

**Gartner****Dataquest**

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# BPO Adoption in Asia/Pacific: A Demand-Side Perspective

21 July 2003

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A survey across 11 Asia/Pacific countries and regions finds Thailand, Australia and New Zealand lead in business process outsourcing adoption, with human resources the most frequently outsourced service.



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## **Executive Summary** [\[return to Table of Contents\]](#)

Service providers and user organizations are expressing increasing interest in understanding the adoption of business process outsourcing (BPO) in the Asia/Pacific region. Gartner Dataquest conducted a survey in May 2003, across 11 countries/regions across the Asia/Pacific geography to understand the following:

- Adoption of BPO services in the region, across countries/regions, vertical industries and across organizations of different sizes
- Reasons for outsourcing business processes
- Reasons for not outsourcing BPO services
- Level of satisfaction among BPO outsourcers
- Important decision criteria in selecting and evaluating BPO service providers
- BPO spending budgets and trends
- Breakdown of BPO spending across six major processes

This is the first of three reports that will present the findings of this survey, which is designed for the heads of marketing/business development/business strategy of BPO providers. The report presents the following:

- Adoption of BPO in the Asia/Pacific region
- Relative adoption of six business processes and their subprocesses in the Asia/Pacific region and in the 11 countries/regions covered during the survey
- Relative adoption of BPO across 11 vertical industries
- Adoption of BPO across different organization sizes
- Breakdown of BPO spending budgets across processes

## **Key Findings** [\[return to Table of Contents\]](#)

Following are the key findings from this report:

- The market is largely immature, with less strategic outsourcing and more specific, task-based, tactical outsourcing. Most activity is limited to outsourcing specific tasks to an external service provider (ESP), rather than outsourcing entire business processes. Also, the tendency is toward outsourcing only mundane, repetitive tasks rather than strategic outsourcing of management of entire processes.
- About 88.5 percent of the organizations spend less than \$1 million annually on BPO, while more than half of those organizations spend less than \$50,000 annually on BPO.
- Human resources (HR) services are the most frequently outsourced, while sales, marketing and customer care services are the least outsourced in the region
- Thailand, Australia and New Zealand show the highest overall adoption of BPO among the 11 countries/regions covered, while Indonesia, India, Malaysia, Singapore, Taiwan and Hong Kong show moderate level of outsourcing in comparison. China and South Korea show the lowest overall adoption of BPO.

- Large enterprises were found to be more receptive to outsourcing compared with small and midsize organizations, although small enterprises do offer niche opportunities
- Media and communications, finance and accounting (F&A), and energy and utilities were found to be the vertical industry sectors with the highest BPO adoption, while manufacturing, which offers a huge potential business opportunity, remains largely untapped.
- Niche opportunities exist in the market for focused players

**Recommendations** [\[return to Table of Contents\]](#)

Following are Gartner Dataquest recommendations for service providers in the Asia/Pacific market:

- Don't expect huge deals — start small and expand the relationship.
- Demonstrate cost savings potential and competitive value addition as differentiators.
- Offer business solutions linked with BPO deals.
- Emphasize on issues of concern positively.
- Explore joint venture (JV) and alliance opportunities, but with due caution.
- Look for niche opportunities in specific vertical and process markets.

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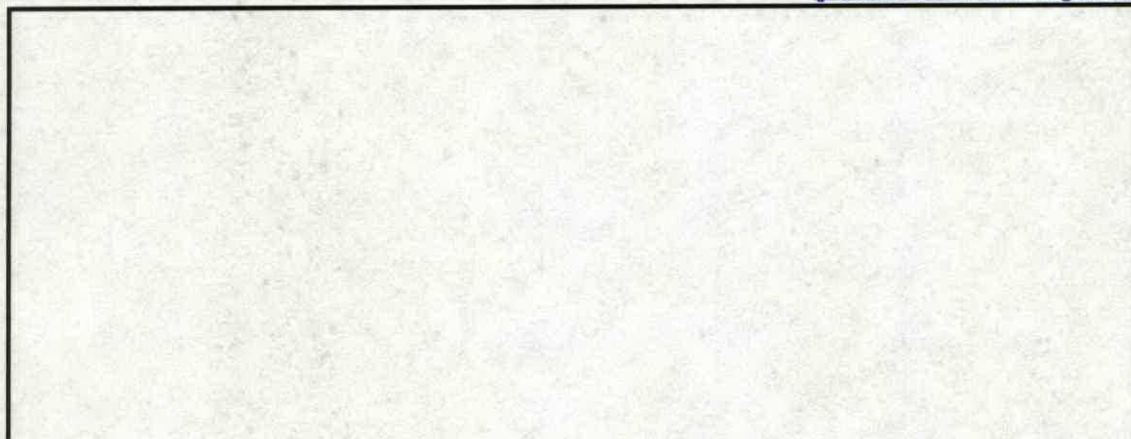
Gartner Dataquest defines BPO as the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates and manages the selected process or processes based on defined and measurable performance metrics.

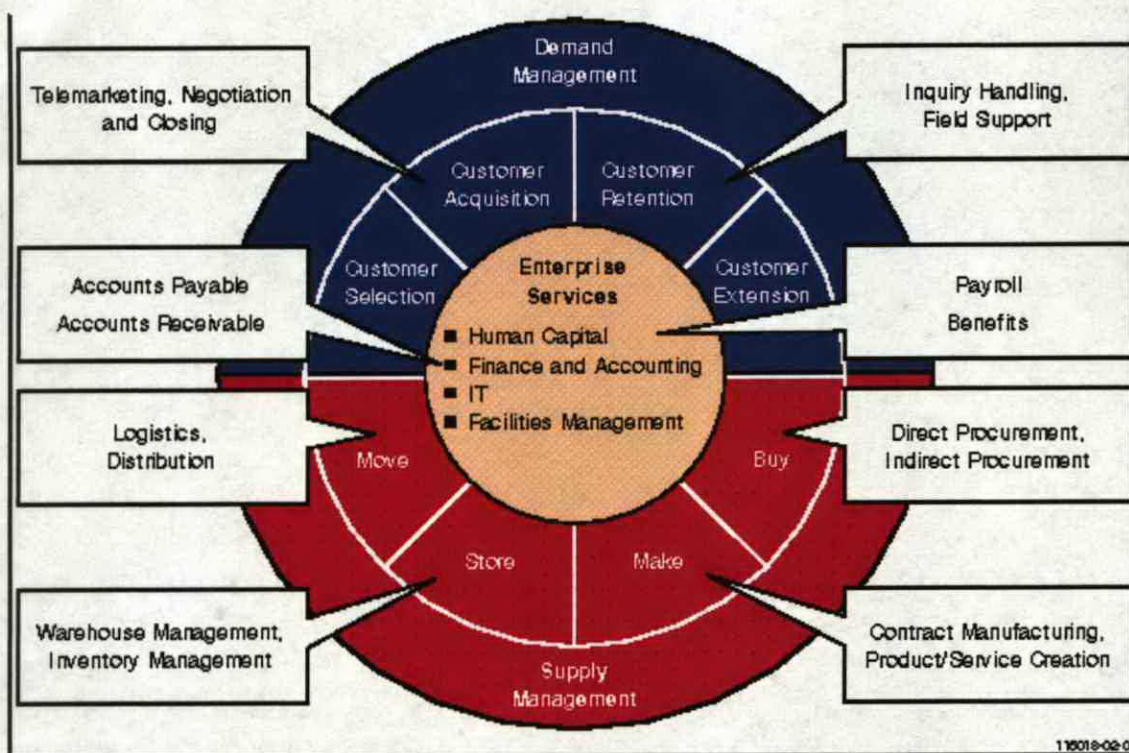
Examples of business processes that are outsourced to an external service provider include logistics, procurement, HR, F&A, customer relationship management (CRM), or other administrative or customer-facing business functions.

In response to emerging trends in demand for and supply of BPO services and the increased adoption of BPO by end users, Gartner Dataquest has developed a BPO market model (see Figure 2-1), and a few examples of processes that are good candidates for BPO.

**Figure 2-1**  
**Gartner Dataquest BPO Model**

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Source: Gartner Dataquest (April 2003)

The circular nature of the model reflects the increasing interactions among processes in demand and supply management, such as order fulfillment. The new BPO market model can be used by enterprises to view and segment all their internal business processes. As understanding of this process grows, it facilitates analysis of what processes can be outsourced. Enterprises can then investigate what is — and is not — readily available from ESPs.

For more information, see "BPO Market Model Spots Processes to Outsource" ([M-18-9580](#)).

Adoption of the following business processes and their subprocesses was studied during the survey.

- HR — Payroll, benefits, education and training, hiring and recruiting, and personnel administration
- F&A — Accounts payable, accounts receivable, general ledger, tax management, treasury and cash management, and management accounting
- Transaction processing — Credit/debit card processing, check processing, documents/forms/applications processing, claims processing, bulk printing and mailing, data entry
- Administrative services — Real estate, document management and indirect procurement
- Supply management — Materials management, direct procurement, warehouse/inventory management, distribution and logistics
- Sales, marketing and customer care — Customer selection, customer acquisition, customer retention and customer extension

The objective of this report is to present the following:

- Adoption of BPO in the Asia/Pacific region
- Relative adoption of six business processes and their subprocesses in Asia/Pacific region and the 11 countries/regions covered in the survey
- Relative adoption of BPO across 11 vertical industries
- Adoption of BPO across different organization sizes
- Breakdown of BPO spending budgets across processes

### **Methodology** [\[return to Table of Contents\]](#)

In May 2003, Gartner Dataquest conducted a survey across 11 countries and regions in Asia/Pacific. A total of 1,143 organizations were contacted using Gartner Dataquest's industry databases. The CFOs in these organizations was asked whether their organization outsources any of six business processes in the survey. They were also asked about their intention to start outsourcing any processes they are not currently outsourcing. A detailed questionnaire was then administered to respondents in organizations that are currently outsourcing at least one of the six business processes or are planning to start doing so in 2003.

The survey resulted in 587 completed interviews, some of which were the result of additional interviews in cases where it was difficult to obtain adequate, statistically significant responses for the six business processes.

The following countries/regions were covered during the survey:

- Australia
- China
- Hong Kong
- India
- Indonesia
- Malaysia
- New Zealand
- Singapore
- South Korea
- Taiwan
- Thailand

### **Demographics** [\[return to Table of Contents\]](#)

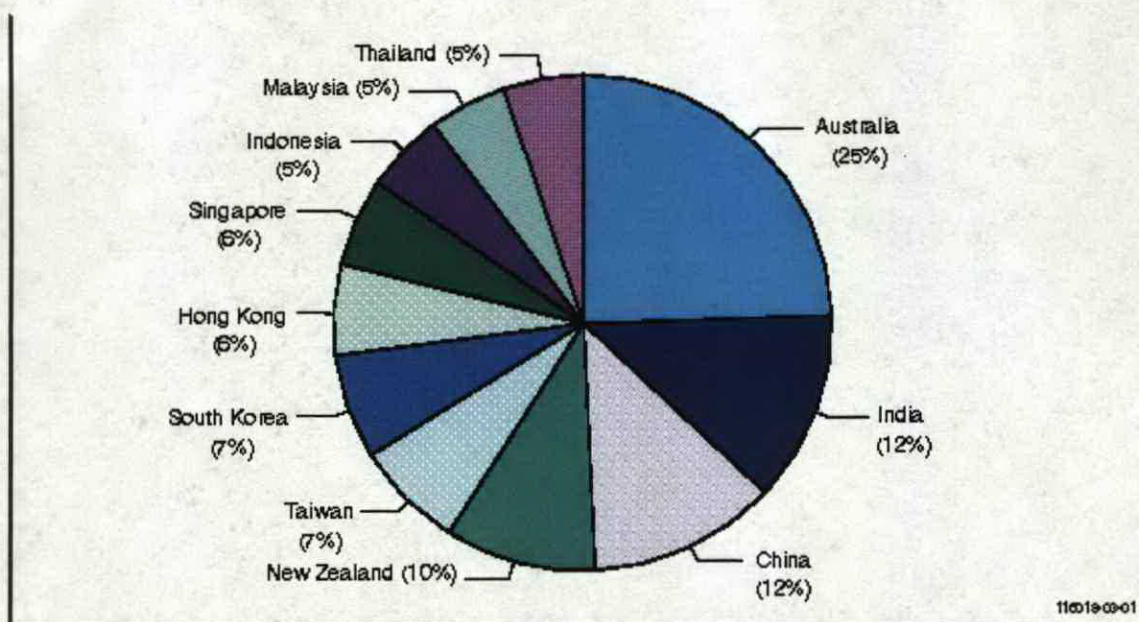
The survey involved a total of 1,143 contacts and 587 completed interviews across 11 countries/regions in Asia/Pacific. The sample was chosen to allow meaningful conclusions to be drawn from an analysis by any one demographic attribute at a time: country/region, industry or size of company.

