Becoming Strategic -

South Africa's BPO Service Advantage

An LSE Outsourcing Unit Report

November 2012

Report One
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Executive Summary

Since 2007, South Africa has been one of the world's upcoming Business Process Outsourcing (BPO) offshore destinations. Major companies like Lufthansa, Amazon, ASDA 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 new outsourcing deals have been struck Much of this has occurred in the last 18 months. Accelerating growth has seen South Africa become a 'go-to' destination. 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, 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 3-5 years.

This report is based on our most recent research into high performance BPO globally and two new research streams specifically on South Africa. The first is a quantitative, comparative analysis of nine competitive countries using responses from 30 senior global sourcing analysts with specific expert knowledge about South Africa and its competitors. Further detailed interview research was carried out with 14 client organizations and providers operating in South Africa, 2 potential clients and 5 market analysts. Client organizations were from utilities, telecommunications, financial services, legal, retail and airline sectors. We have divided the results into three sub-studies.

Our first study of country comparison shows 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 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 tie for second place.

The second study reviewed research on South Africa and interviewed clients on their captive, partnering and outsourcing experiences in South Africa. All were highly positive

about the cost, performance levels and quality of service. We identified seven areas which highlight South Africa's BPO performance and prospects:

1. Service advantage – the 'secret sauce'
2. Performance record – good to very good
3. BPO potential – especially in Finance and Legal Process Outsourcing
4. Rising demand – the skills supply challenge
5. Providers upping their game – taking advantage of the considerable BPO potential
6. Marketing, Alignment and Support – collaboration is the key
7. South Africa is similar but different – attractive for investors.

In our third study we delved in detail into four cases - British Gas, Amazon, iiNet and Capita. (These are detailed in Part Two of the Report, published separately). This research stream provided strongly positive findings on South Africa's BPO performance. Further performance cases will follow in later reports, including Aegis and CCI South Africa.

Combining the research streams provided ten vital lessons for companies looking at South Africa as a BPO location:

1. South Africa complements the global delivery portfolio for many international companies
2. South Africa's value proposition cannot only be about costs
3. Minimize risk with the "Model Office"
4. For best results, find a partner not a vendor
5. Invest in enough resources, particularly leadership, during the transition
6. Resolve issues, don't assign blame
7. Protect the provider's commercial interests
8. Governance is key; decide when to lead and when to follow
9. BPO relationships can be made to transform lives and communities
10. South Africa's long-term sustainable advantage will be based on value-added services beyond voice

The report concludes with challenges for South Africa. These challenges in the BPO space come primarily from its recent successes and the anticipated high levels of growth. Becoming strategic requires South Africa to drive down the paths already set. Namely:

- Accelerating and increasing the already considerable investment in skills development in leadership and middle management as well as at operator levels. Skills initiatives such as the BPeSA Western Cape skills project enjoy high industry involvement, and deserve continued provincial and national backing, as the model being created may be adopted by all provinces.

- Continuing government support in investment grants together with deeper government body, industry and investor collaboration in the vital area of training technical and graduate employees for the BPO industry to meet the surge in demand over the next three years.
- Developing and actively supporting to suitable scale the embryonic BPO markets in financial services and legal process outsourcing.
- Preserving the service advantage by investing in service skills when scaling voice and non-voice BPO and moving into other activity segments.
- Marketing South Africa, as a BPO location, as and through a single entity. This has been achieved, with great effectiveness, by a country such as Poland and one as massive as India.

Collaboration between the government, industry and investors – already under way – is the foundation for securing South Africa as a sustainable world class BPO location, and for realizing its great potential.

1. The Global BPO Market – South Africa in Context

The global IT outsourcing (ITO) market has increased each year since 1989, when global ITO was only a $9 to $12 billion market. On conservative estimates, looking across a range of reports and studies, global IT outsourcing revenues will probably exceed $US 290 billion in 2012. With business process outsourcing (BPO) revenues exceeding $US 175 billion in the same year, and offshore outsourcing representing more than $US85 billion of these combined revenue figures, it is very clear that, with its 20 year plus history, outsourcing of IT and business services is moving into becoming an almost routine part of management, representing for many major corporations and government agencies the greater percentage of their back office expenditures.

Moreover, all projections we have looked at or made suggest continued growth over the next five years (2012-16). Our own synthesis of the reports from Everest, Gartner, NASSCOM, and IDC suggests that ITO global growth will be in the range of 5-8% per annum, with business process outsourcing rising by 8-12% per annum, and, subsumed within these, offshore outsourcing growing at an even faster annual rate. [1]

Client organizations continue to have a strong appetite for contracting with domestic, offshore, and global BPO providers, and offshoring remains strong despite some re-shoring pressures in developed countries.[2] The year 2011 saw slowing of BPO growth in many markets with a pick up later into 2012. Some, but by no means all, offshore destinations, including South Africa, are now experiencing growth rates above 12% per annum. In practice, offshoring and outsourcing often retain their scale through recessionary as well as growth periods, making them attractive businesses for growing economies. A highly competitive global services market presents opportunities and revenues for countries able to offer the right mix of strong cost, reliable service, and secure location.

