

Egypt on

Egypt On essay series



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ENTREPRENEURSHIP AND GLOBAL OUTSOURCING

Egypton 

Introduction

The landscape of today's offshoring and outsourcing industry is constantly evolving and Egypt's Information Technology Industry Development Agency (ITIDA) has partnered with some of the industry's leading thinkers and advisors to create a series of essays looking at key business issues and trends affecting the industry. The series will look at a range of topics from the ease of doing business to education and resources.

This essay, '*Entrepreneurship and global outsourcing*' by Mark Kobayashi-Hillary, considers the impact of entrepreneurs on the BPO industry and discusses how Egypt is supporting the growth of SMEs and start-ups through initiatives such as EduEgypt and the Technology Incubation Program.

Entrepreneurship and global outsourcing

Mark Kobayashi–Hillary

In March 2000 the dreams of millions of 'dot com' entrepreneurs were shattered as the rug was sharply pulled from under their feet – the dot com boom of the 1990s suddenly became the dot com crash. One side effect of the crash was that the world was left with a legacy of immense excess capacity in global telecommunications infrastructure, because the telecoms companies had been installing as much bandwidth as they possibly could in the belief that the good times of the nineties would last forever.

This oversupply meant that the cost of communications became rapidly cheaper and these decreasing infrastructure costs made the option of executing processes in an offshore location a far more viable option. The offshoring scene was set.

The international software and services industry has never been slow to adopt new possibilities, so the present focus by most large service companies to adopt a global footprint – a Global Delivery Model (GDM) – is no surprise. The essence of the GDM approach is to deliver work from where it can be done with the best combination of quality resources and the lowest price with an acceptable level of risk.

And this technical development combined with developments in management strategy furthered the cause of those supporting the use of strategic outsourcing. The theory of core competence entered into common use in the 1990s, describing how a company should focus on what it does best and what can differentiate it from the competition. The *Financial Times Handbook of Management* by James Brian Quinn, Philip Anderson and Sydney Finkelstein argues: "Many entrepreneurial ventures such as Apple Computers, Sony, Silicon Graphics, Nike or Norvellus have started in a heavily concentrated and heavily outsourced fashion, leveraging their fiscal capital by factors of three or more – and their intellectual capital by 10s or 100s – as compared with integrated companies. In today's hypercompetitive climate such core competency with outsourcing strategies let companies be simultaneously the lowest cost, broadest line, most flexible and most highly differentiated producer in their market. No other strategy supports efficiency (through focus), innovative flexibility (through multiple sourcing) and stability (through market diversity) to the same extent."



Entrepreneurship and global outsourcing

Mark Kobayashi–Hillary

So outsourcing as a management strategy developed in stature at the end of the twentieth century, along with a simultaneous development in international servicing feasibility, opening the eyes of the world to new possibilities. The entire Information Technology (IT) and IT-enabled-services industry started to change as we entered this new century. New possibilities became new realities.

People – the users – moved to the front line in selecting, influencing, shaping and exploiting what was on offer in the world of applied IT. Two groups in particular were involved: the consumer (especially the younger consumer) and the non-IT professional (in contrast to the IT professional).

For the first time the consumer (and the explosion in text messaging amongst the young is a classic example) began pulling the IT industry in new directions that it had neither foreseen nor had intended to pursue and feeding the rapid growth of a new generation of IT companies targeted at responding to the individual consumer's requirements. After decades during which the industry had taken the lead in setting the agenda, the user, under the guise of the consumerization of IT and started taking control. As the

contemporary capabilities of the technology became more integral to the operation of an increasing diverse range of business and professional operations, from accountancy to medicine to architecture and to the law, non-IT professionals themselves increasingly became the lead creators and innovators of how technology would be put to work in their corner of the economy. The technology users were driving a new wave of innovation.

And so, a new generation of entrepreneurs emerged in countries, such as India, to call the new world of the developing economies into play to redress the competitive balance of the old. By 2005 a clutch of new global players, powered by impressive margins and strong balance sheets, were rewriting the rules on the back of business models based on the concept of offshoring – exploiting the international arbitrage of the IT professional. Manufacturing had earlier globalized by exploiting the international arbitrage of the factory worker – now the higher-level skills of the young engineering graduate and IT professional were put to work in a similar fashion.

Entrepreneurship and global outsourcing

Mark Kobayashi–Hillary

An IT industry globalization that had hitherto been essentially transatlantic in its nature suddenly widened to be genuinely global in its scope. These two fundamental millennial shifts, enabled and underwritten by a third – the rapid development of the Internet as a public utility – are rewriting the competitive landscape for the information technology industry more fundamentally than is yet understood or being allowed for.

