

South Africa's BPO Service Advantage

Leslie P. Willcocks
Mary C. Lacity
and
Andrew Craig

Becoming Strategic in the Global Marketplace



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Foreword

In recent years, South Africa has made a name for itself as a global Business Process Outsourcing (BPO) destination. This process has been driven by continued investment and expansion by a number of the world's largest service providers, including Accenture, Aegis, Capita, IBM, Infosys, Serco, Teleperformance, Webhelp, Wipro, and WNS. Significant contributions have also been made by other major operators such as CCI, Coracall, EOH, Merchants and Mindpearl. Moreover, during this time, leading international brands such as Amazon, American Airlines, Asda, British Gas, Bloomberg, EE, iiNet, Lufthansa, O2, and Shell have also integrated South Africa into their global service strategies.

The first major BPO investment in South Africa occurred in 1998 when Lufthansa set up a global service centre in Cape Town. Sixteen years later the operation is thriving. Following the Lufthansa investment there were a number of stops and starts in the market – until the arrival of Amazon in 2010, which put South Africa firmly on the BPO map. Since then the location has undergone a number of exciting developments, with five multinational BPO operators investing in South Africa.

AS the Western Cape government, we have earmarked BPO as a key growth area as it provides employment opportunities for the youth (ages 18–30) of our country and helps us achieve one of our main mandates, job creation.

Currently more than 40,000 people are employed in the BPO/contact centre industry in the Western Cape, contributing approximately R9 billion to the provincial GDP. More than 6,000 of these jobs have come about through foreign direct investment over the past two years. On a national level the industry employs more than 200,000 people, of whom approximately 25,000 service the international market.

As government, it is important that we create jobs across the value chain. This sector allows us to do that. We have a number of highly skilled graduates who are currently unemployed; therefore, by developing our offering to include more complex tasks higher up the value chain, we can potentially create thousands of new jobs and in the process create a genuine career path for those entering the market at a lower level.

By working alongside industry association Business Process Enabling South Africa (BPESA), we have been able to develop a compelling BPO offering that has attracted investments from a number of foreign markets, including the UK, the USA, Australia, and Germany.

Much of the growth in the sector has been driven by the availability of BPO research from leading international analyst and research-based bodies such as the London School of Economics (LSE). The LSE has witnessed firsthand the growth of the South African BPO sector, seeing the country move from an emerging location to an established international player.

The LSE first presented a white paper on the global BPO landscape at the 2012 South Africa Outsourcing and Offshoring Summit. The paper provided detailed insight into the South African offering, comparing the location with the leading global BPO destinations of India, the Philippines, Egypt, Malaysia, Kenya, Morocco, Poland, and Northern Ireland.

Using the world-renowned LSE BPO competitiveness index, readers were able to compare South Africa with other competitor locations using six investment-related factors: cost, market potential, environment, perception analysis, infrastructure, and skills and risk profile. This research has helped provide a truly global overview of the South African offering. The results of this study were validated through detailed case studies highlighting South Africa's ability to support international companies with world-class customer service.

This research was further substantiated with a second white paper in 2013 showcasing South Africa's ability to service clients not only in English voice work but also in more complex back-office processes.

The LSE is one of the world's most highly respected academic institutions, and we are proud to work alongside Professor Leslie Willcocks and his research team of Andrew Craig and Professor Mary Lacity.

This is an exciting time for the South African BPO market. As a service destination, we are in the right time zone, speak the right language, have an eager workforce, and are able to offer significant cost savings.

In recognition of our growing attractiveness as a contact centre hub, South Africa has been acknowledged by the global BPO community, winning three international outsourcing awards in three years. These awards include being named Offshoring Destination of the Year by the National Outsourcing Association (NOA) and European Outsourcing Association and most recently being recognised by the NOA Professional Outsourcing Awards for Skills Development Programme of the Year. The traction we are gaining in this space and the industry's achievements are very important to our continued expansion and will further position the Western Cape and South Africa as a leading BPO destination in the future.

