsourcing agreement are not, as is commonly thought, partners. Instead, they are allies. Partners share joint liabilities and ownership Allies act together for each other's benefit where and when their interests are aligned. Differences in buyer and supplier cultures often cause misunderstanding and mistrust. Even if the cultures are compatible, the two parties still will have fundamentally different goals and objectives that are frequently difficult to harmonize.
All outsourcing agreements are based on key assumptions regarding technologies, business conditions, personnel, and other relevant issues. But these assumptions will change. However detailed the contract or favorable the terms, most contracts cannot anticipate the changes in an evolving environment. This phenomenon tends to ensure that one, if not both of the parties will become disenchanted with the relationship. Longer-term contracts that lack flexibility tend to increase the likelihood of dissatisfaction. In the procurement phase of outsourcing, many buyers make the mistake of focusing primarily on getting a good price for the supplier's service. However, it's more important to define the scope of the services. One of the biggest problems is that no metrics are defined to measure the quality of project/service. That's why the projects can lead in to disasters. But by following some useful practice these above mentioned effects can be reduces and it will dramatically. These practices are approaching the relationship as allies, rather than partners, craft the outsourcing agreement with flexibility, measure the quality of the work, not just how quickly or timely it is performed, include penalties for missed service levels, include an effective governance contract within the overall outsourcing agreement, defining the steps to take in problem escalation and conflict resolution

OUTSOURCING TO INDIA: *KEY LEGAL & TAX CONSIDERATIONS FOR U.S. FINANCIAL INSTITUTIONS*

This literature on Legal and tax consideration can be used to implement in Pakistan as well. India is earning more than 30 billion USD through outsourcing every year. So this literature review can help in modeling system in Pakistan.

An ITO and BPO share many common features, but they are fundamentally different exercises and it is important to understand how they are dissimilar. In an ITO (e.g., desktop management, network management, server management, application development), the customer's primary goal tends to be cost savings. In a BPO (e.g., call center, HR administration, finance & accounting), the customer may seek cost savings, but typically it also targets other "value added" objectives.

A. MARKET ANALYSIS

The overall outsourcing market globally is about $550 billion. While the global economic crisis continues to this day, the outlook for the outsourcing industry remains positive.

In USA only, according to InfoTrends, **a** leading worldwide market research and strategic consulting firm, the outsourcing market will continue to increase from approximately $36.2 billion in 2007 to $46.8 billion in 2012, representing a compound annual growth rate (CAGR) of 5.3%, slightly higher than what was forecast in last year's document.

A survey conducted by Industry Week says that an increasing number of service providers expect to begin new software development and IT service contracts in the next 18 to 36 months. The number of service providers planning to offer new finance and accounting, human resources, and innovation services more than doubled from the previous year. Overall, 62% of service providers said they plan to expand the scale of their existing offerings.

"Growing competition has transformed the outsourcing industry into a global race for market share," says Dr. Charles Aird, managing director for PricewaterhouseCoopers.

"The economic benefits of legal services outsourcing are undeniable," Aird said. "It provides the highest profit margins for services providers and as well as the highest cost savings for companies. The emergence of available outsourced legal services and the impact of the economic conditions have changed the perception of the legal industry, once regarded as too sensitive to be outsourced."

The growth of legal services outsourcing has been strong and is likely to remain so, particularly in India, the survey found. Legal services outsourcing is growing at a rate of 40% annually in India, with about 110 legal services providers in the country. The Philippines and Sri Lanka provide 20% of legal outsourcing.

Other survey findings are:

70 per cent of outsourcing deals in 2008 were renewed at the expiration of the first contract, down from 72 per cent in 2007.

Unrealistic client expectations and the lack of a client outsourcing strategy were the top reasons for contract terminations.

"Near-shoring" has gained momentum among companies using or considering outsourcing services.