Figure 3-1 shows the distribution of completed interviews by country/region.

**Figure 3-1**  
**Respondents by Country/Region)**

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Note: Number of respondents = 587  
 Source: Gartner Dataquest (June 2003)

For some of the countries/regions, the sample is derived from about 30 completed interviews. The smaller sample size reflects a combination of a smaller economy and a lower level of IT services outsourcing. While 30 completed interviews meet the criteria for statistical significance, it would not be statistically significant to break down these samples further into verticals and company sizes by country/region for finer analysis. For this reason, some analysis is done only at the regional level and not at the country level.

**Industry Distribution** [[return to Table of Contents](#)]

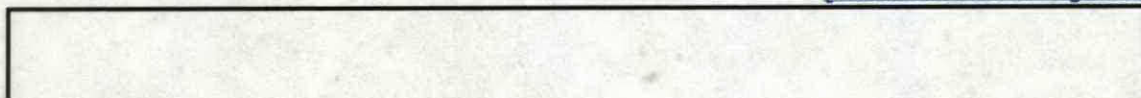
Companies were selected across Asia/Pacific from the following industry sectors:

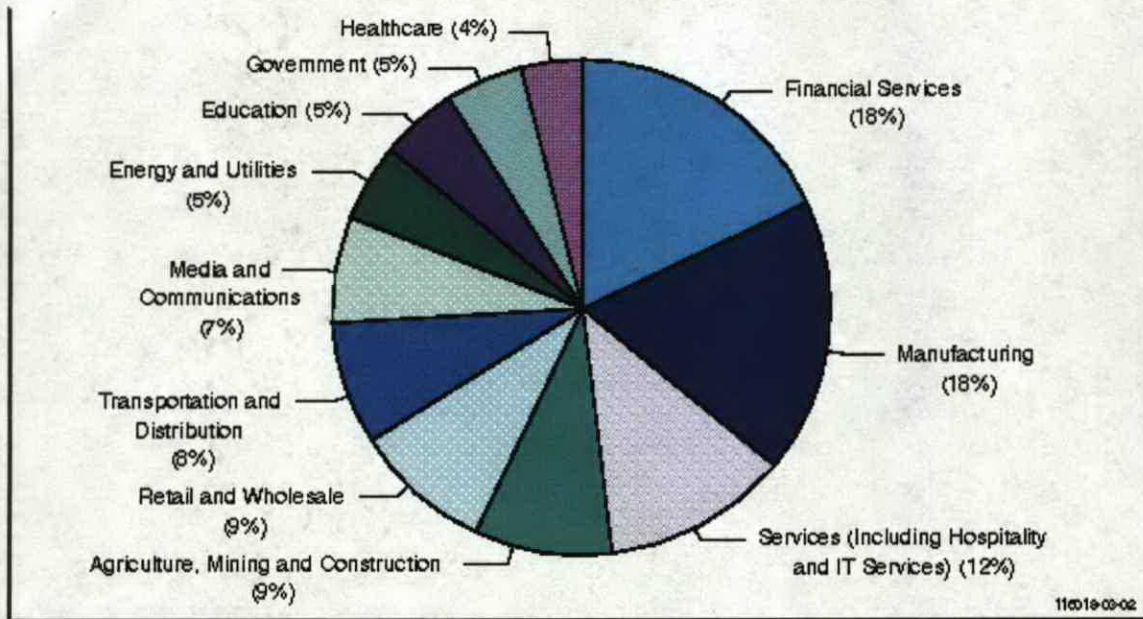
- Agriculture, mining and construction
- Education
- Energy and utilities
- Financial services
- Healthcare
- Manufacturing
- Media and communications
- Government
- Retail and wholesale
- Services
- Transport and distribution

Figure 3-2 shows the distribution of completed interviews by vertical industry.

**Figure 3-2**  
**Respondents by Vertical Industry**

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Source: Gartner Dataquest (June 2003)

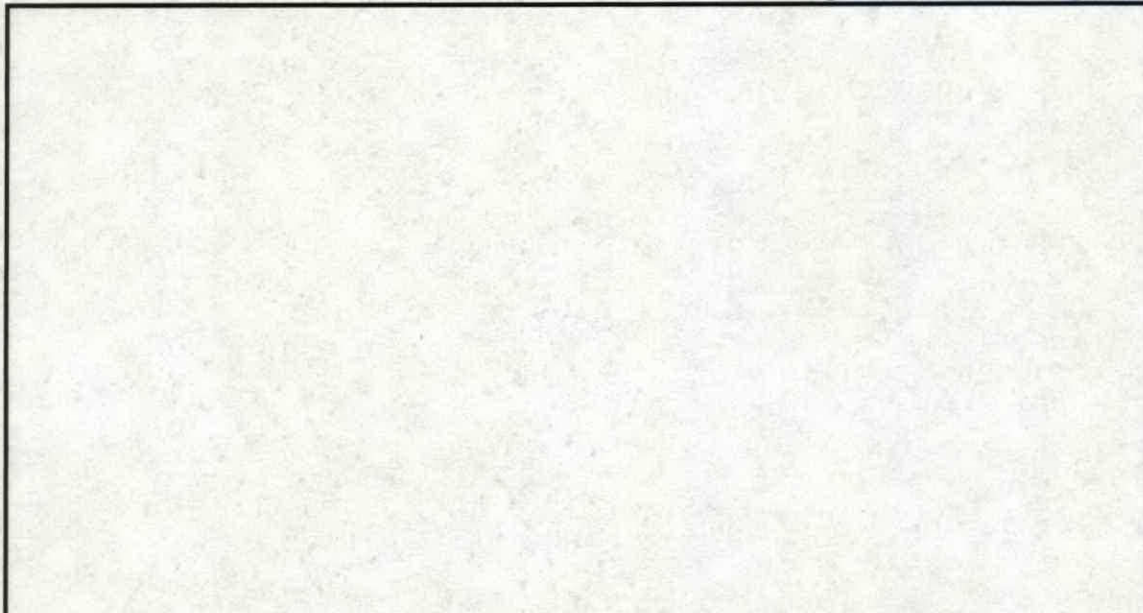
Since there were no fixed quotas for distribution of interviews across verticals, the sample distribution was largely achieved from random contacts. However, with the process quotas fixed, for processes, where it was difficult to meet quotas through random sampling, booster interviews were conducted, targeting the verticals that were most likely to be outsourcing those processes.

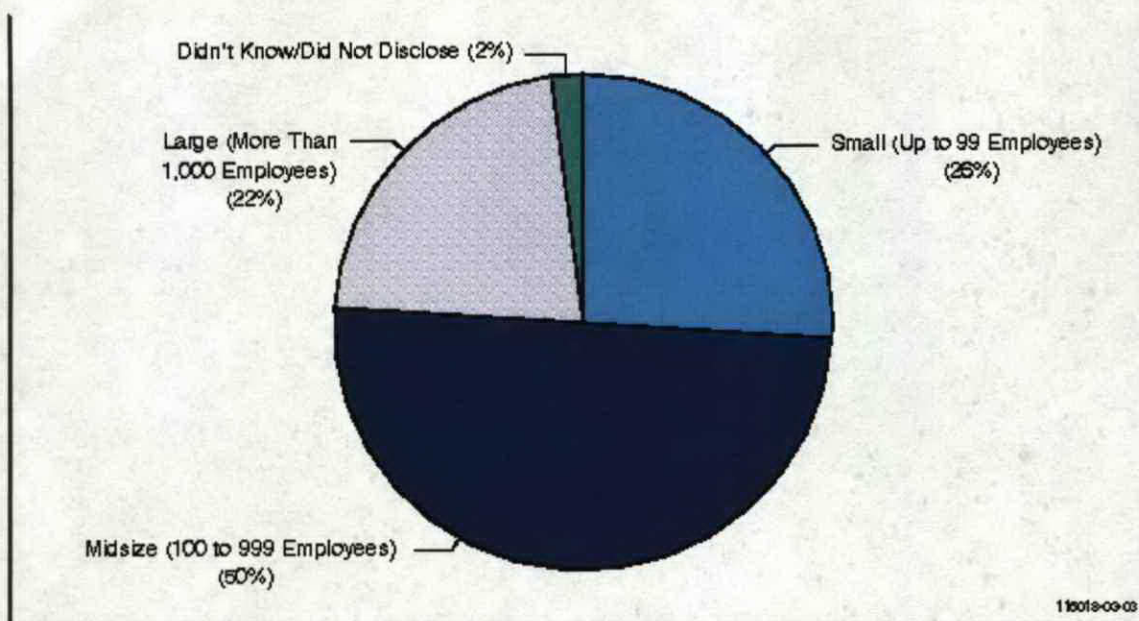
**Number of Employees** [\[return to Table of Contents\]](#)

Figure 3-3 shows the distribution of completed interviews across organization sizes, using the number of employees to indicate the size of the organization.

**Figure 3-3  
Respondents by Organization Size**

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Note: Number of respondents = 587  
 Source: Gartner Dataquest (June 2003)

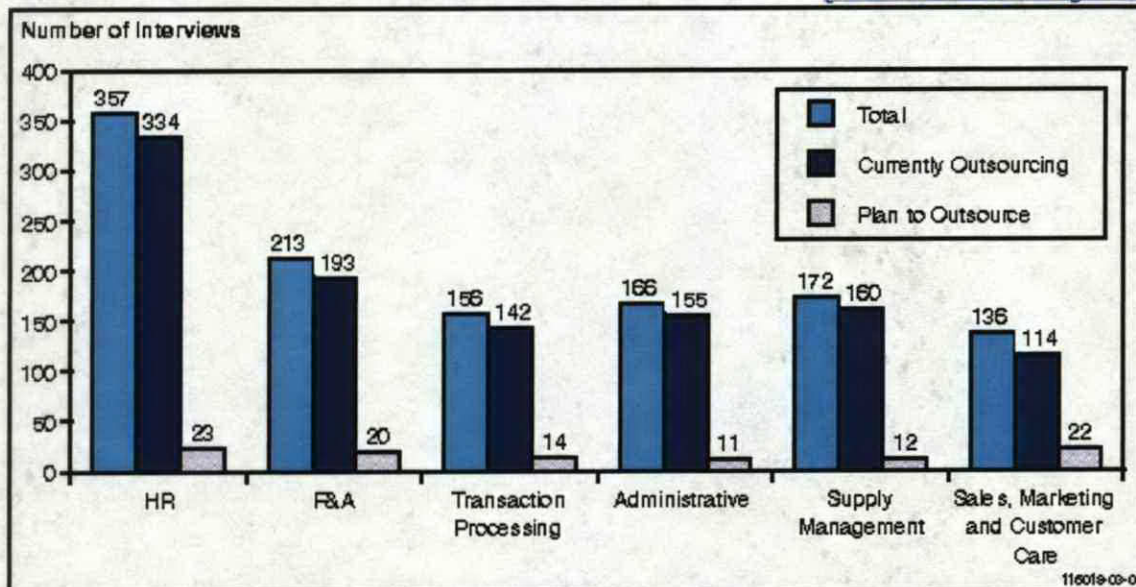
There were no quotas for interviews by organization size, and the sample achieved is purely random, which makes it a good indicator of the adoption of BPO across organizations of different sizes. Most activity seems to be among midsize and large organizations.