This book provides readers with a consolidated overview of the South African offering and helps showcase the development of the location from an emerging BPO market to one of the most sought-after customer service destinations in the world. Readers will be able to form a well-rounded opinion of what South

Africa has to offer, while gaining the key insights needed to make informed business decisions.

To say more would detract from the reader's experience; I trust you will enjoy the book and that if you have not travelled to South Africa, you will soon feel compelled to do so.

Helen Zille
Premier of the Western Cape



Series Preface

We launched this series in 2006 to provide policy makers, workers, managers, academics and students with a deeper understanding of the complex interlinks and influences among technological developments, including information and communication technologies (ICT), work, organizations and globalization. We have always felt that technology is all too often positioned as the welcome driver of globalization. The popular press neatly packages technology's influence on globalization with snappy sound bites, such as, "Any work that can be digitized will be globally sourced." Cover stories report Indians doing US tax returns, Moroccans developing software for the French, Filipinos and South Africans answering UK customer service calls, and the Chinese doing everything for everybody. Most glossy cover stories assume that all globalization is progressive, seamless, and intractable, and leads to unmitigated good. But what we are experiencing in the 21st century in terms of the interrelationships between technology, work and globalization is both profound and highly complex.

The mission of this series is to disseminate rich knowledge based on deep research about relevant issues surrounding the globalization of work that is spawned by technology. To us, substantial research on globalization considers multiple perspectives and levels of analysis. We seek to publish research based on in-depth study of developments in technology, work and globalization and their impacts on and relationships with individuals, organizations, industries and countries. We welcome perspectives from business, economics, sociology, public policy, cultural studies, law and other disciplines that contemplate both larger trends and micro-developments from Asian, African, Australian and Latin American, as well as North American and European viewpoints.

As of this writing, we have 19 books published. These books are introduced below.

1. *Global Sourcing of Business and IT Services* by Leslie P. Willcocks and Mary C. Lacity is the first book in the series. The book is based on over 1000 interviews with clients, providers and advisers and 15 years of study. The specific focus is on developments in outsourcing, offshoring and mixed sourcing practices from client and provider perspectives in a globalizing world. We found many organizations struggling. We also found some organizations adeptly creating global sourcing networks that are agile, effective and cost-efficient. But they did so only after a tremendous amount of trial and error and close attention to details. All our participant organizations acted in a context of fast moving technology, rapid development of supply-side offerings, and ever changing economic conditions.

2. *Knowledge Processes in Globally Distributed Contexts* by Julia Kotlarsky, Ilan Oshri and Paul van Fenema examines the management of knowledge processes of global knowledge workers. Based on substantial case studies and interviews, the authors – along with their network of co-authors – provide frameworks, practices and tools that consider how to develop, coordinate and manage knowledge processes in order to create synergetic value in globally distributed contexts. Chapters address knowledge sharing, social ties, transactive memory, imperative learning, work division and many other social and organizational practices to ensure successful collaboration in globally distributed teams.
3. *Offshore Outsourcing of IT Work* by Mary C. Lacity and Joseph W. Rottman explores the practices for successfully outsourcing IT work from Western clients to offshore providers. Based on over 200 interviews with 26 Western clients and their offshore providers in India, China and Canada, the book details client-side roles of chief information officers, program management officers and project managers, and identifies project characteristics that differentiated successful from unsuccessful projects. The authors examine ten engagement models for moving IT work offshore and describe proven practices to ensure that offshore outsourcing is successful for both client and provider organizations.
4. *Exploring Virtuality within and Beyond Organizations* by Niki Panteli and Mike Chiasson argues that there has been a limited conceptualization of virtuality and its implications for the management of organizations. Based on illustrative cases, empirical studies and theorizing on virtuality, this book goes beyond the simple comparison between the virtual and the traditional to explore the different types, dimensions and perspectives of virtuality. Almost all organizations are virtual, but they differ theoretically and substantively in their virtuality. By exploring and understanding these differences, researchers and practitioners gain a deeper understanding of the past, present and future possibilities of virtuality. The collection is designed to be indicative of current thinking and approaches, and provides a rich basis for further research and reflection in this important area of management and information systems research and practice.
5. *ICT and Innovation in the Public Sector* by Francesco Contini and Giovan Francesco Lanzara examines the theoretical and practical issues of implementing innovative ICT solutions in the public sector. The book is based on a major research project sponsored and funded by the Italian government (Ministry of University and Research) and coordinated by Italy's National Research Council and the University of Bologna during the years 2002–6. The authors, along with a number of co-authors, explore the complex interplay between technology and institutions, drawing on multiple theoretical traditions such as institutional analysis, actor network theory, social

