

# The Colombian outsourcing industry: The effects of institutions and agglomeration economies.

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## **Conferencia**

Deslocalización de servicios y cadenas globales de valor: ¿Nuevos factores de cambios estructurales en América Latina y el Caribe?

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## Objective

- To analyze the role of institutions and agglomeration economies in the development of the Colombian offshoring and outsourcing industry.

# Agenda

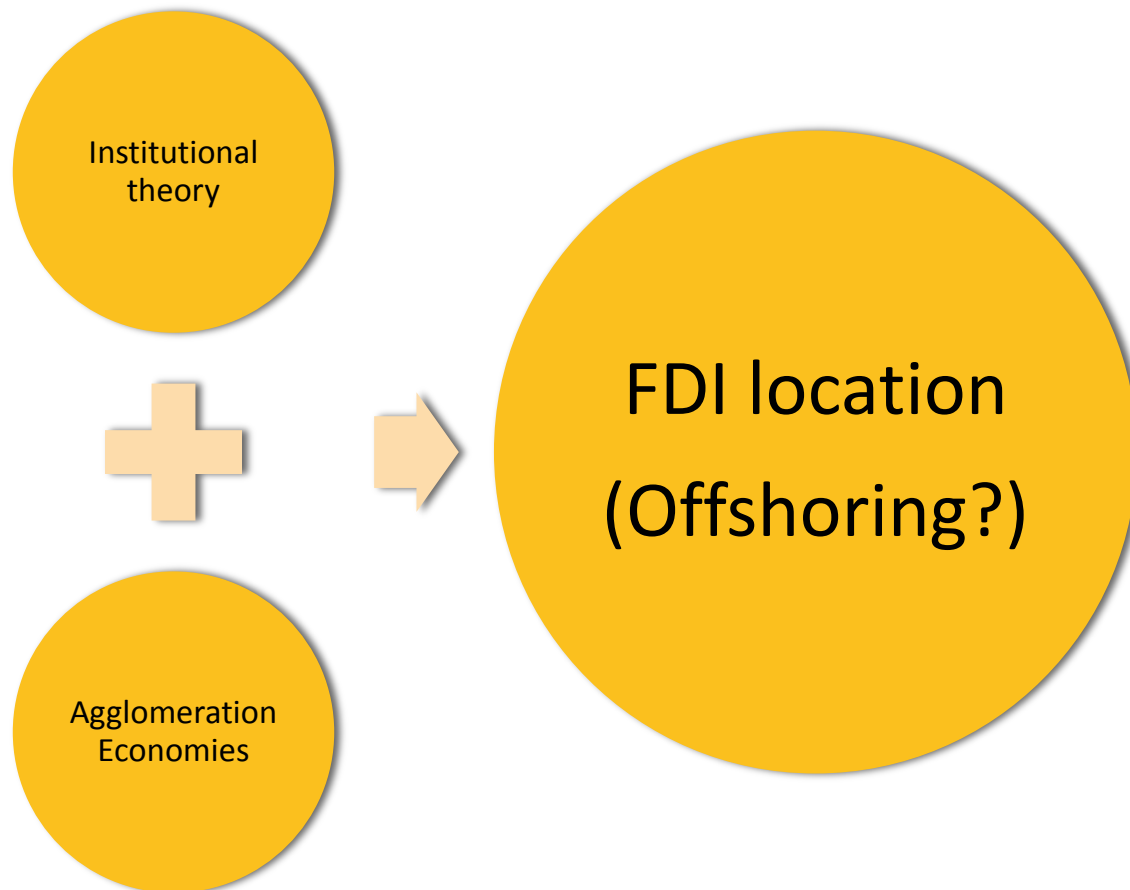
1. Motivation for research
2. Theoretical framework.
  - Institutional theory
  - Economies of agglomeration
3. The roles of institutions and agglomerations economies
4. The development of the outsourcing and offshoring industry in Medellin.
5. Concluding comments
6. Future research

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## 1. Motivation for research

- Colombia: “Up and Comers” LAC economy in the development of the outsourcing industry.
- 2009: US\$1.8 billion industry (6.1% of the LA market)
- Colombian outsourcing and offshoring industry: slipping into a higher gear

## 2. Theoretical Framework



# 1. Institutional Theory

- Institutions: “rules of the game”
  - formal constraints (rules, laws, constitutions)
  - informal constraints (norms of behavior, conventions, and self-imposed codes of conduct)
  - enforcement characteristics

# 1. Institutional Theory

## Regulative Institutions

- Explicit regulative processes: rule setting, monitoring and sanctioning activities.