B. THE POTENTIALS

Pakistan has become the **20th most attractive outsourcing destination**, according to consulting management firm A.T. Kearney. Even as concerns increase about Pakistan's stability and the growing displaced population due to ongoing military operations with the Taliban, the country made a significant jump on A.T. Kearney's 2009 Global Services Location Index released May 18. Pakistan went from #30 in 2007 to #20 in 2009.In fact, the report says that as a region, the Middle East and North Africa are becoming more attractive in the ever-shifting geography of popular outsourcing places. Both enjoy large, well-educated populations and proximity to Europe. The index ranks the top 50 countries worldwide for locating outsourcing activities including IT services and support, contact centers and back-office support. Both Jordan and Egypt have entered the top 10 locales.

With tremendous improvement in communication technologies like telecommunication and internet, Pakistan offers virtual globalization of highly skilled human capital to the world.

There are always other options to outsource to other countries like China, Russia Philippine and some of the Eastern European countries e.g. Romania, Ukraine and Poland but these choices are marked up with poor English skills, lack of exposure to Western business culture, shaky foreign relations and immaturity of processes all pose risks.

No other economy can match Pakistan's labor pool of educated English-speaking workers. No other economy can match Pakistan's scalability, reliability and low-cost environment.

The rapid growth of the sector is largely due to foreign IT firms setting up operations in Pakistan in a bid to reduce costs and raise profits.

Pakistan's Advantages

1. Western experience: Executives at IT firms in Pakistan often have worked and gone to school in the U.S., which is Pakistan's largest export market. The willingness of Pakistanis to return home from the West stands in marked contrast to most Indians who arrive for school or work in the West and never look back.

2. Professionalism and integrity: The personal integrity of Pakistani managers is easy to identify and appreciate, especially by Westerners with business experience elsewhere in the region.

3. Higher labor availability: Fewer holidays in Pakistan means less slippage in staff availability compared to India. IT firms in India are advised to hire a diverse workforce so that members of one community can enjoy important festivals while members of other communities cover the phones and keep production going.

4. Good accents: Pakistan's official language is English. Language skills and accents provide Pakistan with a major advantage over all other Asian outsourcing destinations.

5. Low cost talent pool: Escalating turnover rates are one of the Indian outsourcing industry's dirty secrets. In comparison, Pakistan's top-tier talent pool is largely untapped and turnover rates are less than 20 percent.

6. Dollar Price: The increasing price of Dollar attract the foreign investors to Outsource in Pakistan.

Pakistan offered Services Types

ITO - Information Technology Outsourcing

BPO - Business Process Outsourcing covers things like running call centers, processing insurance claims.

Software R&D - Offshore Software Development

Search Engine Optimization- that is to apply SEO tactics to achieve top search engine placement and increased traffic to your website. This branch of outsourcing is relatively new to Pakistan as SEO Industry is still in its initial stages here.

C. THE BARRIERS

Mostly people think that due to recent terrorism activities in Pakistan has affected the Outsourcing Business but the following reviews proved it wrong.

"CBS News reported on May 19, the day after this index was released, that Pakistan faces a growing humanitarian crisis with up to 2 million people displaced by fighting between the military and Taliban militants in the northern Swat valley. Similarly, Mexico has seen growing violence due to the drug wars since the last Global Services Location Index was released in 2007. Yet, it only dropped one slot in the index to #11 from #10 two years ago.

So, just how much do companies factor in violence and a country's political stability before outsourcing there? Increasingly, it seems to me if it's cheap enough, companies are willing to overlook quite a bit in this regard."

It is not here to prove that these activities doesn't matter at all, however they are affecting the industry one way or the other. Apart from "WAR on Terror" is concerned, there are other factors that are also affecting the growth of this industry in Pakistan.

Despite its 55 tech institutes, Pakistan may face a shortage of IT workers. About 75,000 people work in the sector today, and the government believes a further 7,000 will be needed each year to keep the industry growing at current rates. But the country's tech schools produce just 5,500 graduates a year and only about a fifth of those are competitive and well trained, the Software Export Board says.

Companies are outsourced for two main reasons i.e. how much they can save through outsourcing and secondly how much they grow. Even though the labor in Pakistan is technically strong but they need more exposure of international market and how to deal with them.

According to a report "Calling a Change in the Outsourcing Market: The Realities for the World's Largest Organizations, April 2005", The companies that are outsourcing in USA are facing severe consequences.