**Process** [\[return to Table of Contents\]](#)

Figure 3-4 shows the distribution of completed interviews by processes under study.

**Figure 3-4**  
**Distribution of Respondents by Process**

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Note: Number of respondents = 587



Source: Gartner Dataquest (June 2003)

The total does not add up to 587 completed interviews, because some organizations outsource multiple processes.

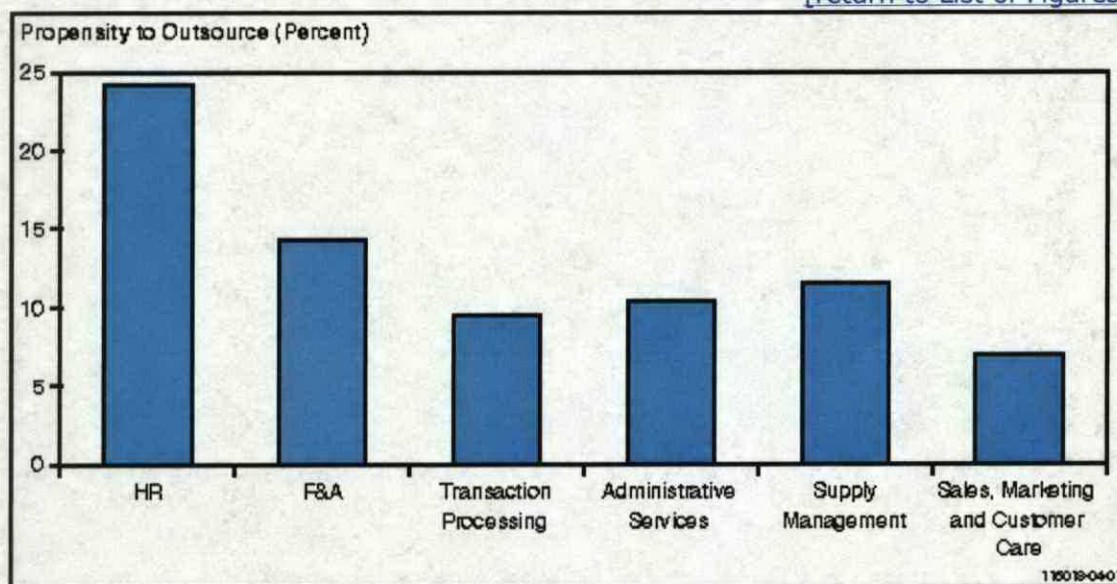
### Process Adoption in Asia/Pacific [\[return to Table of Contents\]](#)

Based on the 1,143 organizations contacted for this survey, the propensity to outsource, or the current level of BPO adoption, was calculated. Propensity was calculated as the percentage of organizations that outsource at least one of the six processes under study, out of the total organizations contacted during the survey. The level of adoption of different processes varies across the region, but the overall pattern of adoption of processes remains largely the same across countries and regions.

Figure 4-1 shows the adoption of different processes in the Asia/Pacific region.

**Figure 4-1**  
**Process Adoption in Asia/Pacific**

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Note: Number of respondents = 1,143  
Source: Gartner Dataquest (June 2003)

HR services comprising payroll, benefits, education and training, hiring and recruiting and personnel administration have the highest adoption in the region, while sales, marketing and customer care have the least.

One reason is that HR management, though considered important in the overall business operations, is seen as a noncore business process in which significant cost savings can be achieved by outsourcing to ESPs through automation and reduction of overhead expenses. This is unlike the sales, marketing and customer care processes that involve direct contact with the client's customers. By virtue of being a front-end process, organizations are more sensitive about outsourcing the process.

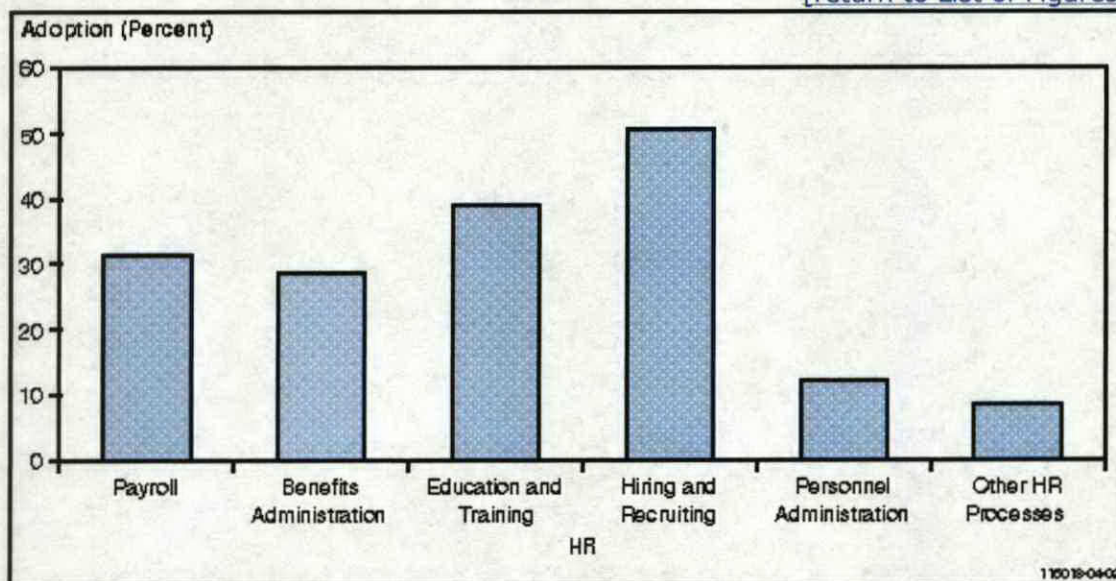
For instance, it can cost less to hire the services of an external training institution to train employees in a specific skill, rather than maintaining an in-house team of trainers and a dedicated training facility. More important, maintaining the right level of up-to-date skills is simply beyond all but the largest organizations. Similarly, payroll processing can be easily automated and delegated to an ESP rather than maintaining dedicated in-house.

Within HR services, hiring and recruiting accounts for the highest level of outsourcing, followed by education and training, benefits administration and payroll, in that order, while personnel administration is the least outsourced.

Figure 4-2 shows adoption of various processes among organizations that are outsourcing at least one HR service. The figure indicates the percentage of organizations outsourcing a particular service, out of all the organizations that indicated during the survey that they outsource HR services.

**Figure 4-2**  
**Adoption of Sub-Processes by HR Outsourcers**

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Note: Number of respondents = 334

Source: Gartner Dataquest (June 2003)

Though personnel administration is the least outsourced, opportunities do exist for niche service providers that focus specifically on this activity, as is evident by the 12 percent adoption rate.

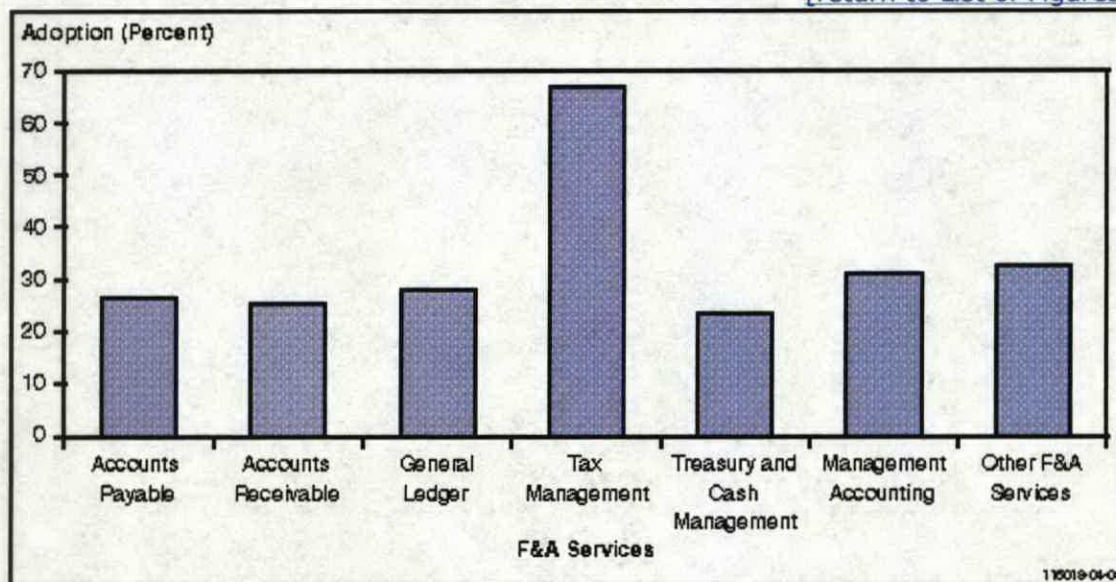
Opportunities also exist for service providers that offer to take over an entire HR management process, because the level of adoption of other subprocesses, such as education and training, payroll and benefits administration, is significantly high. However, the market is still tactical in nature and has yet to reach a level of maturity where such comprehensive and strategic outsourcing would become routine. Service providers need to target multinational corporations (MNCs) and large organizations for such deals, because their strategic benefits can be greater while providing attractive savings in cost. The selling point for small and midsize businesses (SMBs) would be having expertise on tap without having to maintain in-house staff, thereby reducing

overhead expenses.

Within F&A services, tax management services are outsourced the most, while treasury and cash management is outsourced the least in Asia/Pacific. Figure 4-3 shows the difference in adoption of various subprocesses within F&A services.

**Figure 4-3**  
**Adoption of Subprocesses by F&A Services Outsourcers**

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Note: Number of respondents = 193

Source: Gartner Dataquest (June 2003)

A significant difference exists between the adoption of tax management as compared with the rest of the services in F&A services. This implies that tax management, though a critical part of an organization's operations, is considered an activity that can be better managed by external experts. Also, it has less to do with the day-to-day operation of the organization and is more focused on ensuring that the organization's investments, expenses and income are represented in the most tax-efficient way.

Accounts payable, accounts receivable, general ledger and management accounting are much more directly linked with the day-to-day operation of the organization. Relinquishing these activities to an ESP would appear to take away considerable control from the organization's managers and, therefore, could face greater resistance to outsourcing. This is also the case with treasury and cash management, where outsourcing would appear to give middle management less authority and control over these assets, resulting in greater resistance to outsourcing.

Many vendors, too, have indicated that fear of loss of control over the company's operation and fear of loss of individual power in the organization are the greatest inhibitors to outsourcing.

Accounts payable, accounts receivable, and general ledger and management accounting processes are also amenable to standardization and automation, and various software solutions are available for these activities. Automation itself is seen as offering

substantial cost savings to justify maintaining the processes in-house.