In 2010, the BRIC countries (Brazil, Russia, India, and China) became BRICS with the inclusion of South Africa. BRICS remain well placed to offer business process outsourcing (BPO), information communications & technology (ICT), and back-office services. For 2012 a range of reports suggest the BRICS offshore ITO/BPO market share as 6% for Brazil, 4% for Russia, 68% for India, 6% for China and 1% for South Africa. Presently India holds the chair of the group with the next BRICS summit scheduled to take place in South Africa in 2013. According to NASSCOM, ITO/BPO export revenue (excluding hardware) for India is likely to reach US$69 billion, accounted for by about a 2.2 million workforce. This represents a growth of 16.3 per cent on 2011. The BPO segment is expected to grow by 12 per cent to reach US$ 16 billion in 2012[3]. Brazil is next as the most frequent nearshore destination for US based large companies. However, Brazil and China could do more to leverage their potential, while Russia, despite a lack of government support, succeeds in finding high-value but niche work. All the BRICS countries seek new business, but over 120 non-BRICS countries are in competition.

A range of reports suggest a non-BRICS global market share of around 15%. Here the Philippines lead. Based on BPAP data,[4] its BPO industry earned US$11 billion in 2011. In the same year, the IT-BPO industry employed 638,000 full-time employees which represents a 22 percent increase from 2010. Non-BRICS locations are interesting. First, some non-BRICS locations offer nearshoring opportunities, e.g. Czech Republic for Germany, or Mexico for the US. Non-BRICS locations with good education often provide excellent BPO platforms, leaving ICT "engine rooms" for India or China. Second, India and China are turning to non-BRICS locations for some solutions, for example to secure lower costs or labour availability. Amongst the top contenders globally, and for different markets, are Romania, Bulgaria, Poland, Slovakia, Czech Republic, Belarus, Morocco, Tunisia, Costa Rica, Mexico, Venezuela, Vietnam, Egypt (despite the 2011 'revolution') and the Philippines. Third, non-BRICS locations offer different risk-reward ratios, and given Indian dominance seek to identify niche offerings – by service, geography or industry, for example.

Offshoring and offshore outsourcing brings additional dimensions and complexity to managing service provision**.** Offshore outsourcing is more challenging because of time zone differences, the need for more controls, problems transferring knowledge, cultural differences, having to define requirements more rigorously, and difficulties in managing dispersed teams. The transaction costs of offshore outsourcing can be considerably higher than domestic outsourcing. We are also identifying practices and capabilities that are specific to offshore outsourcing. Sample practices include the use of middlemen, the design of special interfaces between client and offshore provider employees, and the use of increased number of liaisons. Researchers have also studied up to ten distinctive capabilities required for offshore outsourcing[5].

Our most recent work indicates that, for 2012-16, offshoring and outsourcing markets will remain dynamic, both for BRICS and non-BRICS destinations. The LSE research indicates nine pressure points:

- **Pressure 1:** Large Indian players moving up the value chain, best-shoring, acquiring, moving into new sectors, with recession making acquisitions more likely;
- **Pressure 2:** Large players offering 'multi-tower' BPO - IT, HR, Procurement, Finance or Administration;

- **Pressure 3:** Client pressure toward multiple providers that are better managed and bound in;
- **Pressure 4:** Developing outsourcing services in many countries - alternative, improving supply from over 120 increasingly ambitious centres around the world;
- **Pressure 5:** World economic and business pressures exert continuing downward pressures on costs, but also innovation, exacerbated by the recessionary climate extending into 2012-13;
- **Pressure 6:** Unending search for (a) new sources of skill (b) better labour models (c) at more attractive prices.
- **Pressure 7:** More mature, more demanding clients. They expect more from BPO service providers than upfront cost savings and "green" service levels.[6] They also expect longer-term results than one-time, big-bang "transformational" efforts that proved to be quite risky.[7] Our latest research on BPO relationships finds that clients increasingly expect their service providers to provide a cost, a service and an innovation package.
- **Pressure 8:** Clients developing global sourcing strategies. Multinationals search dynamically for cost and service while mitigating country risks by seeking multiple locations, and standardized infrastructures and back office services.
- **Pressure 9:** Large providers seeking multiple offshore locations for existing clients and new markets - to mitigate location risks, access talent pools and optimize cost-service performance. They, like clients, look for low-cost base, scalability, clear environmental compliance, reducing regulatory and bureaucratic burdens, clear intellectual property rights, good basic infrastructure, fundamental economics, cultural fit, low physical risk, e.g. terrorism, kidnapping, murder, corruption, basic crime – a perennial, and positioning, e.g. time zones and geography.