systems theory, organization theory and transaction costs economics. Detailed case studies offer realistic and rich lessons. These cases studies include e-justice in Italy and Finland, e-bureaucracy in Austria, and Money Claim On-Line in England and Wales.

6. *Outsourcing Global Services: Knowledge, Innovation, and Social Capital* edited by Ilan Oshri, Julia Kotlarsky and Leslie P. Willcocks assembles the best work from the active participants in the *Information Systems Workshop on Global Sourcing*, which began in 2007 in Val d'Isere, France. Because the quality of the contributions was exceptional, we invited the programme chairs to edit a book based on the best papers at the conference. The collection provides in-depth insights into the practices that lead to success in outsourcing global services. Written by internationally acclaimed academics, it covers best practices in IT outsourcing, business process outsourcing and netsourcing.
7. *Global Challenges for Identity Policies* by Edgar Whitley and Ian Hosein is a perfect fit for the series in that the authors examine identity policies for modern societies in terms of the political, technical and managerial issues needed to prevent identity fraud and theft. The scale of the problem exceeds political boundaries and the authors cover national identity policies in Europe and the rest of the world. Much of the book provides in-depth discussion and analysis of the United Kingdom's National Identity Scheme. The authors provide recommendations for identity and technical policies.
8. *E-Governance for Development* by Shirin Madon examines the rapid proliferation of e-governance projects aimed at introducing ICT to improve systems of governance and thereby to promote development. In this book, the author unpacks the theoretical concepts of development and governance in order to propose an alternative conceptual framework which encourages a deeper understanding of macro- and micro-level political, social and administrative processes within which e-governance projects are implemented. The book draws on more than 15 years of research in India, during which time many changes have occurred in terms of the country's development ideology, governance reform strategy and ICT deployment.
9. *Bricolage, Care and Information Systems* edited by Chrisanthi Avgerou, Giovan Francesco Lanzara and Leslie P. Willcocks celebrates Claudio Ciborra's *Legacy in Information Systems Research*. Claudio Ciborra was one of the most innovative thinkers in the field of information systems. He was one of the first scholars who introduced institutional economics in the study of IS; he elaborated new concepts, such as "the platform organization" and "formative contexts"; and he contributed to the development of a new perspective altogether through Heideggerian phenomenology. This book contains the most seminal work of Claudio Ciborra and work by other authors who were inspired by his work and built upon it.

10. *China's Emerging Outsourcing Capabilities* edited by Mary C. Lacity, Leslie P. Willcocks and Yingqin Zheng marks the tenth book in the series. The Chinese government has assigned a high priority to science and technology as its future growth sectors. China has a national plan to expand the information technology outsourcing (ITO) and business process outsourcing (BPO) sectors. Beyond the hopes of its leaders, is China ready to compete in the global ITO and BPO markets? Western companies are increasingly interested in extending their global network of ITO and BPO services beyond India and want to learn more about China's ITO and BPO capabilities. In this book, the findings of the best research on China's ITO and BPO sector are accumulated by the top scholars in the field of information systems.
11. *The Outsourcing Enterprise: From Cost Management to Collaborative Innovation* is by Leslie Willcocks, Sara Cullen, and Andrew Craig. The central question answered in this book is "How does an organization leverage the ever growing external services market to gain operational, business and strategic advantage?" The book covers the foundations of mature outsourcing enterprises that have moved outsourcing to the strategic agenda by building the relationship advantage, selecting and leveraging suppliers, keeping control through core retained capabilities, and collaborating to innovate. The book provides proven practices used by mature outsourcing enterprises to govern, design and measure outsourcing. The final chapter presents practices on how mature outsourcing enterprises prepare for the next generation of outsourcing.
12. *Governing through Technology* by Jannis Kallinikos is thoughtful scholarship that examines the relationships among information, technology and social practices. The author discusses the regulative regime of technology, and issues of human agency control and complexity in a connected world. He provides a valuable counter perspective to show that social practices are, in part, unmistakably products of technologies, that technologies are, through historical processes, embedded in the social fabric, and that if technological determinism is naive, the notion of the regulative regime of technology remains alive and well into the internet age.
13. *Enterprise Mobility: Tiny Technology with Global Impact on Information Work* by Carsten Sørensen explores how mobile technologies are radically changing the way work is done in organizations. The author defines enterprise mobility as the deployment of mobile information technology for organizational purposes. The author contrasts how large technology projects in organizations, such as enterprise resource planning (ERP) implementations, will increasingly be managed differently because of mobile technology. The introduction of mobile technology supporting organizational information work will often be driven by individuals,