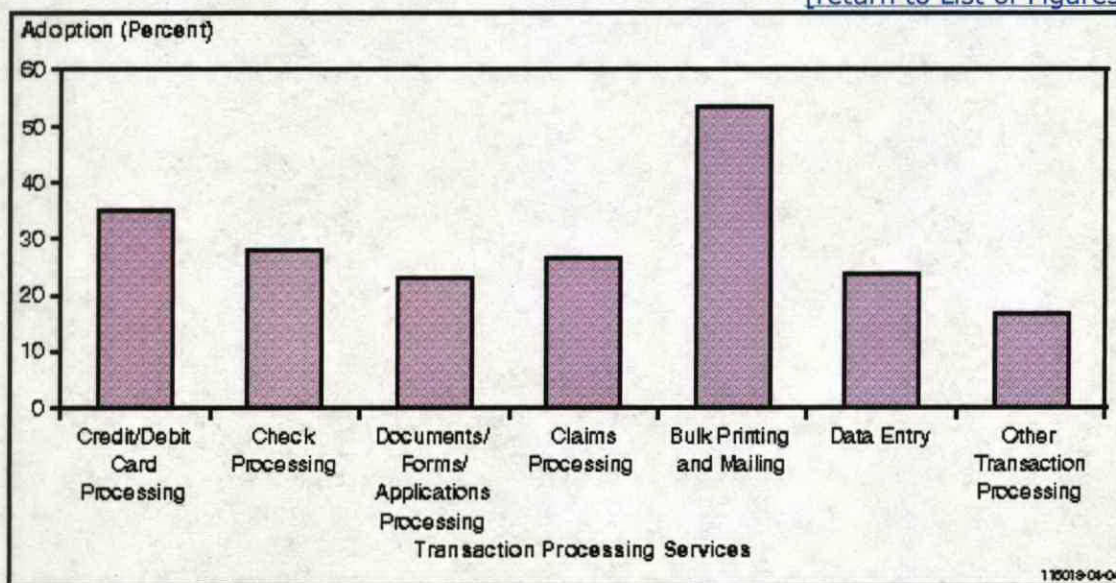
Service providers offering accounts payable, accounts receivable, and general ledger and management accounting services must focus on convincing enterprises' senior management how they can bring about significant cost savings, greater transparency of operations and better quality of work by improving the process and using technology. Service providers also need to educate senior managers that rather than loss of control, process improvement and technology deployment can result in greater transparency and better control over the processes. While cost is a major consideration in deciding to outsource, it is important for service providers to focus on non-cost benefits of outsourcing.

Also, in addressing the fear of loss of control, service providers must educate managers to understand outsourcing as akin to managing an employee: Good managers manage the outcome, not the detail, and the same is true in managing an ESP.

At about 9 percent adoption, transaction processing is among the least outsourced processes in Asia/Pacific. Figure 4-4 shows the difference in adoption of various subprocesses among outsourcers of transaction processing.

**Figure 4-4**  
**Adoption of Sub-Processes by Transaction Processing Services Outsourcers**

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Note: Number of respondents = 142

Source: Gartner Dataquest (June 2003)

Although transaction processing appears to have a low adoption in the Asia/Pacific, this adoption is across 11 different verticals. Most transaction processing subprocesses and activities seen in the figure are largely relevant to a few industries, such as banking and financial services, the services industry, the consumer products and services industry, telecommunications, and energy and utilities in the consumer space. An analysis by vertical industry shows a much higher adoption of transaction processing services in F&A, media and communications, energy and utilities industries than all other industries.

Only a few services, such as bulk printing and mailing, document processing, and data

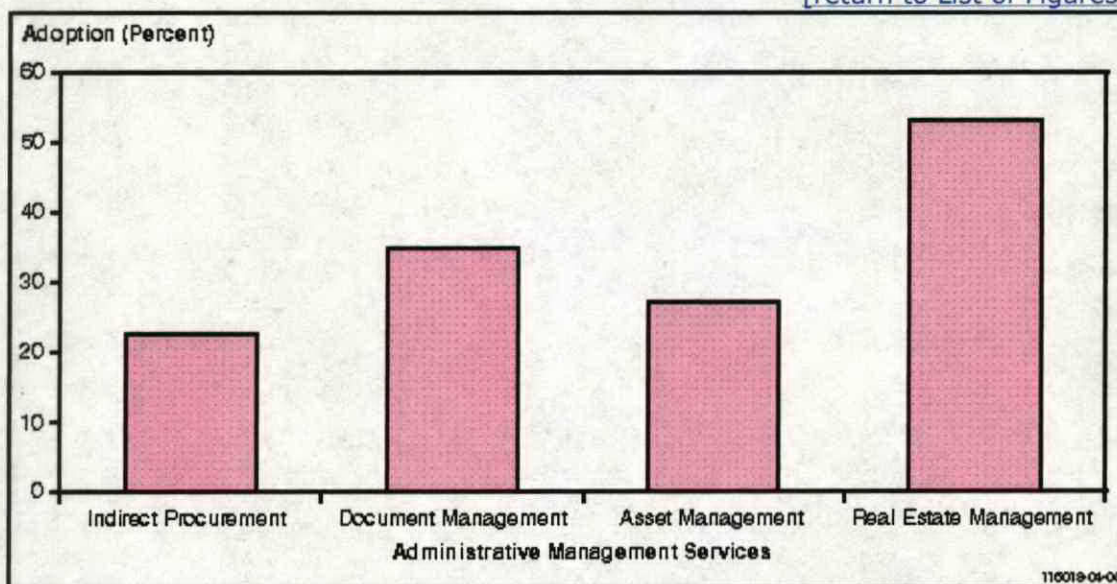
entry are applicable across all sectors. This is one reason bulk printing and mailing has the highest adoption rate. Another reason is that the process is fairly repetitive and needs very little custom expertise, and can be easily outsourced to a reliable third party. This saves the effort and expense of maintaining an in-house team for this routine task.

Within transaction processing services, activities such as credit/debit card processing, check processing and claims processing, which are specific to banking and the financial services industry, have lower overall adoption rates, because these are considered to be critical processes, where mistakes or a breach of security could lead to serious damage to an organization's business and reputation. Therefore, most banks and financial services companies prefer to manage these services in-house.

While such overprotectiveness could be a reason for low adoption, another reason is the lack of credible vendors and success stories in most markets. Also, the level of use of credit/debit cards in most countries/regions in Asia/Pacific is much lower than in developed economies, as is the level of technology adoption.

Administrative services have an adoption rate of 10 percent among the 1,143 organizations contacted during the survey. From this base, Figure 4-5 shows the adoption of various activities by outsourcers of administrative services.

**Figure 4-5**  
**Adoption of Subprocesses by Administrative Services Outsourcers**  
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Note: Number of respondents = 155  
 Source: Gartner Dataquest (June 2003)

Real estate management has the highest adoption rate, 53 percent, among outsourcers of administrative services, while document management, asset management and indirect procurement show much lower adoption. Although real estate management is an important processes for businesses, it is not seen as a core or critical business process in most industry verticals. Also, though considerable documentation must be maintained, most of the work involved is routine and can be easily handed over to an external expert. Also, concerns regarding loss of business, loss of control over business decisions, security and privacy are less prominent in this area. Although companies must look for a

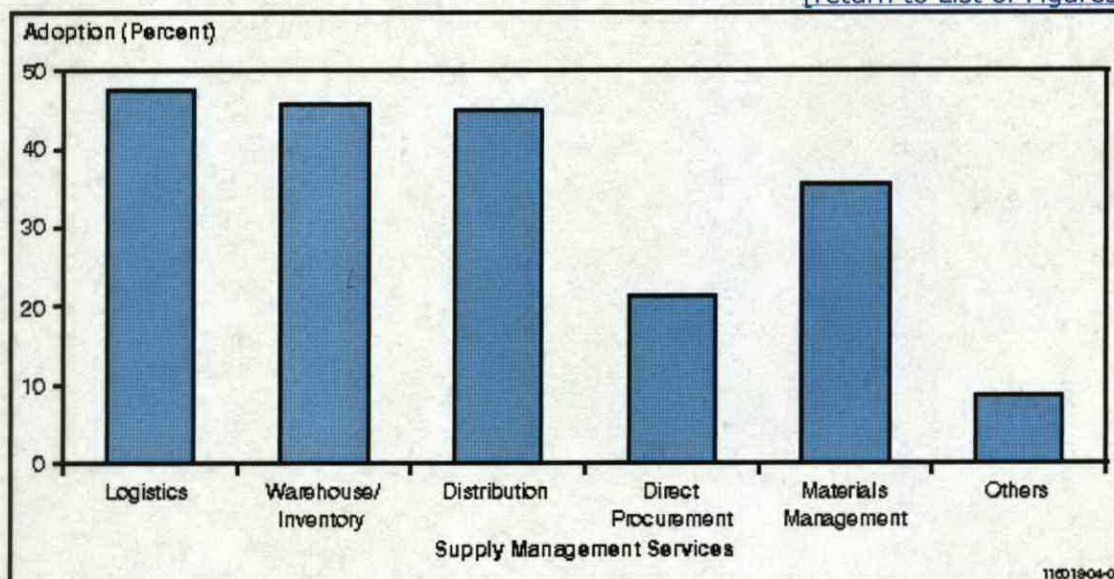
good track record and a high quality of work, many service providers specializing in real estate services are also available, which makes it easy to outsource.

Other administrative activities, such as document management, are critical, and errors could affect the day-to-day functioning of the organization. Also, the concern for security and privacy of information is higher in document management. In case of indirect procurement, the lack of reliable vendors is one of the major reasons for the low adoption rate.

Service providers need to showcase a few success stories before they can tap this opportunity in a big way.

Supply management services have an adoption rate of 11 percent among the 1,143 organizations contacted during the survey. Figure 4-6 shows adoption of services among organizations that outsource supply management.

**Figure 4-6**  
**Adoption of Subprocesses by Supply Management Services Outsourcers**  
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Note: Number of respondents = 160

Source: Gartner Dataquest (June 2003)

Outsourcing of logistics, warehouse/inventory and distribution sees the highest adoption, and direct procurement outsourcing has the lowest adoption, with outsourcing of materials management somewhere in between. The three most-outsourced activities have become separate industries in most countries where there are many service providers specialists to choose from. Also, these activities require huge capital investments and overheads, and for an enterprise to maintain its own facilities would be much costlier than outsourcing on a pay-by-use basis. Specialized service providers have better flexibility in deploying their resources across multiple clients, while benefiting from economies of scale by having multiple clients.

These service areas are also mature in most countries, and organizations tend to trust these ESPs because they are familiar with their success in the marketplace.

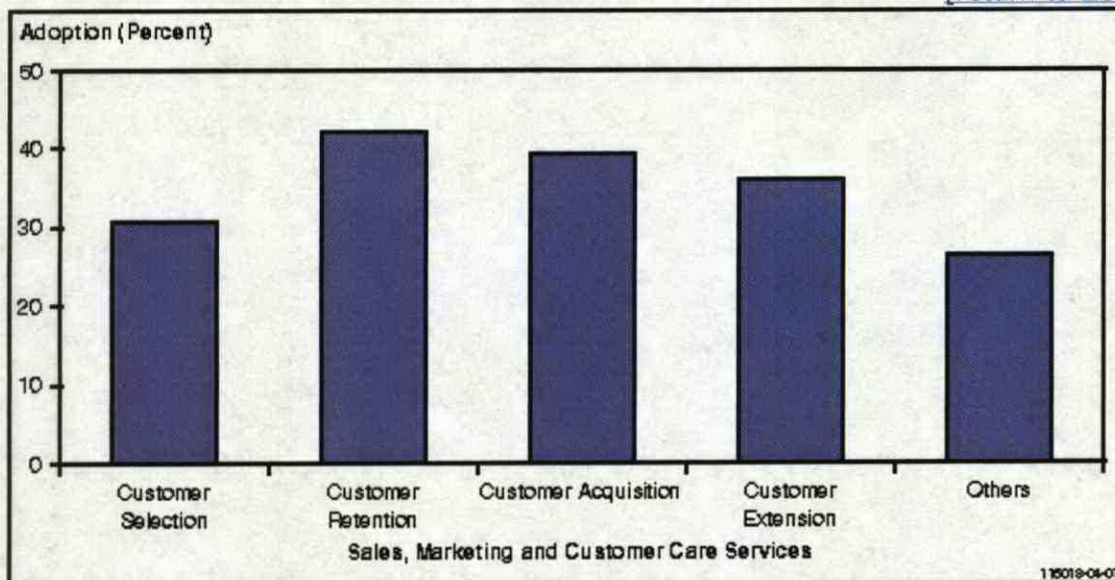
Materials management has a more direct link to the quality of products and services and is more of an operations function, hence, the lower adoption rate compared with logistics, warehouse/inventory and distribution management.