Where does South Africa fit within these global market pressures and trends? Recent, accelerated foreign investment in South Africa's business process outsourcing (BPO) industry, supported by strong government incentives, has underlined the country's growing reputation as a provider of high-quality, medium-cost contact centre and back-office services. South Africa has attracted many top international call-centre outsourcers, including Aegis BPO, Fusion, Genpact, Stream, Sykes and Teleperformance, as well as IBM and Deloitte. Capita, Serco, WNS, Quindell, Interactive Intelligence Group and WNS are examples of recent arrivals. South Africa has also attracted a number of multinationals as clients setting up captive/outsourcing arrangements.

On the global scene South Africa is small, niche and expanding. **Becoming strategic for South Africa means riding the nine pressures we have outlined above rather than becoming reactive to their consequences.** This LSE Outsourcing Unit Report provides the most comprehensive in-depth research to date on the South African BPO sector, and looks forward to 2016. In our first study, we compare its location attractiveness against nine other countries. Our second study looks at South Africa's BPO performance and prospects. In the third study we provide in-depth cases of successful performance.

2. OU Study 1 - Country Attractiveness: South Africa Comparisons

Background

Which countries compete with South Africa as an offshore BPO location? We surveyed and interviewed 30 senior global sourcing analysts working in client, provider, management consultancy, market analysis, and research organizations. These analysts were carefully selected as a) highly experienced and knowledgeable professionals in the global sourcing field and b) having specific expert knowledge about South Africa and its competitors. Nine other countries emerged as major competitors to South Africa's specific markets. Our respondents discounted Central and Latin American locations as having a different market focus and skills bases. Likewise they discounted most South East Asian locations but not India, Malaysia or Sri Lanka. In Western, Central and Eastern Europe, they selected only Northern Ireland and Poland as immediate competitors. The nine countries considered, therefore, were India, The Philippines, Poland, Morocco, Malaysia, Kenya, Sri Lanka, Egypt and Northern Ireland.

We utilized the LSE Outsourcing Unit's Country Attractiveness 20-factor framework (see Table 1.1) to elicit expert perception and commentary, including analysis of intra-country city differences where pertinent. The instrument was developed for previous studies, in which it proved robust, and is described in detail in Oshri, Kotlarsky and Willcocks (2011).[8] We also draw additional detail from the LSE Outsourcing Unit's 1,600 plus global sourcing case study base for comparative data. The twenty factors are described below and we organize the analysis under six main heading suggested by Farrell, namely Costs, Skills Availability, Environment, Infrastructure, Risk Profile and Market Potential.[9]

Table 1.1 Country Attractiveness Framework

COST	SKILLS	ENVIRON-MENT	INFRA-STRUCTURE	RISK	MARKET POTENTIAL
1. Labour 2. Infrastructure 3. Taxes and Incentives	4. Skill Pool 5. Provider Landscape	6. Government 7. Business 8. Quality of Life 9. Accessibility	10. ICT 11. Real Estate 12. Transport 13. Power	14. Security 15. Disruptive Events 16. Macro-economic 17. Regulatory 18. IP	19. Local Markets 20. Nearby Markets

Factor One: Costs

Companies considering offshoring IT or business processes typically compare a range of costs, including:

- Labour costs (average wages for skilled workers and managers)
- Infrastructure costs (unit costs for telecom networks, internet access, power, and office rent)
- Corporate taxes and incentives (tax breaks and regulations, and other incentives for local investment) across potential locations. Clients typically now look over a five year stretch on this factor.

Clients who set up captives or outsource offshore expect significant cost savings. Cost is invariably in the top three reasons cited by clients for offshoring. However, cost is not a simple equation to arrive at. One commonly used measure is direct operating cost per full time employee. Here India, the Philippines, Malaysia and Egypt lead, while only Poland and Northern Ireland are more costly than South Africa across its selected skills base. For our African locations, labour costs in Morocco are higher than Egypt and Kenya but lower than in Europe, and about half the labour costs in its major market of France. However, all ten locations are subsidised to some degree through tax allowances and government/regional incentives for inward investment. As one example, Morocco offers comprehensive tax exemption for five years, with tax credits, value added tax exemptions for exports and training subsidies. The Asian and African countries offer higher subsidies than governments in European locations. Post-subsidies, the net effect makes South Africa behind Malaysia, India and the Philippines, but, in voice especially, offering a higher service experience. A further factor is infrastructure (as described above). Here, especially in telecommunications, South Africa has lagged historically behind five of its main competitors, including the Philippines where early deregulation of local communications pushed down bandwidth costs by 40%, demonstrating how quickly the offshore cost equation can be changed by government action. In Egypt, cost of power, telecommunications and internet are amongst the lowest, lower even than in our Europe and Asian locations. For South Africa, the gap has narrowed considerably over the last four years, and is targeted to reduce by 20% over the next three years. In 2012 cost was also being alleviated by six month free telecoms given to offshore start-ups.