But though the brave new world of international services and entrepreneurialism assumes that every service can be traded across borders through outsourcing, that's not really quite correct – far from it. In fact, services come in many shapes and sizes. Many are not easily tradable, even though mobile executives may well have a choice of favorite hairdressers in different towns, cities or countries, the haircut still has to be delivered locally! Physical location, plus skill, reputation, cost and quality of service all still rule. A commercially astute hairdresser may well build a brand – even an international brand – that through investment in a chain of hairdressers, or through a franchising operation, offers the mobile

executive a geographically responsive service – but not really a tradable one.

In contrast, an email service accessed over the Internet using a web browser is about as close to the virtual as it is possible to find – it need have no physical location or national affiliation as far as the user is concerned. Accessibility, reliability, security, compatibility with other email services, brand/reputation and cost are amongst the deciding factors, but not geography. In practical terms, the mail servers could as well be in Cape Town, Mumbai, Philadelphia, Milton Keynes or Cairo providing there is full interoperability with the Internet, and full assurance of such key aspects of the service as security and reliability – the telecoms networks and hubs over which the email service flows will, in literal terms, cover most of the globe.

Entrepreneurship and global outsourcing

Mark Kobayashi–Hillary

The hairdresser's service sits at one extreme of the services 'tradability' spectrum, and the email service at the other. Decades of experience with local, non-tradable service businesses like the hairdresser's make it relatively easy to spot the factors that will make the business a success or a failure. In contrast, the development of the global trade in technology-enabled services (what we often term Business Process Outsourcing, or just BPO) is still young, and the factors that will lead to success or failure are still open for exploration and debate. The one certainty is that a great diversity of entrepreneurs will create and test, with as much failure as success, a great diversity of business models. So let's face the truth, despite a decade of experience global services are still in their infancy and most companies are scratching around in the dark and hoping their 'global delivery models' are going to work.

An email service as an internationally traded good is an ephemeral reality when compared to a Swiss watch. Yet the comparison is informative, though it is likely that we would all prefer a nice new

Rolex to yet another spam email from an unheard of businessman with millions of dollars on offer to you – for free.

In the experience of the customer, the email service has quite concrete aspects – emails must get to their destinations and arrive from their originators promptly, securely and reliably. The interfaces with the great diversity of alternative email systems and services must be enabled without failure: the service must be protected from infiltration by viruses and spam that will seek to exploit the access opportunities presented. The customer seeks both cost competitive quality of service and assurance that key factors such as security are integral to the service.

Entrepreneurship and global outsourcing

Mark Kobayashi–Hillary

In the business model of the email service supplier, the email service will be one technology-enabled service nested in or interlinked with others – such as the operation of a server farm or a mainframe data centre, the provision of back-up capabilities, the integration with wider network services, the interfacing with other email services over the Internet, the provision of firewalls and other protective filters, and so on. No technology-enabled service operates in isolation. The supplier will both seek cost competitive quality of service and assurance for the services he integrates with his own – and shape his business model to allow him to offer the cost competitive quality of service and assurances that the customer seeks.

The customer of the Swiss watch expects the quality and reliability that the brand promises, and the assurance of the design, materials and manufacturing qualities that justify money spent. The supplier, even if he runs an integrated manufacturing and assembly operation, will depend on materials (e.g. steel, glass, speciality lubricants, seals etc.) sourcing for which he will seek cost competitive quality of supply service and materials quality assurance – and shape his business model to allow him to offer, profitably, the cost competitive quality and reliability, the assurances that the customer seeks.

Traded (technology-enabled) services may thus have a strong element of the ephemeral, but certainly have concrete realities when it comes to building businesses around them.

So it's clear that entrepreneurs have been the main drivers of change with regard to the international trade in services. Entrepreneurs have championed BPO and these nimble firms have taken advantage of new technology-enabled delivery channels to create many new market offerings in a variety of business verticals.

As an example, India has seen a long period of entrepreneurial development in this market since the creation of companies such as Infosys and HCL in the late seventies and early eighties. Corporate leaders from that era, such as Narayana Murthy, are often touted by the media as future presidential material.

Entrepreneurship and global outsourcing

Mark Kobayashi–Hillary

Not every region has such a long history of developing BPO. What about those countries that are working right now on the development of their own hi-tech service sector? Is it possible to offer government-led incentives, as a catalyst for creating entrepreneurial activity that will result in new companies, new services, and new jobs?

Egypt certainly believes so. Egypt has an abundant and sustainable pool of talented, technologically skilled, and multilingual university graduates. A government funded university intervention program in Cairo is dedicated to getting students ready for employment each year and through the EduEgypt initiative – a collaboration between the Ministry of Communications and Information Technology (MCIT) and the Ministry of Higher Education and Scientific Research – Egypt is able to equip undergraduates with soft skills, language abilities and technical competences that will secure Egypt's future workforce. Also, with an annual graduate talent pool of around 330,000 students, Egypt is now globally associated with learning – the essential fuel for any knowledge based industry.