However, technology has made it possible to improve the quality of materials management through specific solutions. Technology deployment can achieve significant cost savings and efficiency improvements, but it also requires the involvement of ESPs that specialize in such technology deployment. Increasing technology deployment also requires extensive training, and some organizations prefer to outsource this activity rather than train and maintain in-house resources. For vendors this represents an emerging opportunity area.

Direct procurement is directly related to the quality of input that goes into the products and services, and considerable relationship management is also at play with the suppliers. Outsourcing of this activity to an ESP could lead to serious quality issues with products and services of the organizations in case of any mistakes by the service provider. For this reason and because of the dearth of service providers with credible track records, this activity is maintained largely in-house.

Sales, marketing and customer care has a low adoption of 7 percent, the lowest among the six processes under study. Figure 4-7 shows adoption of sales marketing and customer care activities among outsourcers or sales, marketing and customer care services.

**Figure 4-7**  
**Adoption of Subprocesses by Sales, Marketing and Customer Care Services Outsourcers**  
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Note: Number of respondents = 114

Source: Gartner Dataquest (June 2003)

Sales, marketing and customer care are front-end activities that link organizations with their customers and are seen by most organizations as an important part of the business that directly affects the organization's revenue, profit and reputation. For this reason, many organizations prefer to keep them in-house. Cost savings are achieved through labor cost leverage by setting up captive facilities at low-cost locations.

Organizations are more sensitive to outsourcing these services, because any lapse in quality of work could directly affect short- and long-term revenue, with little chance for quick corrective measures.

Also, with marketing, sales and customer care, although many processes can be predefined, inevitably numerous exceptions exist that require a decision by someone close to the core business. Likewise, previously unanticipated opportunities may emerge in the course of outsourced sales or service engagements, that are not easily followed up because they were not predefined. Unless service providers can help users deal with these issues, they will find resistance to outsourcing such marketing-related functions.

Of the sales, marketing and customer care services, activities that can be automated and made into routine procedures — such as Tier 1 inbound call centers, help-desk services (customer retention), or telemarketing (customer acquisition) — are outsourced more than those requiring a higher level of strategic planning.

Activities, such as segmentation of the market, deciding on the target segments and devising cross-selling strategies, which fall in the realm of customer selection and customer extension, are outsourced less for this reason.

Also, setting up captive contact centers to service customers across large, culturally and linguistically diverse areas requires a huge investment. Rather than investing in technology deployment and HR in these activities, organizations prefer to outsource these to specialist service providers. By focusing on this activity, service providers can offer cost savings and better quality, which serves as incentive for organizations to outsource customer acquisition and customer retention activities.

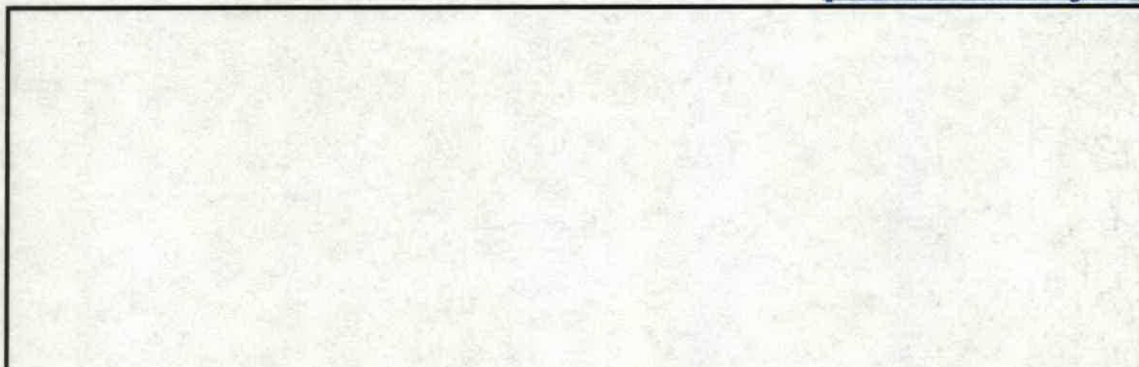
Service providers can use contact center services as the starting point of a relationship and prove their capabilities while aiming to move up in the value chain by gradually offering greater value-added services as familiarity, credibility and openness to outsourcing grow.

### **Process Adoption by Countries/Regions** [\[return to Table of Contents\]](#)

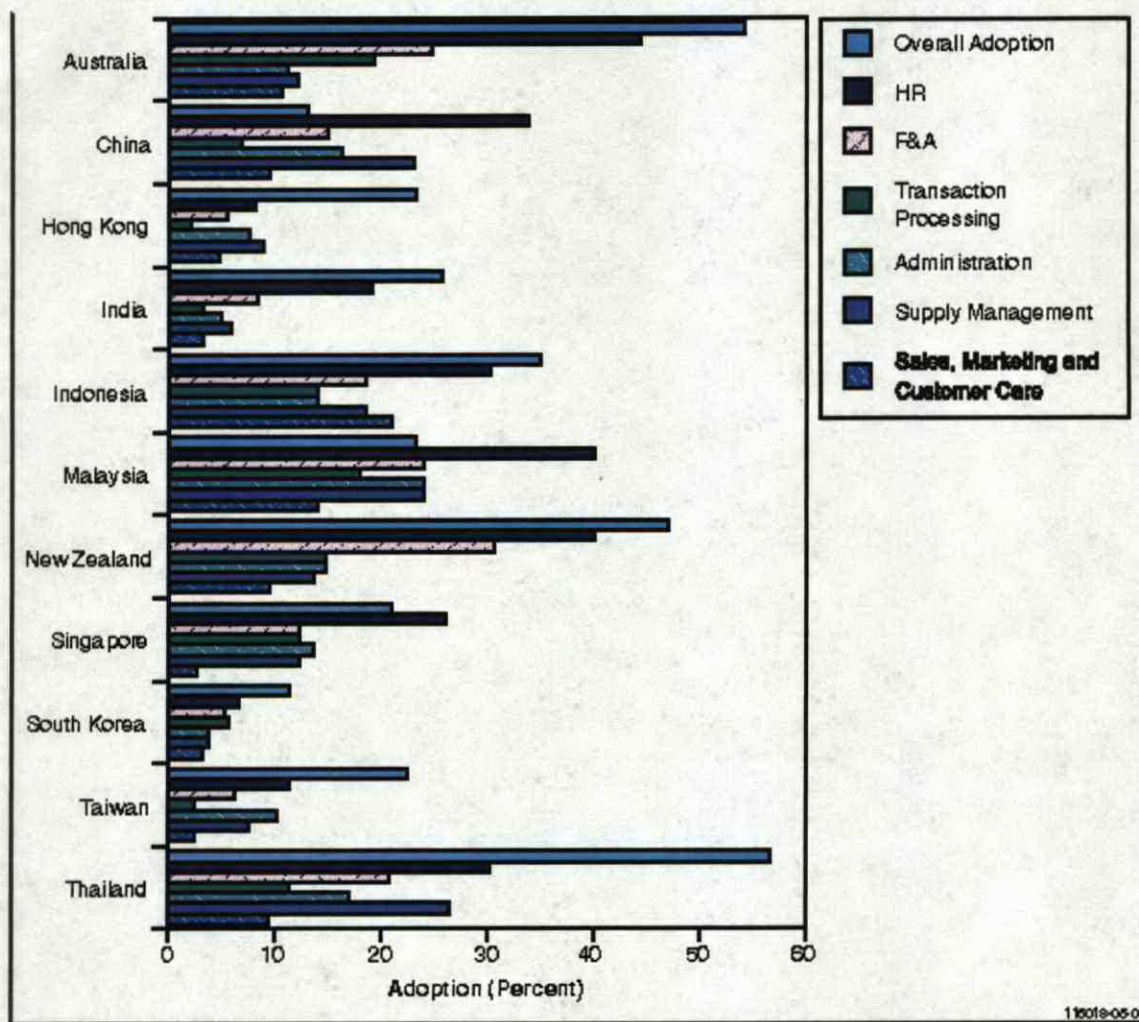
BPO adoption varies significantly across countries/regions, based on the business culture, regulations and overall structure of the economy. Figure 5-1 shows BPO adoption across countries/regions at an overall level and also by processes.

**Figure 5-1**  
**Adoption of BPO Across Countries/Regions**

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Note: Number of respondents = 1,143  
 Source: Gartner Dataquest (June 2003)

The finding that Thailand shows the highest adoption for BPO services reflects the large scale reorganization and development of the core strategy that organizations there have been bringing about following the recent economic crisis. Both the Asia/Pacific and the global economic crises had a profound effect on the market. The demand for outsourcing services is driven by economic uncertainty, because organizations are unwilling to grow their scale of operations and commit in-house resources to their business processes. Also, large organizations and MNCs are unable to find enough in-house professional expertise to manage and support their business. A shortage of skilled staff in Thailand continues to drive BPO adoption. For these organizations, HR and F&A services are the most commonly outsourced.

The growth of the SMB market also drives BPO in Thailand, which has more than 400,000 SMBs. Unlike in some countries that have been relatively unaffected by economic challenges, and where businesses tend to be complacent, tough economic times have made it necessary for companies in Thailand to focus on their core competence and outsource other processes on a pay-per-use basis.

In the process of re-structuring their businesses and to improve business performance, some large banks and telecoms have signed large outsourcing contracts. As a result,

Thailand has emerged as the country with the highest level of adoption of BPO services.

Though the overall BPO adoption is higher in Thailand (56.6 percent) than in Australia (54.3 percent), the adoption rates of individual processes is lower in Thailand than Australia for most processes, except supply management services and administrative services. This indicates a greater prevalence of multiple process outsourcing in Australia than in Thailand, where a larger proportion of organizations outsource single processes. To that extent the Australian market shows greater maturity than Thailand in the use of BPO services.

Australia's and New Zealand's markets are much closer to U.S. markets in acceptance of Western business concepts and business culture. Also, these countries have seen a comparatively higher level of MNC activity than most other markets in Asia/Pacific. This has brought with it global best practices and success stories for vendors to showcase.

Despite the recent restructuring of certain sectors of the economy, such as banking, the South Korean economy is yet to open up significantly to the concept of outsourcing. This is largely because of the dominance of the "chaebols" in the economy. South Korea's chaebols are large conglomerate groups, usually owned by a family holding company, often with intricate cross holdings among member companies. Chaebols, through their numerous subsidiaries, operate in several industries — car manufacturing, IT, telecommunications, construction, logistics, insurance, chemical and so on. Each chaebol typically has its own IT services subsidiary or division.

The chaebol structure has made South Korean organizations much more insular and dependent on in-house expertise. Much of their outsourcing is limited to work being delegated to other group companies. While there are group companies specializing in IT services, most chaebols do not have group companies offering BPO services. As a result, companies that are open to outsourcing IT services to other group companies are unable to outsource BPO services, because there is greater resistance to outsource to service providers outside the group.

This is gradually changing, however, and forces of global competition are making South Korean organizations much more receptive to global best practices and business concepts. Despite this change, the best way to get business from a South Korean organization is to form an alliance with one of the group companies that offers similar solutions and demonstrate the potential value of using outsourced services.

The Chinese economy is in the early stages of opening up to align with the global economy. Global business concepts are being gradually accepted. However, this is a slow process and, as yet, most BPO in China focuses on HR services, supply management and administrative services, with Chinese organizations opening up to external expertise to tackle challenges posed by their huge staff strengths and wide geographical reach across difficult terrain. Increased activity of MNCs has also driven use of outsourcing, because these organizations greatly depend on local experts to tap market opportunities and service the markets.

Hong Kong and Singapore, which act as the economic hubs of the region for companies from Western economies trying to tap opportunities in the Asia/Pacific markets and vice versa, show moderate level of BPO adoption. Although the MNCs bring with them the concept of outsourcing, the traditional Asia/Pacific business culture is oriented toward managing everything in-house.