On cost comparison, several other factors are pertinent. The first is the client's location. For captive offshoring, we found companies in the Channel Islands, UK and Western Europe comparing destinations with their own domestic costs. Based on this comparison, all ten locations give significant cost savings falling between 25% and 75%, with South Africa at about 54% cost savings. A further factor is cost dynamism. India and the Philippines have been experiencing erosion in their cost advantage due to scale and accelerating demand, creating skills shortages that drive up labour costs. One result is these countries outsourcing and offshoring work themselves, for example to Egypt, Sri Lanka, and China in order to stabilize labour costs. Another response is the rise of cheaper secondary sites within offshoring locations (e.g., Katowice, Poznan and Wroclaw in Poland; Davao, Sta. Rosa, Cebu, Pasig, Quezon, and Mandaluyong City in the Philippines). South Africa has not yet experienced this but will need to plan carefully its education and labour market policies to avoid adverse impacts on its BPO cost proposition. A further factor is the service anticipated from the cost outlay. In our case study work, we found all clients experiencing superior service in South Africa, in both the captive and outsourcing markets, relative to all the other locations (see for example the iiNet, British Gas and Amazon cases in Paper 2). Fundamentally, they consciously established a cost-service trade-off at a higher cost point for superior service, mainly because both in voice and non-voice, the work was (external) customer facing and critical to the business.

A final factor is hidden costs. One cost we address in the next section is the widespread shortage of middle management and team leadership skills on the provider side in many of the ten locations.[10] The point here is that dealing with such shortages costs time, money and sometimes productivity. Clients also often fail to factor into their cost equations the cost of their own management of offshoring arrangements. On our analysis, the management costs of domestic outsourcing fall between 4-8% of contract value, but this moves to 12-16% with offshoring arrangements[11]. It is possible to manage down these costs, of course, and as South Africa, or any location, moves to higher value work, this can be achieved through more collaborative management practices across client and service provider.[12]

Costs Perception Analysis

Based on a perception analysis carried out across 30 expert respondents, India was considered the most attractive country based on costs. The respondents clearly saw cost as a complex factor, not reducible to simple labour arbitrage and telecom cost calculations. The costs considered were a combination of start-up, infrastructure and labour costs. Kenya is second on costs, with the Philippines, South Africa and Egypt ranked third, but respondents stressed that lower costs were a necessary but, in 2012, for the type of voice, non-voice BPO and shared service work being competed for, insufficient determinant of offshore and outsourcing choices.

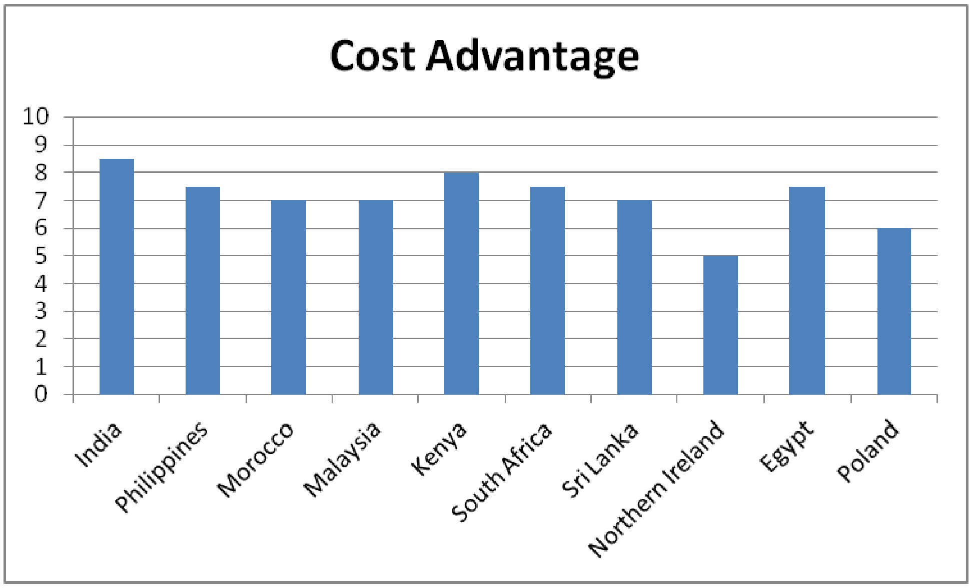

Figure 1.1 Offshoring - cost comparison for ten countries
(Scale: 1-4 inferior, 5-6 meets minimum requirements, 7-8 good, 9-10 high performance)
Response rate N=24[13]

Factor Two: Availability of skills

This factor covers:

- Skill pool (size of labour pool with required skills) which include technical and business knowledge, management skills, languages, ability to learn new concepts and innovate.
- Provider landscape (size of local sector providing ITO/BPO and related services)

Skills pools can be difficult to assess, and numbers can confuse. Thus Poland and Northern Ireland have well developed education systems generally strong in sciences, technology, engineering and business, and accessible to the vast majority of the indigenous population. This contrasts with less accessibility and lower levels of English/other language proficiency in several African and Asian countries we studied. Thus while Poland's population is much smaller than for example Egypt, the Philippines, and Morocco, the percentage of the population being educated and becoming a highly skilled workforce is much higher. Graduate numbers still do not compare with India, the Philippines and Egypt, however. The labour pools of Poland and Northern Ireland remain limited and could come under pressure quite quickly in the face of growing demand, though Northern Ireland has actually been losing BPO work in recessionary conditions through 2011-12.

