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## South Africa

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### Introduction

Technological advances have accelerated possibilities for services trade across borders and have led to more cross-border trade in many services. A number of services that previously could only be provided through physical proximity between the consumer and the supplier can now be traded via the internet or other networks. This includes, for example, e-banking, on-line computer and IT services, many forms of professional and consultancy services, and on-line sales of hotel reservations, airfare and even goods. In addition, many companies can now sub-contract or 'outsource' activities they once performed in-house. Business process outsourcing (BPO) has created many opportunities, not least for developing countries, and has also opened doors to trade for small and medium enterprises (SMEs). Outsourced activities are often fairly low-skill oriented, but increasingly knowledge intensive activities, such as research and development and financial advisory services, are also outsourced.

### Background

As early as 2004, the Government of South Africa identified the BPO offshoring sector as one of the high-potential sectors targeted to boost the country's economic growth and create employment. The Department of Trade and Industry as the lead department in the development of the sector drafted a BPO sector development strategy. It then joined the Business Trust and the BPO industry body, Business Process Enabling South Africa, to set up the BPO Sector Support Programme, with the assistance of professional services firms. The programme was established in September 2005 to enable actors in the public and private sectors to work together to establish South Africa as a preferred location for outsourced business processes and thereby to create 100,000 jobs (25,000 direct and 75,000 jobs) by 2010.

On 6 December 2006, the South African Government approved a Cabinet memorandum recommending substantial government assistance and support for the accelerated development of the BPO sector. The assistance programme was formally launched in March 2007. As part of the BPO Sector Support Programme various work streams have been developed and tested since 2006. The work streams focus on:

- Supporting the effective marketing of South Africa as a competitive business process outsourcing location;
- Developing and deepening the pool of internationally competitive talent;
- Creating an enabling environment of incentives and infrastructure to support the sector;
- Improving the quality of the South African offering;
- Strengthening the industry body capable of mobilising and representing the key stakeholders;
- Developing BPO in designated areas (mainly tier II and tier III towns); and,
- Reducing telecommunications prices for BPO.

## Why ITES is a priority

The turn of the twenty-first century saw outsourcing gaining momentum among the developed countries of the world. With IT enabled and e-commerce services being integrated with businesses across a wide spectrum of industries, there was a need to be cost-conscious while providing round-the-clock support. The initial years of outsourcing started with small non-core work. However, over time the benefits became clearer and confidence grew. Strong talent and cost advantage, together with professionalism and improved skills in customer relations, paved the way for high-end, critical non-core work to be outsourced. Soon, the numbers of players mushroomed in highly specialised spaces like product development, and they gained popularity due to their strong engineering team and product-management capabilities. In the main, ITES has opened up global commerce, particularly in Mode 1, which involves delivery to another country from the territory of the supplier. Through these activities the necessary foreign direct investment can be brought into the supplier countries, thus generating revenue for the country.

Whilst it is acknowledged that IT enabled services cut across a wide spectrum, which includes various sub-sectors within sectors, the demand for business process outsourcing has outpaced other forms of ITES in recent years. South Africa has identified BPO as one of the priority sectors that has the potential to halve unemployment and poverty by 2014. In South Africa, services account for almost 70 per cent of the contribution to the economy's GDP. South Africa has a US\$960 million annual BPO industry, which is forecast to grow to US\$1.9 billion by 2015.

ITES has the potential to lift the economic status of a large mass of people. It relies mainly on human resources, which form 50 to 70 per cent of the cost base of any BPO service provider. This means that a much larger share of business revenues gets distributed amongst employees in the BPO industry than any other industry. In terms

of the multiplier effect, for every direct job that this sector generates it provides up to four indirect jobs in the support economy. The increase in the number of jobs and rate of employment is significant.