While organizations in Singapore show a high level (26 percent) of adoption of HR services outsourcing, the outsourcing of other services is significantly lower ranging from 14 percent for administrative services to 3 percent for sales, marketing and customer care services. The limited geographical size of Singapore and Hong Kong inhibit the outsourcing of other services, because the benefits of supply management, transportation and distribution management and sales, marketing and customer care services are more pronounced when business operations are spread over vast geographies. In such markets, it might be prohibitively expensive for an individual organization to set up and maintain its own infrastructure, except for the largest organizations. In a smaller area, however, organizations can afford to maintain their own infrastructure for these activities.

In the process of emerging from recent tough economic times, the economies of Indonesia and Malaysia show significant adoption of BPO, as organizations attempt to imbibe global business concepts. HR services and sales, marketing and customer care show the highest adoption rates of 30 percent and 21 percent, respectively, while all of the other processes show a moderate level of outsourcing.

In Malaysia, all business processes have an adoption rate of more than 20 percent, with the exceptions of transaction processing services (18 percent) and sales, marketing and customer care services (14 percent). HR services outsourcing shows the highest adoption rate, 40 percent, in Malaysia. Increasing presence of MNCs and competitive pressure to adopt global business practices have acted as drivers for outsourcing of BPO in Malaysia. Substantial agricultural and manufacturing components in the economy, have driven growth in outsourcing of supply management and administrative services in the Malaysian market, because the transportation and distribution of agricultural products and factory-manufactured products requires large investments in transport and storage infrastructure. Outsourcing of supply management saves the cost of setting up dedicated infrastructure for transportation, storage and distribution and the administrative systems that need to be put in place to enable smooth operations of these activities.

Taiwan, too, has a large manufacturing base and is significantly influenced by Western business practices by way of being a major supplier of semiconductors to the global IT industry. This influence and the increasing pressure to cut costs are resulting in increasing BPO adoption in this region.

HR and F&A services show the highest adoption in India at 19 percent and 8 percent, respectively, while the adoption of other services is in the range of 3 percent to 5 percent. Abundantly available local resources at low cost and the prevailing cultural mindset have acted as inhibitors to outsourcing BPO thus far. The Indian economy began opening up to global competition almost a decade ago, and though the process has been gradual, MNCs have a substantial presence in India. Also, India has emerged as an HR supply base for global talent requirements. A huge manufacturing industry and large agricultural component exist in the economy, spread over a large geography. In addition, increasing competitive pressures have resulted in Indian organizations becoming more receptive to BPO. The BPO industry is not new to India, and outsourcing of accounting, data entry, bulk mailing and so forth has been in practice for more than a decade. India is also a base for offshore facilities for many organizations in the United States and Europe for its captive BPO and IT facilities, and many Indian service providers have successfully tapped the global markets for offshore services. With the benefits of outsourcing becoming apparent because of these success stories, and with the ruboff effect of BPO exports, the adoption of BPO is expected to rise substantially in the near

future.

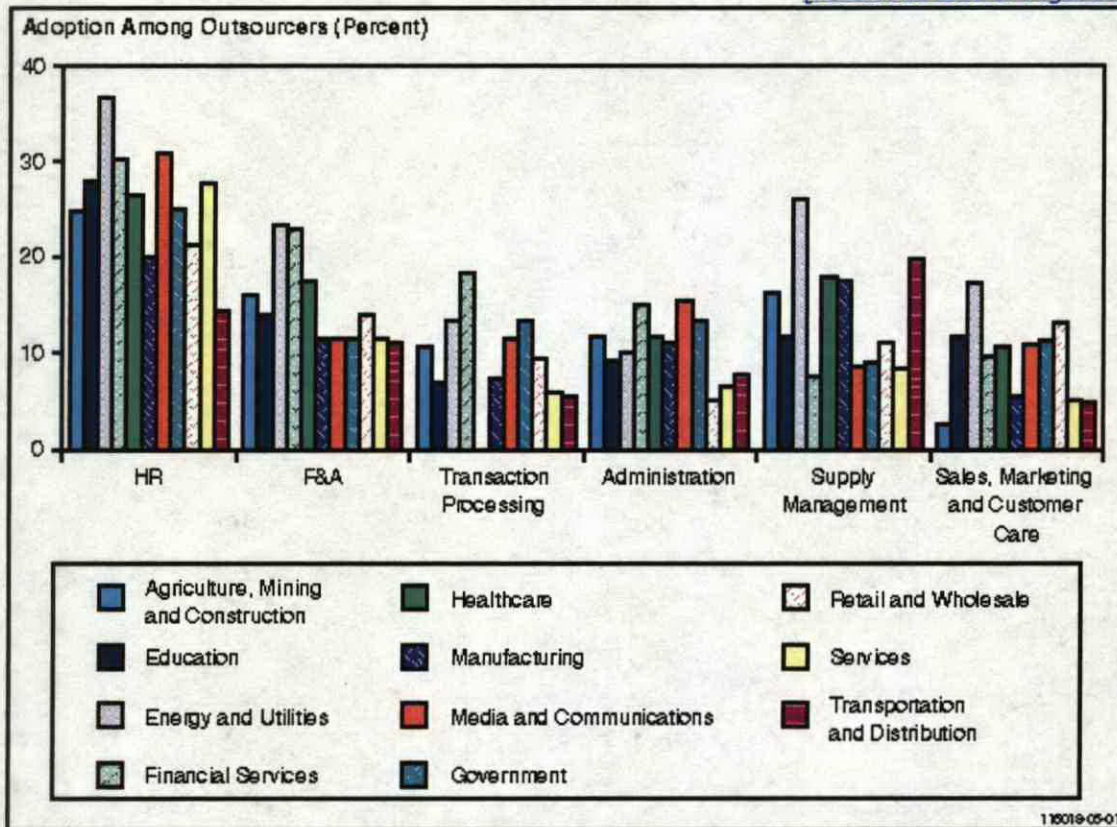
**Process Adoption by Vertical Industry** [\[return to Table of Contents\]](#)

Adoption of BPO varies significantly across verticals, though the overall pattern of highest outsourcing of HR services and lowest outsourcing of sales, marketing of customer care is uniform across almost all vertical industries.

Figure 6-1 shows adoption of business processes across vertical industry sectors.

**Figure 6-1**  
**Adoption of Subprocesses by Vertical Industry**

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Note: Number of respondents = 1,143  
Source: Gartner Dataquest (June 2003)

Media and communications has the highest adoption of BPO at an overall level at 54 percent, followed closely by the energy and utilities industry at 53 percent and the financial services industry with an adoption rate of 52 percent. A BPO adoption rate of 54 percent in the media and communications industry means that out of all the organizations contacted in the media and communications sector, 54 percent currently outsource at least one of the six processes under study.

Most organizations in the media and communications and education sectors have an employee structure in which a few key knowledge-workers and creative individuals are supported by other employees who perform many of their mundane tasks. Management of such companies prefers to focus on the activities of the knowledge workers and

creative staff and outsource the rest of the HR management to an ESP, as in other sectors.

The services industry and the energy and utilities, agriculture, mining and construction and manufacturing industries are some of the largest employers of HR in most countries, second only to the government in most cases. These industries employ a large base of semiskilled and unskilled employees and a much smaller base of middle and senior management compared with other sectors. For this reason, organizations in these sectors benefit the most from outsourcing HR services to external experts that can improve the transparency and efficiency of operations of the organization, while substantially cutting costs through process improvement. While other industries can derive the same benefits, these five industries are likely to benefit most in the short run. While the other four industries show a high adoption of HR services, the manufacturing sector shows just 20 percent adoption rate, which is much lower than the other four sectors. For HR services providers, the manufacturing industry represents an untapped opportunity that could generate substantial business if more organizations in this sector can be educated about the benefits of process outsourcing.

Although governments have shown an adoption rate of more than 10 percent for all verticals except supply management (where the adoption rate is 9 percent), this finding needs to be considered carefully. Of all the completed government interviews, most (33 percent) were done in Australia. No interviews were completed in China and Hong Kong. The remainder of the interviews were spread across eight countries/regions. While this indicates a higher adoption of outsourcing by the Australian government, at the regional level, the adoption rate would be much lower than indicated in Figure 6-1, if responses from Australia were taken away.

Though energy and utilities and financial services sectors represent the highest adoption rate for F&A services and an obvious opportunity for service providers, these two vertical industries are dominated by a few large organizations, with few small or midsize organizations. Substantial opportunity lies dormant in the manufacturing, media and communications, and services sectors, where there are many SMBs. Though these SMBs show much less BPO adoption than large organizations, service providers can use their success stories with large organizations, to educate SMBs about the benefits of outsourcing. Although these organizations cannot sign huge deals, opportunity exists for smaller service providers to sell to these smaller organizations and grow business with the growth of these organizations while also using shared services facilities across multiple clients to achieve cost savings through economies of scale. Other than cost savings, another selling point is to offer "best practices" expertise to improve the quality and efficiency of their operations.

The financial services and the energy and utilities sectors show highest adoption of transaction processing services, because these services are directly relevant to these sectors. These include credit/debit card processing, check processing, bulk printing and mailing, document processing, claims processing and data entry services. While card processing and check processing services are directly relevant to the financial services vertical, these services can be offered to organizations in other sectors as well. Already, the government sector shows a high adoption of transaction processing services. While this is mostly in Australia, opportunity also lies with other governments that will be focusing on reducing costs by outsourcing the non-core activities.

Service providers can offer to governments, services such as bulk printing and mailing, data entry, and documents/forms/applications processing. The healthcare sector, with

very few activities of the type covered under transaction processing services, shows a low adoption of transaction processing. But with increasing automation and increasing penetration of health insurance services, the need for more systematic documentation and maintenance of records will become imperative. This could result in a huge opportunity for transaction processing service providers in such areas as claims processing, forms, documents, applications processing and data entry. This would be similar to the evolution of demand for transaction processing in this sector in the U.S. markets.

Almost all verticals show a relatively lower adoption of administrative services outsourcing. While the most outsourced service is real estate management, opportunity exists to educate organizations to start outsourcing other services such as asset management and document management, initially taking on single tasks, then gradually taking over the entire process after building confidence with the client. While this does not represent a large short-term opportunity in the region, opportunities do exist for niche players.

Transportation and distribution sector has emerged as a good opportunity area for niche service providers active in the supply management area. While this vertical shows a high adoption rate for HR services and F&A services too, service providers offering logistics, warehousing and distribution management services are likely to see strong business potential in this sector.

The retail and wholesale sector shows moderate to high level of adoption for all business processes. This sector represents a good opportunity for BPO service providers over the long term, because channel structures are expected to become more organized and see increased IT deployment with increasing competition when enterprises want information on goods in the channels on a real time basis for better inventory management and production scheduling. As automation increases, managements will focus on their core business, while peripheral processes are likely to see greater outsourcing.

The services and transportation and distribution sectors, made up of a large number of small organizations in most countries, show a low-to-moderate level of adoption for most services compared with other sectors. They represent no immediate large opportunity, except for niche players that specialize in providing services to SMBs in these sectors.