small teams, or as part of departmental facilitation of general communication services.

14. *Collaboration in Outsourcing: A Journey to Quality* edited by Sjaak Brinkkemper and Slinger Jansen is based on an integrated program of outsourcing research at Utrecht University in the Netherlands. The book is written for practitioners based on interviews and case studies in many global outsourcing firms, including Cisco, IBM, Deloitte, Infosys, Logica, and Partni – to name a few. The 16 chapters are short, precise and written to communicate best practices quickly. The chapters cover the topics of governance, knowledge management, relationship management, and new trends in software development outsourcing.
15. *Advanced Outsourcing Practice: Rethinking ITO, BPO and Cloud Services* by Mary Lacity and Leslie Willcocks is based on insights from a research program covering over 2,200 sourcing arrangements. The book provides an overview of robust practices gleaned from over 20 years of research in the outsourcing field. It covers advanced areas of study, including what providers say about establishing and managing outsourced services, shared services, the changing role of client project management, best-of-breed versus bundled services, rural and impact sourcing, and shifting to cloud services.
16. *Sustainable Global Outsourcing: Achieving Social and Environmental Responsibility in Global IT and Business Process Outsourcing* by Ron Babin and Brian Nicholson examines, through a series of case studies and surveys, current sustainability trends. The book recommends how providers should prepare for increasing buyer demands in this area, suggesting that buyers and providers can work together to build successful outsourcing relationships through collaborative sustainability projects.
17. *Managing Change in IT Outsourcing: Towards a Dynamic Fit Model* by Albert Plugge examines three provider organizations and explores how they have to deal with major fit issues, including strategy, capabilities and organizational structures, in meeting changing buyer requirements. The book finds that a lack of fit and adaptive behaviour on the part of providers helps explain the lack of sustained service performance as a recurring problem in outsourcing arrangements. The author uses evidence to highlight the links between sourcing capabilities, organization structure and positive sourcing outcomes. Providers who are able to adapt to changing client circumstances, while establishing a fit on these critical factors, tend to succeed in achieving sustainable superior performance.
18. *Materiality and Space: Organizations, Artefacts and Practices* edited by Francois-Xavier de Vaujany and Nathalie Mitev focuses on how organizations and managing are bound with the material forms and spaces through which humans act and interact at work. Developing theoretical insights

along the way, the book concentrates on three separate domains in organizational practices: sociomateriality, sociology of space, and social studies of technology. The contributors examine these domains with respect to collaborative workspaces, media work, urban management, e-learning environments, managerial control, mobile lives, institutional routines and professional identity.

19. *South Africa's BPO Service Advantage: Becoming Strategic in the Global Marketplace* by Leslie P. Willcocks, Mary C. Lacity and Andrew Craig examines South Africa's growing business services sector and its maturing capability, moving from voice to non-voice and complex business process outsourcing (BPO) services. The study uses survey and case study data to provide an overview of BPO global trends, explore the location attractiveness of ten comparator countries, and assess in detail the performance and prospects for South Africa's BPO industry. The book also provides seven detailed case studies covering voice, non-voice, legal services, shared services, captives and offshore outsourcing practices, giving insight and lessons, and assessing future policy directions.