To serve the export market certain new skills sets need to be developed. Sometimes employers and foreign customers conduct training of such employees. An economy gains significantly through such exercises as it acquires new skills that can be redeployed for domestic purposes as and when required. The growth of the BPO industry also creates demand for ancillary services, such as housekeeping, security, catering, transport, language and culture training, telecoms and computer equipment provision and maintenance, and real estate. Caterers are required for shift catering services. Support staff is required for maintenance of world-class premises. Fleets of vehicles are hired along with shift drivers for call centre employees, to maintain on-time delivery schedules to supplement opportunities for the less skilled and less educated. It also facilitates the growth of small and medium enterprises.

The constant focus on performance metrics such as quality, timeliness, and accountability, helps improve work discipline and professionalism. Such attributes can, in turn, help firms in improving organisational systems and in adopting more globally competitive and strategic management approaches. Moreover, as such generic skills are portable, they can potentially benefit other sectors of the economy. Overall, gains for the country are enormous in that ITES exports help in creating a strong country brand and a high recall value.

## **Promotion initiatives**

South Africa adopted a two-pronged approach in promoting its ITES-BPO sector: to attract top global companies to establish operations and remain in the country; and, to attract companies within identified segments that could benefit from operating in South Africa and expand employment for South Africans.

A number of initiatives were undertaken to execute the marketing strategy. First, gathering market intelligence that focused on global research for the purpose of strategy development. Local and international scans were undertaken to track developments in the operating environment and research undertaken into selected issues. Second, broad-based marketing focused primarily on the organisation of outbound marketing missions and the production of collateral material to support these. Targeted marketing was based on the creation of a database, the development of key account plans and fact packs for priority targets, the creation of an economic model (which could be used by investors to assess potential investments in South Africa and their return on investment), and the provision of support to lead managers for the priority targets. In addition, a value proposition for the country was developed. Support was provided for a number of marketing missions to source countries. Additional support

was provided to facilitate the entry of the first new major investors to South Africa. Finally, a strategy review was undertaken.

As a result of these efforts, in the last three years South Africa has managed to attract four of the world's top players in the BPO space, namely:

- TeleTech, which was the first to respond positively, employs more than 55,000 people in over 17 countries who handle more than 3.5 million customer interactions each day.
- Aegis services its clients from 32 locations with 20,000 seats and more than 31,000 employees. It is part of the Essor Group, one of India's largest conglomerates.
- Teleperformance has the largest global footprint in the industry with 249 contact centres and a presence in 47 countries, servicing over 75 markets and 18 geographically diverse near-shore and offshore locations.
- Genpact is a leader in the globalisation of services and technology and a pioneer in managing business processes for companies around the world. Genpact manages complex processes in multiple geographic regions, delivering its services from a global network of more than 35 operations centres in 13 countries.

## Challenges

The cost of telecommunications and lack of broadband penetration in rural areas continue to inhibit rapid growth in this sector. As a relatively new trend, BPO faces few formal regulations. Nevertheless, it can be affected by measures in related industries. For example, cross-border BPO services that use VoIP or private networks may be confronted with restrictions on the use of telecoms services or requirements that the transmission may be terminated only on monopoly networks. This can raise the cost of performing cross-border BPO and reduce its feasibility. In South Africa VoIP is legal, however the local loop remains to be unbundled. Second, a systematic stream of work-ready entrants is required as an increasing number of global investors view South Africa as an attractive destination. South Africa needs to draw lessons from countries such as the Philippines and Malaysia where linkages have been established between the BPO industry and educational institutions.

To establish a commercial presence to supply BPO, companies must adhere to export market regulations and costs associated with establishment, investment and incorporation in the foreign market, as well as local labour laws. Related to this is the issue of restrictions on government procurement. In recent years, perceptions in some countries about jobs lost to foreign outsourcing have led to laws prohibiting the outsourcing of public contracts, or government procurement of services to foreign

firms abroad. Such laws may also prevent domestic companies from sub-contracting portions of their government contracts to firms abroad. However, a foreign company with a subsidiary in the country concerned may still qualify to bid on government contracts. It has been observed that, initially, investors have a difficulty in understanding South African employment laws and affirmative action policies. However, upon further explanation and the provision of the necessary support to understand local laws, the transition for these companies becomes easier.