## Normative Institutions

- Assumptions and value systems
- Trade/professional associations

## Cognitive Institutions

- Mental maps of individuals

Scott (2001)

## 2. Economies of agglomeration

- Presence of competing multiple suppliers
- Knowledge spillovers
- Availability of intermediate inputs
- Labor specialization



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### 3. The roles of institutions and agglomerations economies

- Regulative Institutions
  - ✓ BPO: one of the eight sectors: Structural Transformation Policy of the National Competitiveness and Productivity Policy formulated by the National Planning Department.
  - ✓ National registry for bilingual individuals ([www.ispeak.gov.co](http://www.ispeak.gov.co)).
  - ✓ To find qualified employees.

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### 3. The roles of institutions and agglomerations economies

- Normative Institutions
  - ✓ The Colombian Association of Contact Centers and BPO
  - ✓ National Business Association of Colombia (ANDI) Chamber of BPO&IT
    - ✓ 12 member companies with 15,000 employees
    - ✓ US\$250 million.
    - ✓ optimization of processes in the health sector, telecommunications, finance, administration and back office.

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### 3. The roles of institutions and agglomerations economies

- Cognitive Institutions
  - ✓ Neutral accent. assimilate other Spanish accents.
  - ✓ A large proportion: good English speakers
  - ✓ Cultural similarity with the U.S..

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### 3. The roles of institutions and agglomerations economies

- A low degree of firm-level specialization and poorly-developed enterprise networks (Pietrobelli and Barrera, 2002).
- Well-developed textile fabrics, apparel and fashion industries: generated positive externalities

## 4. The development of the outsourcing and offshoring industry in Medellin.



- BPO revenues in 2008: US\$185 million: 37% of the total market.

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## 4. The development of the outsourcing and offshoring industry in Medellin.

- Formal and Informal Institutions
  - ✓ Establishment of innovation centers
  - ✓ 40% of the budget for education
  - ✓ US\$17 million a year to stimulate entrepreneurship.
  - ✓ Various organizations formed in the public and private sector.
  - ✓ The Servicio Nacional de Aprendizaje (Learning National Service) (SENA) and ACTUAR, the Foundation for the Recovery of Antioquia.

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## 4. The development of the outsourcing and offshoring industry in Medellin.

- Agglomeration economies
  - ✓ A number of large multinational companies\
    - ✓ Owens Illinois,
    - ✓ Sab Miller,
    - ✓ Phillip Morris,
    - ✓ Procter & Gamble,
    - ✓ Renault Toyota
    - ✓ Teleperformace,
    - ✓ Allus Global BPO, and Unisys
  - ✓ > 6 IT services companies with CMMI certifications

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## 4. The development of the outsourcing and offshoring industry in Medellin.

- Institutional change agents and institutional entrepreneurship
  - ✓ Sergio Fajardo: mayor of Medellín
  - ✓ Elected as an independent: “escape the tradition of patronage and clientelism”.
  - ✓ Increase land taxation--financial resources to invest in the developmental projects.
  - ✓ Changed public perceptions



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## 4. The development of the outsourcing and offshoring industry in Medellin.

- Institutional change agents/institutional entrepreneurship
  - ✓ First year: started the construction of new schools and libraries in the poorest part of the city.
  - ✓ Poster, read: “Here are your taxes!”.

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## 5. Concluding Comments

- Performs better in cost
- Establishment of free trade zones with BPO facilities, investments, elimination of the value added tax
- Mostly offer voice-based BPO services

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## 5. Concluding Comments

- High-value activities disadvantaged by poor economies of agglomeration.
  - Lack of skilled human resources
- Global/local outsourcing companies expanding to mid-sized cities.
- Gradual shift towards high-value services

## 5. Concluding Comments

	Facilitators	Inhibitor
Institutions	<ul style="list-style-type: none"> <li>Colombians have a neutral accent that allows them to assimilate other Spanish accents and they are very good English speakers</li> <li>Top reformer country in the region</li> <li>Free trade zones for BPO</li> <li>BPO as a priority area: Government investments and tax incentives</li> <li>Trade associations playing important roles</li> <li>Adoption of international financial reporting standards</li> </ul>	<ul style="list-style-type: none"> <li>Negative publicity about guerrilla, drug cartels and high crime rates has slowed investments by corporations.</li> </ul>
Agglomeration economies	<ul style="list-style-type: none"> <li>Low cost</li> <li>Externalities generated by well-developed textile fabrics, apparel and fashion industries</li> </ul>	<ul style="list-style-type: none"> <li>Colombian clusters are characterized by a low degree of firm-level specialization and poorly-developed enterprise networks. (Pietrobelli and Barrera, 2002)</li> </ul>

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## 6. Future research

- Competitiveness of SMEs vis-a-vis bigger/foreign companies
- Labor practices in the BPO companies



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Thank you!