As per Report, 38% of these participants have paid additional/hidden costs for services they believed were included in their contracts. 31% of these participants stated vendors became complacent once contracts were in place. 1 in 4 of these participants had mislabeled functions as non-strategic and ultimately brought those thought leadership areas back in-house 1 in 5 of these participants experienced greater than expected vendor employee turnover and realized the knowledge base they had paid for was fleeting. 44% of these participants found that their vendors did not have the capabilities to provide the expected level of quality and cost savings, resulting in the participants' decision to bring operations back in-house.

For Outsourcing, The contract is very important. A good contract with the Vendor can save a lot of amount. Secondly before outsourcing, the company should see if there are plenty of work forces available to the vendor or not. As later on, it can also create a serious problem.

III. CONCLUSION

According to survey by Pakistan Software Export Board, Pakistan still remains far behind India. Last year the country's software and IT services business hit just $300 million, and exports made up only about 11% of that. India, by contrast, booked $12.8 billion in software and services exports in 2004. But the Pakistan Software Export Board, a federal body set up to promote outsourcing, forecasts that the business will grow by at least 45% annually in coming years. "Pakistan started late but now is catching up very fast in software development," says Prime Minister. Lower-level operations such as call centers are expected to grow even faster: Some 120 centers have opened in Pakistan in the past two years. Today they employ 3,500 people, and that number is expected to grow by 60% a year. Arwen Tech, a Karachi company that runs a 600-seat center, saw its sales double last year, to $10 million, serving clients such as Pakistan International Airlines and the local franchisee for KFC Corp. Now the company is building a 1,500-seat facility and hopes to boost revenues tenfold, to $100 million, in the next five years as it attracts more international clients. Pakistan could use the boost that outsourcing provides. Unemployment is officially pegged at 8%, although in reality it's far higher than that, and the government is looking for ways to fuel economic growth. Pakistan needs technology to increase efficiency and productivity. And software exports will help the country move away from its reliance on textiles, which makes up 65% of total exports.

The country is working to fix those problems. A new government commission aims to beef up education standards. Since 2001, Parliament has scrapped corporate taxes on software exports and simplified the investment process. In the next three years, the government also plans to open IT parks in Islamabad, Karachi, and Lahore. And the Pakistan Software

Houses Assn. last year sent two delegations to India, then in February invited a group from Bangalore to Karachi and Lahore in an effort to learn from the Indian experience.

Outsourcing companies have developed their own strategies for beefing up their business. One is to look for customers in places other than the U.S., where Pakistan's image problems are most acute. In 1996, Lahore's NetSol Technologies Inc. won a contract from Mercedes-Benz Leasing Co. in Thailand to install a software program from Britain. Later the company developed its own package, which it went on to sell to DaimlerChrysler in nine Asian countries.

The NASDAQ-listed company now has 270 employees and this year expects sales of $10 million. In April NetSol signed a $2.3 million deal with Toyota Motor Corp. and hopes to expand into Europe.

Lahore's Techlogix Pakistan, one of the country's first software exporters, gets 95% of its business from the U.S. Most of that comes in from a four-member sales team in Boston, which funnels work to 90 software developers in Pakistan and a further 35 in Beijing. The company booked $8.2 million in revenues in 2004 serving 18 clients, including General Electric Co. and Massachusetts Mutual Life Insurance Co. "Our U.S. office has to offer the same kind of relationship-management as top-notch U.S. companies," says Kewan Khawaja, co-CEO of Techlogix. It may be a while before Karachi or Lahore has the resonance of Bangalore or even Budapest. But plenty of ambitious Pakistanis are working to make it happen someday.

IV.   RECOMMENDATION

To support the outsourcing industry, more Tech. Universities are required so they can full fill the market demand. Also there is a desperate need to educate the importance of Outsourcing. Special courses/seminars should be held to promote this industry.

The Government should play a vital role in presenting a good image of country and also to help the companies to attend the international seminars to promote this industry.

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"One of the rarest things that a man ever does is to do the best he can."

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