The scalability of labour resources **in the longer term** is a major issue for client companies to consider when deciding on an offshore and outsourcing destination. Countries that offer scalability of labour resources are more likely to relieve pressure on skills shortages and rising wages through taking active measures to provide a constant supply of school leavers and graduates. Particularly important for South Africa's chosen markets are technical and business knowledge, languages, management skills, the ability to learn new concepts and innovate, and service know-how.

The number of graduates produced annually by any country is one indicator of how scalable the labour pool for the country will be in the long run. India, of course is the offshore powerhouse in terms of ITO, BPO back office and voice, and is trying to gain major traction on higher value BPO work. India's universities produced 4.4 million new graduates in 2012, with almost 16% focusing on science and technology. However, reports by McKinsey and NASSCOM suggest that only around 30% of graduates are readily employable. Our respondents suggest it is closer to 20%. For this reason, in the last five years major providers like Infosys and TCS have set up and run very large pre-employment training programmes. India has a prevalence of English language skills (on some estimates 20% of the population) but accent and quality are mixed, and this is noted by respondents even for call centre conditions. Adult literacy runs at 54% of the population. In 2012 India added 230,000 employees to its 2.8 million ITO/BPO workforce. Pressure on skills and wages are pushing Indian providers and captives to tier II locations, and also to other cheaper locations abroad[14]. As one example, by using more technology, 13 of the largest Indian call-centre companies have relocated at least part of their operations to the Philippines, not least to take advantage of the cheaper real estate. On call centres, India has an 800,000 workforce but has seen some repatriation to UK and US in the last two years over service quality issues, and some moves to other offshore locations.

Egypt has over 330,000 graduates (from all disciplines) every year and 31,000 of these have degrees in technology, science or engineering. Egypt has 'multi-linguinity', with over 25,000 graduates annually from Cairo alone able to speak English and other major European languages. Like several other locations, however, Egypt struggles in building requisite middle management BPO skills.

In South Africa, the annual supply of high school leavers is 227,000. Graduates and post-graduates have exceeded 140,000 annually in recent years, with 51% in science, engineering technology and business, the rest in humanities and social sciences. South Africa had 370,000 people proficient in English added to the workforce in 2011 compared to 4.4 million in India, and 450,000 in the Philippines. Other locations had smaller additions, the next in size being Malaysia with 160,000 and Egypt with 70,000.

South Africa is also strong in legal, accounting and business skills which support offshored legal process and financial service operations, particularly in Cape Town, Durban and also Johannesburg. Over the last three years, it has seen active DTI and regional agency support for preparing education leavers for BPO work. Examples include the employer-led government funded 2012 Monyleta programme (7,500 learners targeted) to augment the contact centre labour pool and a skills academy to up-skill agents and team leaders nationally, plus four other schemes providing BPO sector training. The BPeSA Western Cape skills project, which has involved human capital specialists from a number of provinces, is creating a model focusing on middle management and team leader skills which can be replicated in all provinces.

For the Philippines 82% of work is voice contact, primarily to the US (though it has services offered in 18 languages), the rest in ITO/BPO services including finance, accounting, medical transcription, HR and IT. Filipino residents are considered to speak a more ‘American-style’ version of English than their Indian counterparts. In 2011, the Philippines officially overtook India as the world’s offshore call centre capital. By 2012 the BPO industry employed over 640,000 people expected to be 1.3 million provided the key skill creation challenges are addressed. Like India, the Philippines, as a mature large destination experiencing growing demand, faces challenges in skills shortages, retention, of talent, as well as rising labour costs. Some government action has been taken to address the skills issues. For example, the Technical Education and Skills Development Authority (TESDA) of the Philippines, has been continuously providing Finishing Courses for Call Centre Agents targeted at potential hires. Recently, the Philippines government provided US$11 million in funding for remedial training in customer care, as well as for the software and game development sectors. TESDA and the Business Processing Association of the Philippines (BPAP) have also launched a $580,000 program, called TM+, as part of that initiative. The programme was conceived to provide trainers the skills they require to prepare young people entering the workforce for careers in the ITO/BPO industry.