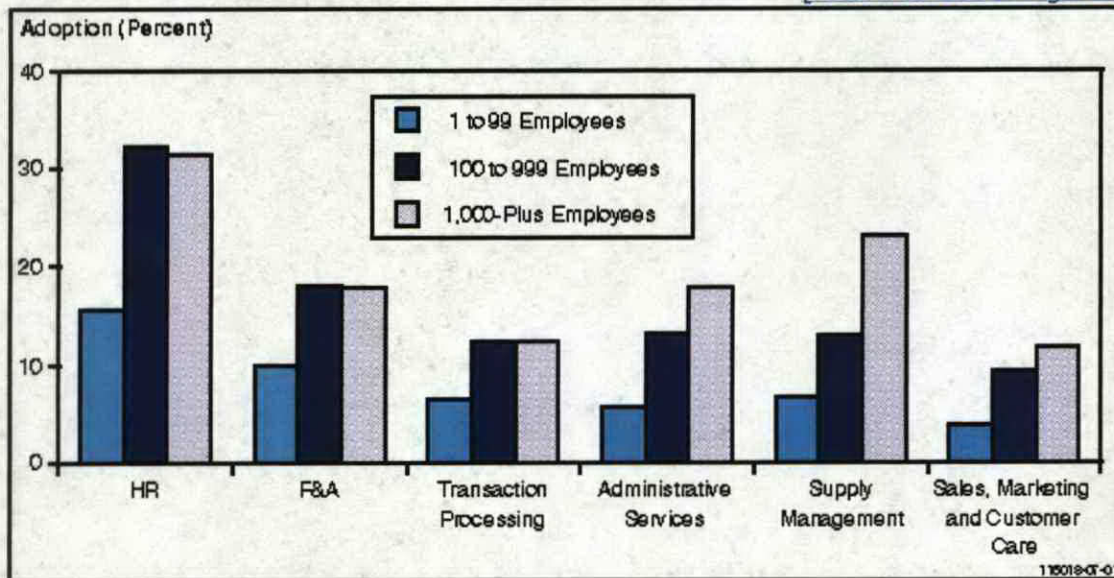
Sales, marketing and customer care services show a moderate-to-low adoption rate in all sectors. This could be because these activities, being front-end activities, are regarded as critical to the success of the business by organizations in most sectors, although it may not be their core activity. Also, other than Australia, New Zealand, Hong Kong and Singapore, and to some extent, Malaysia and South Korea, the level of consumerism is not as high in this region as in the United States, and whatever little inbound communication happens can be easily managed by a small in-house staff. Internet use is also low in most countries in the region, making outsourcing of Web-based services almost unnecessary. Most activity is limited to telemarketing, which has found little cultural acceptance in most countries. As countries/regions become more linked with the global economy, the level of consumerism is expected to rise, as will demand for these services. Currently, these services are limited to the few MNCs and large local organizations in this region.

**Process Adoption by Organization Size** [\[return to Table of Contents\]](#)

Because business issues vary by the size of the organization, it is important to consider adoption of BPO across organizations of different sizes. Figure 7-1 shows distribution of BPO adoption across small, midsize and large organizations, where small organizations are defined as having up to 99 employees, midsize organizations are defined as those having more than 99 but less than 1,000 employees, and large organizations are defined as having 1,000 or more employees.

**Figure 7-1**  
**Adoption of BPO Across Small, Midsize and Large Enterprises**

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Note: Number of respondents = 1,143  
Source: Gartner Dataquest (June 2003)

One major reason for the low adoption rate of BPO in small organizations is that the volume of work in each of these processes is small and easier to manage with in-house resources. Also, at such low volumes, the cost savings achieved by outsourcing would not justify outsourcing. This means other noncost reasons, such as access to expertise, are the motivators for outsourcing in these small organizations.

For midsize and large organizations, larger operations and a wider geographical coverage makes it more economical to outsource than in the case of smaller businesses that serve a limited clientele in a limited area. While cost savings is one of the main reasons for outsourcing, tapping external expertise to simplify management of business across multiple locations over a wider area is also a major driver for outsourcing in midsize and large organizations.

For vendors of HR services, though the adoption of the services is high among smaller organizations as compared with other processes, it may not be profitable to service low-volume businesses unless processes and access can be standardized and simplified. It would be a good idea, however, to set up shared facilities that serve multiple small clients with similar service requirements to save cost of operations through better use of resources. The scope for cost savings would also be more, because the sub-optimal utilization of in-house resources would be a common phenomenon in smaller organizations.

The opportunities with large organizations lie in the high volume, low margin work, such as payroll and benefits administration, which can be automated to a large extent and delivered in a self-service manner via an Internet/intranet set up. Once the facilities are set up, the same services can also be offered to SMBs.

As business dynamics and technology rapidly evolve, education and training services and hiring and recruiting services are also likely to see increasing demand in organizations of all sizes. Also, with increased outsourcing of business processes, the BPO industry itself is emerging as a huge opportunity target for HR services.

F&A services show similar adoption across SMBs, although the volume of work done and the revenue potential is much different across organization sizes. There is space for smaller service providers addressing the SMB niche that large service providers may not find large enough to be profitable, while there is significant opportunity for large service providers among the large organizations, too.

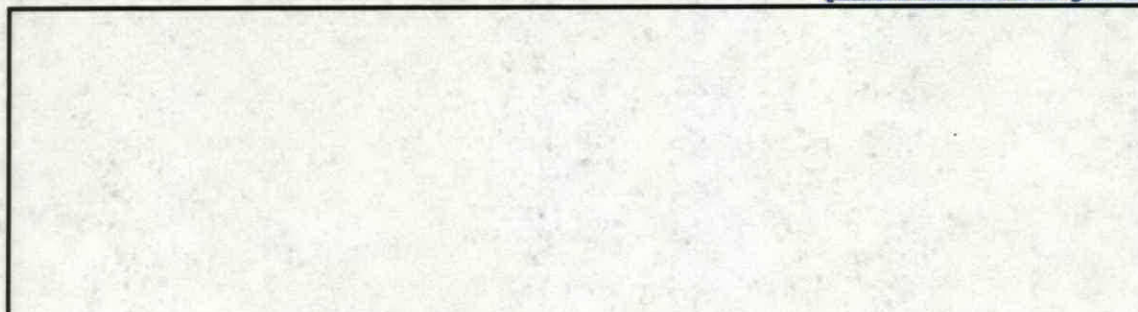
As seen in figure 7-1, adoption of HR services, F&A services and transaction processing services is similar to that of midsize and large organizations, but varies significantly in administrative services, supply management services and sales, and marketing and customer care services. Although some large organizations could be in just one location, in most cases, geographical spread, complexity of business operations and the variety of customers is much greater in large organizations than in midsize ones. Most large organizations are also likely to be public limited companies and professionally managed, compared with SMBs that would largely have family ownership, or proprietary management. While the greater complexity of business operations and multilocation presence make it easier to demonstrate the benefits of outsourcing, professional management is also likely to be more open to the concept of outsourcing. As the size of the organization increases and as it is spread across a wider geography, it is able to draw greater benefits from such outsourcing services as supply management, and sales, marketing and customer care, which explains the greater adoption of those services by large organizations.

### **BPO Spending Budget by Process** [\[return to Table of Contents\]](#)

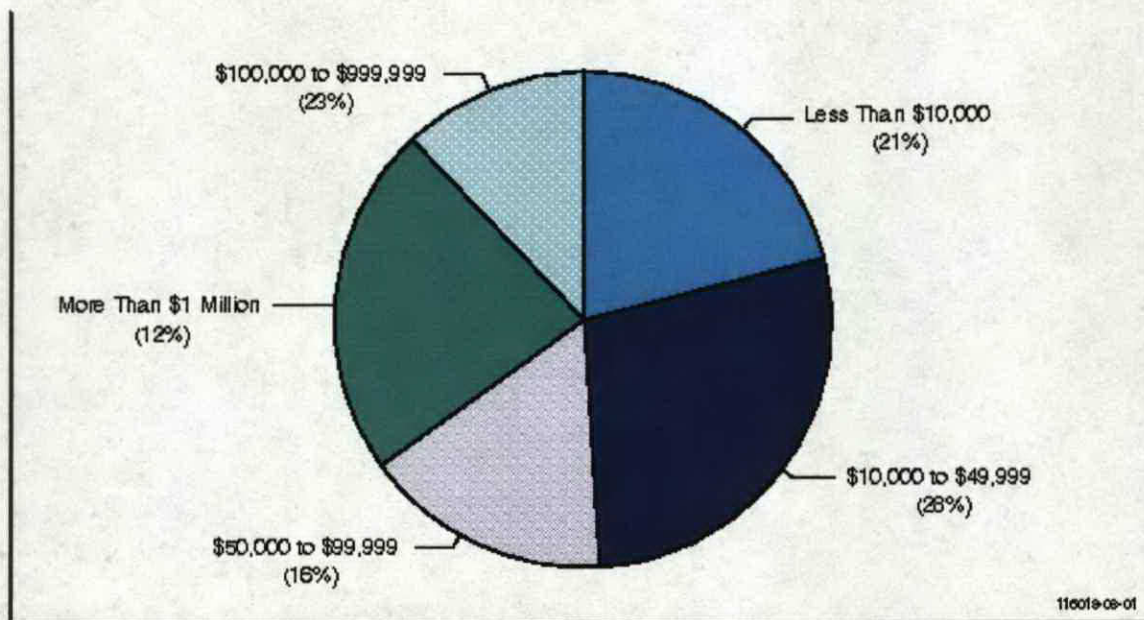
Survey respondents were asked to indicate their spending on BPO services in 2002. Of the 587 completed interviews, respondents in 364 organizations disclosed their BPO spending in 2002, while the rest either did not disclose their spending or said that they were not aware of the organization's total spending on BPO. Responses were classified into various bands to examine spending patterns. Figure 8-1 shows the BPO spending budgets of organizations across Asia/Pacific.

**Figure 8-1**  
**BPO Spending by Size of Organization in Asia/Pacific**

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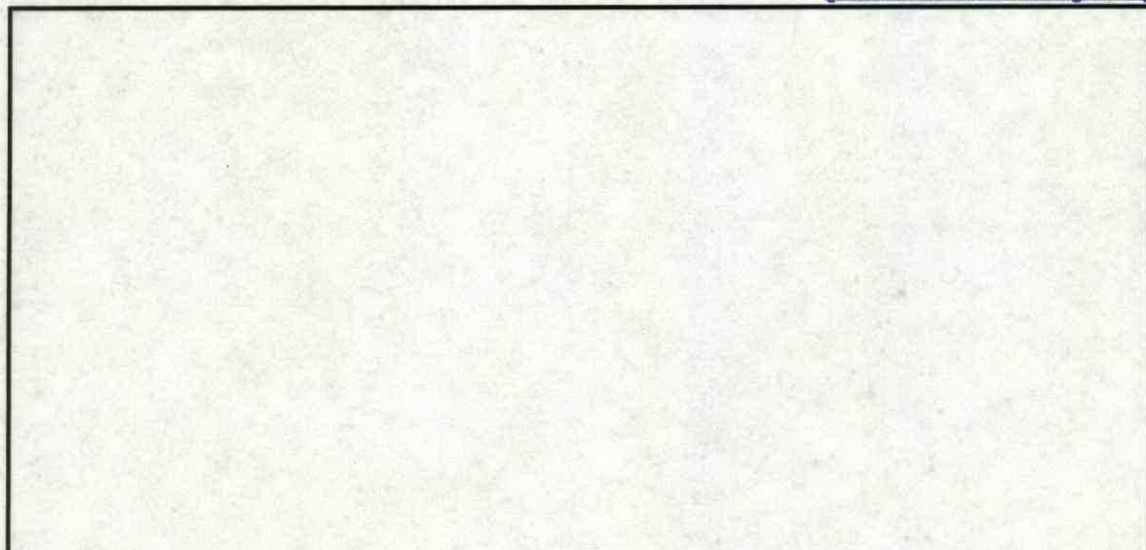
Note: Number of respondents = 364  
Source: Gartner Dataquest (June 2003)

