Exploring the Competitiveness of Cambodia as an IT Outsourcing Destination

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ABSTRACT

Using assessment criteria from the A.T. Kearney global services location index, the authors explore Cambodia’s competitiveness in the global IT outsourcing market (ITO), identifying how the country could become more competitive. The findings are discussed from the perspective of the Heeks and Nicholson software export success model, assessing Cambodia from a national competitiveness perspective. With ITO’s export revenue and skills development potential, it is important to understand why Cambodia is not considered a significant ITO destination and what the country can do to increase its competitiveness in this area. This paper is useful for practitioners considering Cambodia as an ITO destination, for the Cambodian government as a guide to policy measures for increasing its competitiveness as well as for IT researchers, who could complement the study with primary data and development the conceptual approaches applied in this article, whether in Cambodia or other developing countries.

KEYWORDS

Cambodia, Competitiveness Diamond, Global Services Location Index, IT Outsourcing Destination, National Competitiveness, Software Export Success Factors

INTRODUCTION

The competition among nations to be recognised as an IT outsourcing (ITO) location is tougher than ever. Several papers address the attractiveness of particular countries, e.g. the UK (Oshri & Ravishankar, 2014), India (Javalgi, Benoy & Gross, 2013), Malaysia (Ramli & Syed, 2015), Bulgaria (Troev, Theodor, & Petrov, 2015) and Uganda (Overby, 2015). What is considered the best location differs between companies even for outsourcing of the same IT-related task and may change as IT outsourcing practices evolve. However, a mix of low cost (Fischer, 2008), focus on core capabilities and access to expertise/skills are often cited as the most common criteria (Lacity, Khan, & Willcocks, 2009).

Together with India, most of the Association of Southeast Asian Nations (ASEAN) member countries are recognised as prime locations for ITO (Marriott, 2014), and include several top ranked cities for this sector (Tholons, 2015). Cambodia is a notable exception. As a member of ASEAN and surrounded by several prime IT outsourcing locations, Cambodia faces increasing competition from its neighbours for its relatively small IT outsourcing sector with the implementation of the ASEAN

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Economic Community (AEC). In this paper, we look into the possibilities of Cambodia becoming a competitive IT outsourcing destination.

The main purpose of this paper is to explore the competitiveness of Cambodia as an IT outsourcing location and to identify policies and strategies that could improve its ability to compete. This is done by first presenting enabling conditions at a national level for successful operation in the IT outsourcing sector, using the criteria in the A.T. Kearney model, positioning Cambodia against these criteria and then identifying measures that could make it more attractive. While the A.T. Kearney model is useful in understanding why a country is or is not attractive for IT outsourcing, it is not a rigorous theoretical model, but nevertheless useful for an initial exploration of this issue. Analysing the indicators in that model with respect to Cambodia fills a knowledge gap in terms of a specific country. A more detailed study of a particular country informed by primary research would provide a better base from which to make recommendation of what the country can do to increase its competitiveness in this area. Studying the competitiveness of Cambodia and other developing countries as IT outsourcing destinations is an important research question, with practical as well as theoretical perspectives; the former in terms of guidelines it can provide to stakeholders and the latter for building a conceptual model identifying how different factors interact in making a country an attractive destination for IT outsourcing.

The paper starts with relevant background information about Cambodia. This is followed by considerations of conceptual frameworks for assessment of a country’s competitiveness as a potential IT outsourcing location, application of these frameworks and presentation of our preliminary findings related to the feasibility of Cambodia becoming a major IT outsourcing location and policy recommendations for improving its capacity for a greater role in this sector. We emphasise the preliminary nature of our findings and conclude with suggestions for further study.

CAMBODIA – RELEVANT BACKGROUND INFORMATION

Cambodia’s population is approximately 15 million, with a median age of 24.5 years (National Institute of Statistics, 2013). Approximately 80% of households live in rural areas (Asian Development Bank, 2014). During the genocide under the Khmer Rouge (1975-79), Cambodia lost approximately one fifth of its population (Chandler, 2008), particularly the elite, middle class, the educated, city dwellers and professionals (Lambourne, 2013). By 1991, at the time of the Paris Peace Accords, much of Cambodia’s physical infrastructure was destroyed and the country lacked important attributes of a modern state, such as a legal system with property rights, trusted currency, civil service, education system and civil society (Naron, 2012). Low priority was given to higher education during the immediate post-conflict period, when most emphasis was placed on restarting primary and secondary education (Ahrens & McNamara, 2013).

Cambodia’s economic growth since 1992 has been rapid, averaging about 7 per cent per annum, resulting in a doubling of per capita income (Hill & Menon, 2014). The export base is however quite narrow, with garments and tourism accounting for more than 95 percent of foreign exchange earnings (Unterobberdoerster, 2014). Cambodia was ranked 89 of 1138 countries in the World Economic Forum Global Competitiveness Index, with the current stage of development defined as “Factor Driven”, in which low-cost labour and natural resources are the primary factor endowments (Schwab & Sala-i-Martín, 2016).

CONCEPTUAL FRAMEWORK

When considering how to assess the extent to which Cambodia might be a competitive location for outsourcing, we turned to reports that rank the suitability of countries to operate in this sector. There are a number of similar frameworks available in reports by different consulting firms, e.g. A.T. Kearney’s Global Services Location Index, Gartner’s 30 Leading Locations for Offshore Service (Marriott,
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