Looking at our four remaining countries, Sri Lanka has an adult literacy rate of 91 percent. Sri Lanka uses English as a unifying language, primarily in government. English is spoken by about ten percent of the population. With few skills problems, BPO resources in Sri Lanka are very affordable. Junior non-voice resources with limited experience collect just seven percent of what a comparable employee would earn in the United States. More skilled resources, with five to nine years experience can expect to earn USD $8,300, fifteen percent of US wages. Historically Sri Lanka has provided skills and expertise in IT development, accounting and some legal back office work. Given the strong educational standards in legal and accounting qualifications, there are real opportunities to increase scale of operations and grow the offshore accounting and legal process outsourcing market, especially with the cost competitiveness Sri Lanka can offer against its neighbour India. Sri Lanka is particularly well endowed in IT skills with over 120 software development firms, with estimated exports exceeding US$70 million. Several international IT companies have also set up operations focused on research and development. Sri Lankan software is used globally, operating various stock markets and a number of airlines utilize software developed here as well. Leveraging on the cost and skill advantages, the global ITO/BPO company Mphasis set up their delivery centre in Colombo to provide high-value finance accounting outsourcing services out of Sri Lanka. The BPO service provider, First Source entered Sri Lanka with a joint venture with Dialog. Several others have set operations during recent years, adding to the fast growing ITO/BPO exports out of Sri Lanka, set to be, on some estimates, an annual $1 billion dollar revenue industry by 2015.

Sri Lanka is emerging, and quickly gaining momentum in the outsourcing market because of its proximity to India. Indian firms are now expanding their operations to Sri Lanka and particularly Colombo, because of competitive wages, qualified English speaking resources, and experts in the service sectors. Its labour pool is exponentially smaller than India’s, but Sri Lanka aims to create 30,000 new jobs in the ITO/BPO industry over the next five years. Kenya is at a relatively early stage in development as an offshore location but has satisfactory skills in IT, English and to some extent certain forms of knowledge process to support further foreign investment in its ITO/BPO growing industry.

Morocco is further down the road in providing skills to support nearshore operations for European-based companies such as Dell, Deloitte, HP and Attento. Morocco offers well-trained human resources, and for voice BPO has strong capability in French and Spanish as well as English. For offshore development Morocco is positioned well to get a good share of the European offshoring IT market. It has a large pool of skilled human resources in the region where banks, computer and insurance companies could become major clients. Its business parks host more than a hundred multinationals, and its policies, private sector and government, target growing a workforce of more than 90,000 people by 2017 in the outsourcing field, concentrating on shared service centers, non-voice BPO, voice BPO, and ITO.

Malaysia has a literacy rate of 92%, a workforce size of over 12 million, with over 180,000 graduates entering the labour market annually, 54% with science and technology backgrounds. English speakers make up 28% of the population. Its education and training programmes support IT, financial and accounting and general back-office process outsourcing activity.

Finally, our previous studies across more than 20 locations, including the ten under consideration here, found widespread shortages of middle management and team leadership skills in the provider side in offshore locations[15]. This was also true in the more mature locations such as the Philippines, India and Sri Lanka (though not Northern Ireland and Poland) as in the emerging locations of Kenya and Egypt. Importing, buying or developing such middle management capability costs time and requires financial investment that can quietly render the cost equation much less attractive. One learning point from the Indian experience for South Africa and other more recent BPO locations is to address this issue concertedly before it becomes a barrier to investment.

Skills Perception Analysis

The skills perception analysis places India and the Philippines with the highest levels of skill availability, but in places like India this can vary by region and, across all locations, by city. There is also the issue of scale. Clearly India has the biggest skills base, but also by far the largest demand. As we noted, it is having to offshore work itself to other locations. There is also the issue of being a niche player in the global offshore market. Thus, for example, both Sri Lanka and South Africa are more likely to focus on specific target markets in which they are well endowed with resources, have a cultural/institutional affinity, and that also offer higher value BPO work.

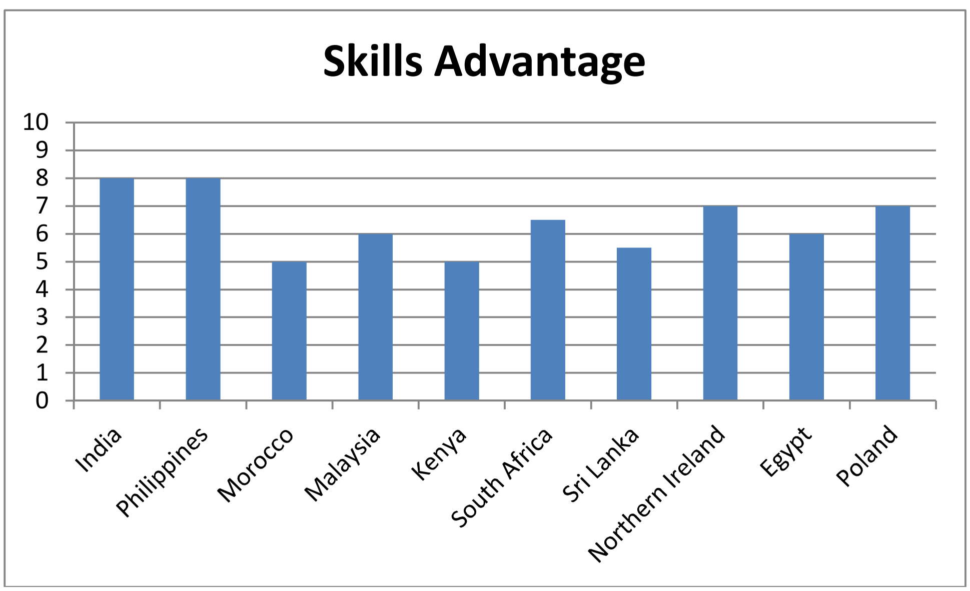

Figure 1.2 Offshoring - skills comparison for ten countries
(Scale: 1-4 inferior, 5-6 meets minimum requirements, 7-8 good, 9-10 high performance)
Response rate N=24