In addition to the 19 books already published, we have two other books under contract. We have several other manuscripts under review but always need more. We encourage other researchers to submit proposals to the series, as we envision a protracted need for scholars to deeply and richly analyse and conceptualize the complex relationships among technology, work and globalization. Please follow the submissions guidelines on the Palgrave Macmillan website (www.palgrave-usa.com/Info/Submissions.aspx). Liz Barlow (liz.barlow@palgrave.com) is the Commissioning Editor for this Palgrave Macmillan book series.

Preface

As Helen Zille's Foreword indicates, since 2007 South Africa has been one of the world's upcoming business process outsourcing (BPO) offshore destinations. Major companies like Lufthansa, Amazon, ASDA, BP and Shell have set up captive centres. Providers like Capita, Serco and WNS have acquired, or partnered with, local companies to steer their client work to South Africa's advantageous offering, and many new outsourcing deals have been struck, particularly since 2011. Accelerating growth has seen South Africa become a 'go-to' destination over the last four years. Our study finds that this growth is set to continue over the next three years and represents a great opportunity for South Africa. South Africa is maturing and becoming strategic in its ability to offer voice services, complex back office BPO and a shared service platform for southern African markets. Moreover, its extant, strong capability in higher value work in knowledge process outsourcing, financial services BPO and legal processing outsourcing provides the platform for delivering on its considerable potential in these areas over the next three to five years.

This book is based on our most recent research into high-performance BPO globally, (to be published in a separate forthcoming book) and three new research streams specifically on South Africa and covering the 2011–15 period. The first research stream represented in this book is a quantitative, comparative analysis of ten competitive countries, using responses from senior global sourcing analysts with specific expert knowledge about South Africa and its competitors. This research stream saw the analysis carried out in 2012 and again in 2014 to compare the changes. In the second research stream, we carried out further detailed interview research with respondents from 20 client organizations and providers operating in South Africa, three potential clients and five market analysts. Client organizations were from the utilities, telecommunications, financial services, legal, retail and airline sectors. In the third research stream, we examined the operational performance of the South African BPO sector through seven case studies involving major players Amazon, British Gas, TalkTalk, iiNet, Capita, WNS, CCI, Merchants, and Radiant Law, together with a multinational shared services captive case. The premise here was that we wanted to find real evidence at the operational performance level for any claims or assumptions made about South Africa as an attractive BPO location. Through multiple additional interviews with participants from both clients and providers, we sought to discover the levels of service, challenges, performance and prospects actually experienced and acknowledged as part of the reality of 'doing BPO' in South Africa.

The country comparisons show South Africa, with centres and offerings in Cape Town, Durban and Johannesburg, to be a cost-competitive, highly attractive destination in specific segments – voice, complex BPO, ITO, KPO and LPO – especially to the UK and English-speaking geographies with cultural affinities. It also delivers capabilities successfully in several European languages (e.g. German for Lufthansa and Amazon). South Africa also has a considerable, distinctive, if under-marketed, generic advantage in quality of service. This was exhibited strongly in all the cases we studied. The country also has a mature and wide-ranging skills base, good country and technology infrastructure and highly positive, active government support. As a global outsourcing destination, India remains in first place, with South Africa, the Philippines and Poland tied for second place.

Our detailed case research looked at captive, partnering and outsourcing experiences in South Africa. All participants were highly positive about the cost, performance levels and quality of service. When we compared performance against our global BPO metrics, again we had similar, positive findings. South Africa seemed to have a service advantage; the performance record was good to very good; there was a lot of potential, especially in financial, legal and shared services; there was a skills and development challenge, but providers were found, so far at least, to be ‘upping their game’ to meet rising demand and expansion in service lines. Our research provided insights into the practices that really work in the South African context. It also enabled us to pinpoint for different stakeholders in the South African BPO sector – whether national and local governments, industry bodies, skills agencies, advisory groups, or clients and providers – what more they could do in order for the sector to become more strategic in its drive up the maturity curve and to compete sustainably in the BPO global marketplace.