As a rule, South Africa does not offer tax breaks. It became a challenge to compete with countries that offer, for example, 10-year tax breaks. However, measures are in place to circumvent the non-availability of tax breaks by offering, at a national level, substantial incentives related to the capital expenditure investment, training and skills development and other additional 'sweeteners' that can be negotiated at a provincial and local government level. The issue of Afro-pessimism and perceptions around the ease of doing business in the African continent remain critical challenges for African countries that aspire to be significant players in the BPO global market. It has been observed that there are still pockets of the Western market where it is believed that the only export Africa has to offer is 'hunger, disease and famine'. This attitude has led to resistance when African countries position themselves as countries that are capable of providing professional and globally competitive ITES. South Africa in particular, has been fraught with the negative perception of crime, so we have adopted the term 'Seeing Is Believing', which reflects the change in investors' perceptions when they land in the country. Other investors have cited the issues of rising inflation and the volatility of the local currency as their major challenges when investing in South Africa's BPO-ITES sector. On the whole, what remains a key objective is how to successfully integrate SMEs into the value chain of major players. Another challenge experienced is how to ensure that BPO-ITES operators are evenly spread geographically across the country, including those areas that are considered rural, in order to stimulate economic development.

## **Lessons learned**

In the same way that a house needs a solid foundation, the ITES sector needs the right policies and strategies to create an enabling environment for long-term sustainability of the sector. Government support is essential from the outset to provide a strategic direction, set out appropriate policy directives and set aside the necessary funding in order to drive the sector forward. Further, collaboration with the industry and its players is important as they are the ones who have first hand experience of the sector and are better able to articulate their needs and the form of support required from the government.

A coherent and nationally co-ordinated message is imperative. Confusion is created if provinces within a country each approach potential investors in foreign markets,

advancing their own value propositions or advantages over other provinces. Potential investors prefer to have one point of entry to work with in a country, be it an organisation or an allocated 'account manager'. Equally important is to identify the key target markets and to have dedicated personnel to present them with a clear and concise value proposition. As ITES is a fast moving sector, what was 'in' yesterday may not necessarily be the trend tomorrow. This dynamism of the sector has to be monitored carefully by conducting benchmarking exercises, and mapping out competition and other country movements. This also opens opportunities for co-operation and joint collaboration in some instances.

It is important that the country strategy is anchored in intensive research and substantiated with accurate facts and figures as potential investors rely on this information to make decisions within a short space of time. Although not strongly articulated, soft issues play a role in the investor's decision-making process. Considerations like cultural affinity, product affinity, business culture and general professionalism of parties involved should never be underestimated. Finally, it is important that progress is constantly monitored and evaluated against set goals to ensure that objectives are met continuously. In some instances this might require a deviation from the original plans; however, as long as the vision is stated and remains unchanged, it will always be possible to attain it.

## Conclusions

South Africa is one of Gartner's top 30 destinations, according to a recent report by the research company. However, this is based mostly on the country's good language skills. The country does have the potential to compete with some of the strongest exporters of BPO. The local population generally has good language skills, which is essential in this sector because its functionality is based on telephonic verbal instructions. The areas that Business Process Enabling South Africa, the national industry association, has highlighted for growth include financial services, desktop publishing and software development. Legal process outsourcing has been earmarked as a core, focus area for 2010 and beyond. This would ensure that the country moves up to the higher end of the value chain in terms of ITES export. South Africa's broadband costs and connectivity became less of a concern after the country hosted the 2010 FIFA World Cup, as more undersea cables became available thus leading to increased bandwidth. In light of this positive development, the relevant authorities have already announced initiatives to increase bandwidth at national, provincial and local government levels. This can only be good news for the growth of ITES in South Africa and the rest of Africa. The move will result in increased efficiencies, which will give South Africa further niche competitive and comparative advantages.