Factor Three: Environment

This factor covers:

- Government support (policy on foreign investment, labour laws, bureaucratic and regulatory burden, level of corruption)
- Business environment (compatibility with prevailing business culture and ethics)
- Living environment (overall quality of life, serious crime per capita)
- Accessibility (travel time, flight frequency, time difference)

Governments try to attract foreign investment, and therefore many offer special development zones such as the free trade zone in Egypt, and the nearshore centres in Morocco. These free trade zones offer tax breaks, simplified administrative procedures and, in some case, more flexible labour rules. The governments of all ten comparison countries have favoured foreign investment, relaxed labour laws to some extent, and tried to reduce some of the regulatory and bureaucratic burden. In India this varies by region, and the legal system is not always as supportive as say in South Africa, Malaysia, Poland or Northern Ireland. Respondents tell us that all ten governments need to do more to make their countries more easy to do business with, and less of a barrier to BPO offshore development. Intermediary agencies - either government or business sponsored - help here, the exemplars being NASSCOM in India and the Business Processing Association in the Philippines. The latter, as just one example, produces a detailed Philippines ITO/BPO Investor Primer, but both are actively engaged in both promoting and making their countries easier to do business with. In South Africa the DTI, Business Trust and BPeSA are actively engaged as has been ITIDA in Egypt, both having learned from longer standing industry development approaches of India and the Philippines. Similar representative organizations operate in nearly all locations studied but with less profile and engagement.

Corruption is perceived as an issue in some of the 10 countries studied. Most governments understand that, to support an emerging or mature BPO industry, strong action is required to eradicate this. However, particularly in developing countries without strong detection and regulatory agencies, this is not always easy to police. Transparency International's Corruption Perceptions Index regularly reports on this issue but shows a somewhat changing picture almost from year to year. Generally Northern Ireland, Malaysia, Poland and South Africa tend to score better, India and Morocco less so, while the Philippines, Egypt, Sri Lanka and Kenya less so again. However, these are country indicators rather than specifically for those of a burgeoning BPO sector where governments need to attract inward investment and choose to act more strictly.

Following this last point, business environments can be made compatible with foreign clients' standards and culture through setting up carefully controlled business environments in which to operate. We see this with India's and Morocco's business parks for example. Egypt has made great efforts to develop such business environments around several of its major cities. As business environments Malaysia, South Africa, Northern Ireland and Poland tend to be more compatible with their target markets, while Kenya has had to make concerted efforts to stabilize its local business environment around Nairobi. Sri Lanka, like India, has some strong cultural compatibilities with its UK market historically.

On living environment, South Africa, Northern Ireland, Malaysia, then India and the Philippines score highest and Kenya the lowest. Of course, accessibility – in terms of travel time, accessibility and time difference depends on the client. From a UK perspective South Africa has great accessibility, compatible time zone, and tolerable travel time. Likewise for Poland and Northern Ireland. South Africa is still attractive from an Australian but not from a US-based perspective. But countries like Morocco and Egypt play into smaller nearshore niches that give them advantages on accessibility. Meanwhile India has so many diverse customers around the globe, inevitably there are going to be trade-offs on accessibility against the other 19 factors. Alternatively, clients try to take advantage of time zone differences to create from Indian (and Sri Lankan) 'the sun never sets' services for themselves and their customers. Not surprisingly the Philippines scores more highly on accessibility with its mainly US-based customers than its UK-based ones.

Environment Perception Analysis

On our first three factors, respondents were fairly consistent in their scoring, but on accessibility they recognized that much depended on what the target markets were for each country. Combining the factors Northern Ireland scores the best, followed by Poland and South Africa, with Malaysia, India and the Philippines ranked fourth equal.