Acknowledgements

Since 1989, we have interviewed thousands of private and public sector clients, providers and advisors in North America, Europe, Australia, Asia, and Africa on the topic of sourcing business and information technology services. We therefore first and foremost thank the now over 2,500 executives across the globe who have participated in our research over the past 23 years. Without them our work just would not have been possible. Due to the sensitive nature of outsourcing, many participants requested anonymity and cannot be individually acknowledged. Participants who did not request anonymity in our most recent studies of South Africa's BPO sector are acknowledged in the appropriate places throughout this book.

For the present book, we would very much like to thank all the interviewees and people who so generously and willingly contributed their time and information. Throughout we found a real excitement on their part in being part of South Africa's future development as a country, and this has communicated itself unfailingly to the present authors. We only have limited space to name anyone specifically but we do owe some enormous debts and would like to acknowledge them here. The first debt is to Helen Zille, the premier of Western Cape, for so kindly taking time out of her busy schedule to support the book. Another debt is to Gareth Pritchard, who as head of BPeSA has always got us access, steered us to the right places and issues, while also maintaining a sense of humour and proportion that kept us motivated. Thanks also to Patrick Gordon of BPeSA for the hidden but valuable work over several years. The people who talked to us so willingly are named throughout the book, and their contribution to our understanding will become obvious from the numerous quotes and insights you will find in every chapter. We would particularly like to thank (in no particular order) Sholto Mee, Janet Taylor-Hall, Martin Roe, Traci Freeman, Gareth Pritchard, Peter Ryan and Shyan Mukerjee for their insightful contributions to Chapter 4, where we tried to give the reader a different angle on South Africa BPO through the 'In Their Own Words' contributions of these highly experienced and knowledgeable participants.

We wish to acknowledge the supportive research environments at our respective institutions. Mary thanks Vice Chancellor Nasser Arshadi, Dean Keith Womer, Dr Joseph Rottman, Dr Dinesh Mirchandani, Dr Ashok Subramanian, Dr Kailash Joshi, Dr Vicki Sauter and Karen Walsh at the University of Missouri-St. Louis. She also thanks the Ph.D. students she has enjoyed working with, including Shaji Khan, Stan Solomon, Aihua Yan and R.S. Prasad. She misses and thanks Dr Rajiv Sabherwal and wishes him well at

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The Outsourcing Unit, LSE provides world class research, education and advice on all aspects of outsourcing to make it less risky and demonstrably more cost-effective. <http://outsourcingunit.org/index.html>

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The Global BPO Market: South Africa in Context

Introduction

A long-term trend in business is the growth in offshoring and outsourcing of organizational work. Outsourcing is the handing over of the management of a function, assets, people, or activity to a third party for a specified cost, time, and level of service. As we shall see, there are other ways of using external services, including buying in resources to operate under internal management control.¹ The global IT outsourcing (ITO) market has increased each year since 1989, when global ITO was only a \$US10 billion market. On conservative estimates, looking across a range of reports and studies, global ITO revenues exceeded \$US290 billion in 2012. Business process outsourcing (BPO) revenues exceeded \$US175 billion in the same year, with offshore outsourcing representing more than \$US85 billion of these combined revenue figures.

These developments from 1989 to 2012 have made it very clear that, with its 20-year-plus history, outsourcing of IT and business services has become an almost routine part of management, representing for many major corporations and government agencies a significant and ever growing percentage of back-office expenditures. Moreover, since 2012 all projections we looked at, or made ourselves, suggested continued market growth. Our own synthesis of the reports from Everest, Gartner, NASSCOM, and IDC suggests that in the period of 2012–16, ITO global growth is expected to be in the range of 5–8% per annum, with BPO rising by 8–12% per annum, and, subsumed within these, offshore outsourcing is growing at an even faster annual rate.

The year 2012 was quite a landmark for the South African BPO sector. In that year client organizations continued to have a strong appetite for contracting with domestic, offshore, and global BPO providers, and offshoring remained strong despite some re-shoring pressures in developed countries.² The year 2011 had seen a slowing of BPO growth in many markets, but with a pickup later in