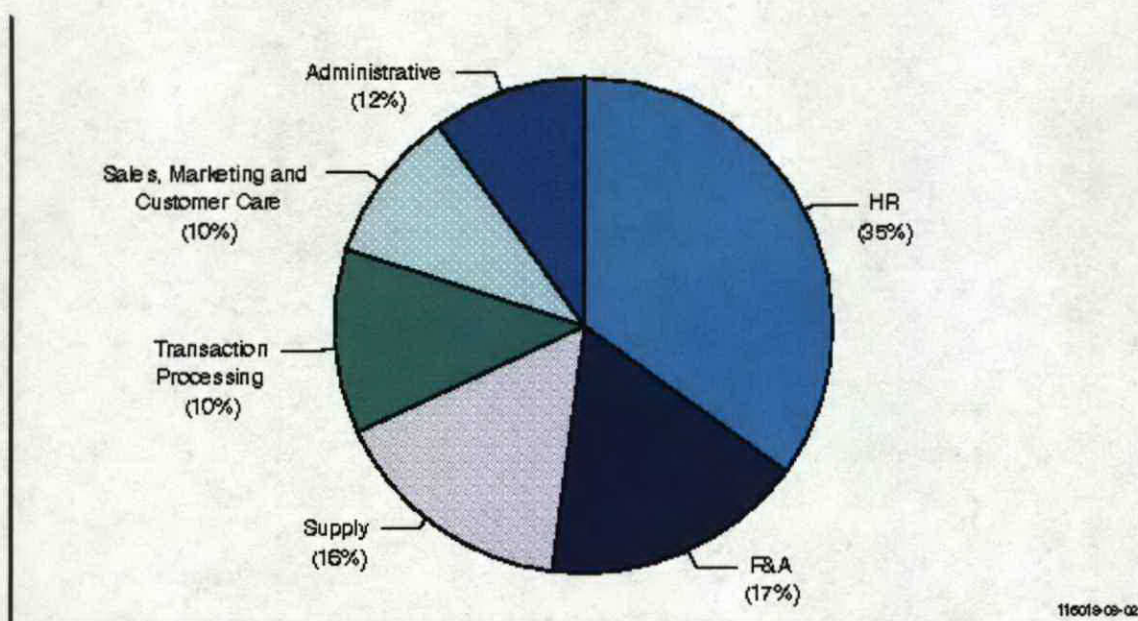
The survey shows that 88.5 percent of the Asia/Pacific organizations surveyed spent less than \$1 million on BPO. Of the 334 organizations represented in Figure 8-1, 49.2 percent spend less than \$50,000. This indicates a large number of small deals in the region. In a relatively less-mature marketplace, service providers must target specific task-oriented deals initially, then gradually increase coverage to entire processes, after the confidence level of organizations rises significantly.

Respondents were also asked to break down their spending budgets by process. Figure 8-2 shows percentage of BPO spending budget by six processes and is based on mean spending by different organizations on different processes, compiled to show a mean spending pattern for the region.

**Figure 8-2**  
**BPO Spending by Process in Asia/Pacific**

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Note: Number of respondents = 587  
Source: Gartner Dataquest (June 2003)

Organizations do not necessarily spend on all BPO processes, and, in many cases, the entire BPO budget goes to just a single process.

Spending on HR services is much higher than all other processes, reflecting the high adoption of HR services in the region as compared with most other services and illustrating that HR services offers the biggest opportunity in the region. An adoption rate of just around 24 percent also indicates a huge untapped potential.

F&A services, with an adoption rate of 14 percent and with a share of 17 percent of BPO spending, also represents a huge potential opportunity, although the resistance to outsourcing is higher than in for HR services.

In case of both, HR and F&A, there is an opportunity to deploy IT and to automate data collection, processing and service delivery, thereby achieving substantial cost benefits coupled with greater speed and transparency of the process.

Supply management is also a largely untapped opportunity, with just an 11 percent adoption resulting in almost a 16 percent share in spending. However, unlike HR and F&A services, where considerable automation is possible, supply management services comprising logistics, warehouse/inventory services, distribution services, direct procurement and materials management involves huge investments in physical assets and a network of alliances. This means a longer break-even period and volumes of work before the business starts bringing in profits. With the low adoption levels, service providers need to be prepared to invest up-front and expect longer sales cycles than HR and F&A services. This also means entry barriers are high for competition.

While some level of automation can bring about efficiency resulting in significant cost savings, a substantial part of the cost savings and profits would come from economies of scale across multiple clients. Other than cost savings, punctuality, low transit loss/damage, easy of tracking, wide geographical coverage and consistent performance

form the key criteria in standing out from the competition in the supply management business.

With low and rapidly increasing credit card and debit card use in most countries, the low and increasing level of IT use in the banking and financial sector in most countries and the pressure to cut costs of operations, the demand for transaction processing services is likely to see a rapid increase in the next four to five years. Australian banks are already experiencing reduced check volume because of increasing preference for electronic payments. Gradually it is becoming uneconomical for them to retain the check-processing activity in-house, leading to increasing openness to outsourcing this service to a reliable ESP. Also, the new-age electronic transaction processing requires a huge investment in technology dedicated to this activity, which the current volume of electronic transactions may not justify. For this reason, these banks tend to prefer outsourcing electronic transaction processing as well. While the present volume of check processing and electronic transaction processing may not be large enough for the banks to justify deployment of dedicated in-house resources, these volumes are attractive to service providers that are focused on transaction processing as their core activity.

With a little more than 10 percent adoption rate in the region and with a share of 12 percent in mean spending on BPO, there is ample scope for growth for service providers offering administrative services. However, this opportunity will materialize over the longer term, because it might take some time for the BPO market to mature and for organizations be open to consider significant investment in outsourcing services. Other than real estate management, service providers might find increasing openness to outsourcing of document management and asset management, although it could be some time before outsourcing of indirect procurement picks up in a big way.

Sales, marketing and customer care accounts for more than 10 percent of the mean BPO spending budget, although the adoption rate of these services in Asia/Pacific is just over 7 percent. Most of the activity in sales, marketing and customer care is concentrated around call centers providing Tier 1 inbound voice and nonvoice services and around telemarketing activity on an as-needed basis. The higher value, strategic work is still maintained in-house by way of captive facilities, by most organizations. Service providers need to demonstrate the capability of delivering value beyond Tier-1 work to get strategic work of higher value. There is also some off shore business opportunity as Malaysia emerges as a call center hub to service customers in Singapore, Australia, New Zealand, China and Hong Kong. This is because of the availability of people capable of speaking both English, and Asia/Pacific languages in Malaysia. Although India is emerging as a dominant base for providing services to the U.S. and U.K. markets, Indian services providers have found little success in the Asia/Pacific region. This is partly because the expertise and focus of Indian service providers is toward the U.S. and U.K. markets, and they do not consider the Asia/Pacific markets as attractive enough to tap. Also, although it is easier to find English-speaking people in India, it is difficult to find individuals that know the Asia/Pacific languages and can demonstrate fluent speech.

#### **Gartner Dataquest Perspective, Recommendations** [\[return to Table of Contents\]](#)

Outsourcing has existed in the region for decades in one form or another, with some companies offering data entry, data processing, call center services, accounting services and so on for more than two decades. However, the more formal, organized and well-defined concept of BPO has emerged in the region only in the past four or five years, as a result of success stories in the United States and the United Kingdom. MNCs have

brought BPO with them as part of their global policies and their need to tap into local expertise for local business.

Although the cultural aversion to outsourcing and the fear of losing control over business is still a major barrier to companies offering BPO services, organizations in the region have shown a 40 percent overall adoption rate, meaning, 40 percent of the 1,143 organizations contacted in 11 countries/regions across Asia/Pacific are outsourcing at least one of the six business processes or their 30 subprocesses. Even though a 40 percent adoption rate would seem to indicate a high level of adoption of the concept, the market is yet to mature.

Although more than 40 percent of the enterprises outsource at least one business service, almost half of the deals do not exceed annual spending of \$50,000. Most outsourcing deals are limited to specific tasks, and outsourcing of entire business processes is still uncommon in the region. Also, most mature BPO activity is limited to MNCs and the large corporate sector, with 88 percent of the organizations spending less than \$1 million annually on BPO.

Within the processes outsourced, HR services shows the highest adoption rate, while sales, marketing and customer care and administrative services show very low levels in comparison. Services seen as mundane, routine, repetitive and of little or no major strategic value are more readily outsourced. Services that need specific expertise that might be too expensive to maintain in-house or where technology deployment can make it less expensive and easier to get the work done are being outsourced more readily. Services perceived to have a more direct link with the day-to-day operations of the company or a control over the operations of the company are the outsourced least.

At this point, organizations in Asia/Pacific are still very much at the tactical level when it comes to outsourcing business processes, with decisions made largely on the basis of cost-saving potential, new technology or expertise adoption and control, rather than as a strategic move toward developing competitive strengths.

Organizations in such emerging economies as Thailand and Malaysia, which are emerging from recent economic crises, have shown a greater openness to experiment with and to adopt concepts such as BPO to reduce fixed-cost commitments and bring a high level of flexibility to their operations. Organizations from the more stable economies and those that were relatively insulated from the Asia/Pacific economic crisis have been more complacent toward adopting such new concepts and experimenting with their business models. Organizations in such countries as South Korea, China and India, which have yet to open up fully to the global economy, are also seen as less receptive to the BPO concept and more bound to the traditional business culture.

The media and communications, financial services, and energy and utilities sectors were found to have the greatest adoption of BPO and represent the immediate existing opportunity, although opportunities do exist for niche players in other industry sectors and among SMBs.

As the benefits of outsourcing become more well known through more success stories in the region, and as the local economies merge with the global economy, the adoption and maturity of BPO is expected to rise in the region.

Based on the findings of the study and from the background knowledge of the market

trends from other similar studies, Gartner Dataquest makes the following recommendations for the BPO service providers in the region:

- Don't expect huge deals; start small and expand the relationship — In a market with low maturity, service providers should begin by offering tactical services to potential clients, while also demonstrating capabilities for higher-value-added services. In most cases, the relationship would start with small, task-based outsourcing and, as the benefits of outsourcing become apparent and as the level of comfort and credibility with the vendor increase, the client organization is likely to open-up for more value-added and critical services. While service providers should offer full process outsourcing, they should be ready to start small and expand the relationship.
- Demonstrate cost savings potential and competitive value addition as differentiators — Cost savings is still one of the major considerations in making the decision to outsource. To that extent, vendors must quantify the likely cost savings the client can achieve by outsourcing a particular process or service. It is also important to demonstrate how the service provider can deliver higher value beyond cost savings by leveraging process expertise and knowledge of best practices.
- Offer business solutions linked with BPO deals — Because the competitive benefits of BPO are not yet widely understood in the region, service providers are advised to explain, while discussing the business proposal with prospective clients, how BPO can provide significant competitive advantages. For instance, the ability to expand the service portfolio that the client offers its customers, or the ability to expand market reach well beyond what the client could achieve through in-house staff or captive facilities.
- Address issues of concern positively — One of the most common reasons for rejecting outsourcing is fear of losing control. Service providers can benefit from communicating with perspective clients how an outsourcing deal with clear terms and conditions of the service-level agreement can bring more transparency, measurability, accountability and control over the process compared with when it was done in-house. It is also important to communicate that outsourcing enables managers to manage outcomes rather than activities. Instead of an upfront focus on control issues, the apprehensions can be negated through such discussions.
- Explore JVs and alliance opportunities: In some countries/regions, it is necessary to form an alliance with a local company to do business in the country/region. For instance, in China and South Korea, it would be a good idea for multinational service providers to form an alliance with a local company that would front-end the deal. It also helps a lot in ironing out cultural differences and in localizing the services while still retaining the global best-practices offering. However, such initiatives should be approached cautiously with definite objectives of the alliance clearly understood and the role of each partner clearly defined. For local service providers too, such alliances offer the opportunity to learn global best practices from their partner.
- Look for niche opportunities — Although the market, as a whole, is largely immature, and although some sectors have emerged as much more receptive to BPO than others, opportunities exist in specific niches for focused service providers. Decide on your key strengths and look for such untapped niches in specific vertical markets or in specific processes.

### **Glossary of Terms** [[return to Table of Contents](#)]

Table A-1 lists the definitions of the acronyms and abbreviations that appear in this

report.

**Table A-1**  
**Report Glossary**

[\[return to List of Tables\]](#)

Acronym/Abbreviation	Definition
BPO	business process outsourcing
CRM	customer relationship management
ESP	external service provider
F&A	finance and accounting
HR	human resources
JV	joint venture
MNC	multinational corporation
SMB	small and midsize businesses

Source: Gartner Dataquest (June 2003)

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#### Topics

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#### Document Type (Market Analysis)

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