Egypt's dense population produces an attractive labor supply, where English is fluently spoken by university graduates and where proficiency in many other European languages is high. Secondary school enrolment is historically high, and the corresponding output will feed university systems in the future, ensuring a constant flow of capable and ambitious employees. Among the graduating labor pool, 100,000 students will have chosen commerce, science or engineering degrees, the ideal candidates for jobs in the ICT and engineering sectors in Egypt and worldwide. Additionally, the consulting firm A.T. Kearney ranks Egypt in the top 10 for its IT skills in emerging markets.



Entrepreneurship and global outsourcing

Mark Kobayashi–Hillary

As a result of its professional pool of graduates, Egypt has become one the world's most attractive and fast growing locations for global outsourcing. The country has 20 technical institutes with 17,000 engineering graduates entering the marketplace each year; added to which are leading institutes such as Al-Azhar University, Cairo University and Ain Shams University. The Egyptian Education Initiative was set up to improve “employability” in Egypt, and is supported by leading multinational companies such as CISCO, HP, IBM and Intel. The majority of training costs are covered as part of a wider government program, supported by MCIT to develop its skilled workforce– creating one of the best IT industry enabling environments in the world.

ITIDA supports local Egyptian businesses through entering new markets and increasing their exports, strengthening business ties with existing markets and enhancing the capacities of local startups. As part of its national development strategy, ITIDA created three core areas to enable it to grow and nurture its local ICT industry. These focus on increasing awareness of available IT solutions, reimbursing product costs and supporting small and medium sized

enterprises.

To assist local companies in achieving this goal, ITIDA has set-up a number of packages and incentives including ‘Grow IT’ – a capacity building program in cooperation with international IT service firm Atos Origin. Grow IT will increase the international competitiveness of 100 Egyptian IT companies that are existing exporters or with export potential. Grow IT seeks to empower these companies to handle the development, production and business management processes of products/services that will suit their potential export markets.



Entrepreneurship and global outsourcing

Mark Kobayashi–Hillary

RAMP, the RITI Advanced Management Program, on the other hand focuses on human capital and building the capacity of SMEs through developing their human resources. RAMP is directed towards 240 First Line Managers who seek greater opportunities in management and who are responsible for the direct supervision of the work of operational staff. This is all aimed at equipping them with the tools and know-how to compete internationally.

Importantly, Egypt, like other leading countries in IT has recognized that technology incubation programs are central to encouraging entrepreneurship in the IT sector. The aim of Egypt's Technology Incubation Program (TIP) is to leverage innovation in technology to create a new tier of seed companies and start-ups that:

- *Contribute to economic development*
- *Create employment opportunities*
- *Increase patent recognition in Egypt*
- *Grow exports of ICT products*

TIP aims to encourage a culture of entrepreneurship among the 330,000 students who graduate from Egyptian universities each year. Candidates with potential are recognized and specially schooled in

the program to provide them with the tools to establish start-ups and small businesses. In total, there are nearly fifty employees in the incubation management program of which 85% are recent graduates. To supplement the current incubation management program, there are also plans to expand the project reaching out to graduates and start-ups at Cairo University and elsewhere in the country.

ITIDA also promotes collaboration between Industry and Universities through its Information Technology Academic Collaboration (ITAC) program, which links academic research with industry and market needs. To prepare the next generation of business leaders and entrepreneurs, ITAC finds work places for undergraduate and postgraduate students in IT companies giving them the kind of professional experience they will need to survive in the competitive market place. Through these programs Egypt has clearly identified the importance of entrepreneurship in the IT sector and has made considerable effort to ensure that graduates at all levels are able to hit the ground running in the business world.



Entrepreneurship and global outsourcing

Mark Kobayashi–Hillary

It's clear the world has changed. Corporate strategy is focused on achieving better results for less cash and risk. Competition for services has gone global because of the Internet infrastructure generated during the dot com boom, and the increasing robustness of the Internet as a delivery platform. Any world region with a regular supply of educated talent and good communications connectivity should be in a strong position to embrace the twenty-first century economy.

But companies don't sign contracts with countries. Business won't flow from companies in one part of the world to another just because the executives want to take a holiday there. Companies sign contracts with companies they trust to deliver, so any region of the world that wants to stimulate BPO and IT growth needs to determine how to support and stimulate a local ecosystem for entrepreneurs.

It's the entrepreneurs that will create the jobs of the future and outsourcing will deliver the services to be performed. Egypt is a country that clearly stands out as having identified this – and is taking action to launch supportive programs aimed at leaders of small companies. It's no longer good enough to boast about the number of graduates if those intelligent young people don't have jobs in companies that can compete with the world. And the small companies of today that really embrace the possibilities created by the globalization of services may well grow to be the industry giants of tomorrow.



About the author

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Mark Kobayashi-Hillary is a board director of the UK National Outsourcing Association and author of several books, including 'Global Services' and 'Who Moved My Job?' His most recent book 'Talking Outsourcing' is a collection of blogs for the British national technology magazine, Computing. Mark is a visiting lecturer on the MBA program at London South Bank University.

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