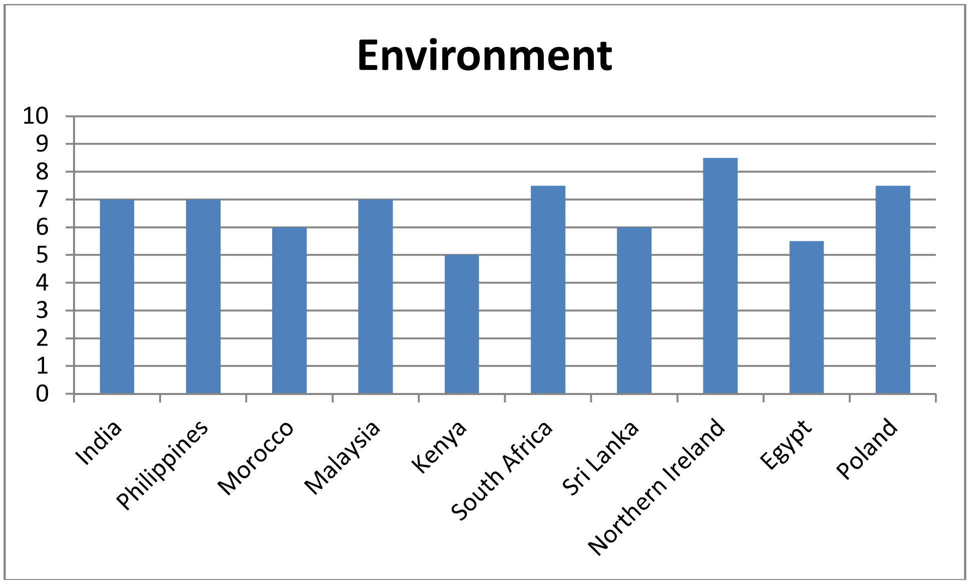

Figure 1.3 Offshoring - environment comparison for ten countries
(Scale: 1-4 inferior, 5-6 meets minimum requirements, 7-8 good, 9-10 high performance)
Response rate N=18

Factor Four: Quality of Infrastructure

Quality of infrastructure refers to:

- Telecoms and IT (network downtime, speed of service restoration, connectivity)
- Real estate (availability and quality)
- Transportation (scale and quality of road and rail network)
- Power (reliability of power supply)

All ten locations would like to claim high quality infrastructure. In practice there are large variations across the sample. On telecoms and IT, it is difficult to run an offshore location as a business proposition without reliable, fast, relatively cheap technology with low downtime, fast restoration of service and good connectivity. Most tier I and tier II Indian and Philippine locations achieve this now, as does Morocco, Malaysia, Northern Ireland and Poland. Sri Lanka has a relatively good record while Kenya is still building its capability but now has good access to a steady telecom connectivity. In Poland and Northern Ireland quality of telecoms and IT infrastructure is comparable with that found in UK and France. Malaysia has advanced IT and telecoms facilities. In our other north African and Asian countries it is common to find an advanced IT infrastructure in business parks and large cities, but in a very limited IT infrastructure in rural areas – or none at all. Thus Morocco has a good infrastructure mainly in special development zones. The Philippines stands out as having a particularly good telecoms infrastructure with a reliable domestic and inter-island service because of the US military bases there. South Africa has made rapid strides in both stabilising and developing its IT and telecoms infrastructure, with downtime, service restoration, responsiveness and connectivity now unproblematic. Service costs have also been reducing year on year (see above).

The cost of real estate can be an unpleasant surprise in some offshore locations. Mumbai and Bangalore in India, for example, are no longer cheap. In practice renting commercial space in Mumbai can cost higher than in downtown New York. As a country, or specific cities therein, grows their offshore market, inevitably real estate prices rise, as is recently happening with Poland. The Philippines still has low real estate costs (Manila is ranked second lowest in Asia after Djakarta), and also has special economic zones in several cities. Some Indian offshoring companies have moved services to the Philippines partly because of these real estate cost differences between the two countries. Real estate costs do vary across the other eight locations with Malaysia, Poland, Northern Ireland being at the higher end, followed by South Africa which is in fact cheaper than the Philippines. Sri Lanka and Kenya are at the lowest end and Egypt and Morocco are protected somewhat when business parks are utilized.

Transportation and power tends to be at their most efficient and reliable in Poland, South Africa, Northern Ireland and Malaysia. There are variabilities in the Indian experience depending on the city location. Road and transportation generally in the Philippines is fairly low quality, on a par with, for example, former Russian states, as is the reliability of power supply, though, as in India, in some cases the BPO sector operates in protected conditions created by service providers themselves. Morocco tends to have better transport and power facilities than Egypt though Egypt has been upgrading extensively over the last three years. Of our ten locations, Sri Lanka and Kenya are at the bottom end on these factors.

As a general feature, outside our four top countries, it is common to find transportation and power infrastructure developed around areas where a workforce with the required skills is available, and often only near international airports and major cities. Such high-tech islands, often surrounded by slums, desert or rural land supply high quality IT, power infrastructure have better roads and offer higher quality office space, including cafeterias and fitness centres. The workforce often relies on private transportation, typically company buses that collect and return staff home at the end of the working day.

Infrastructure Perception Analysis

Our respondents rated Poland and Northern Ireland as top on infrastructure, followed by Malaysia, South Africa, India and the Philippines. This probably reflects particular experiences in the BPO environment of those countries rather than the larger country context. Kenya is rated lowest, followed by Egypt and Sri Lanka.

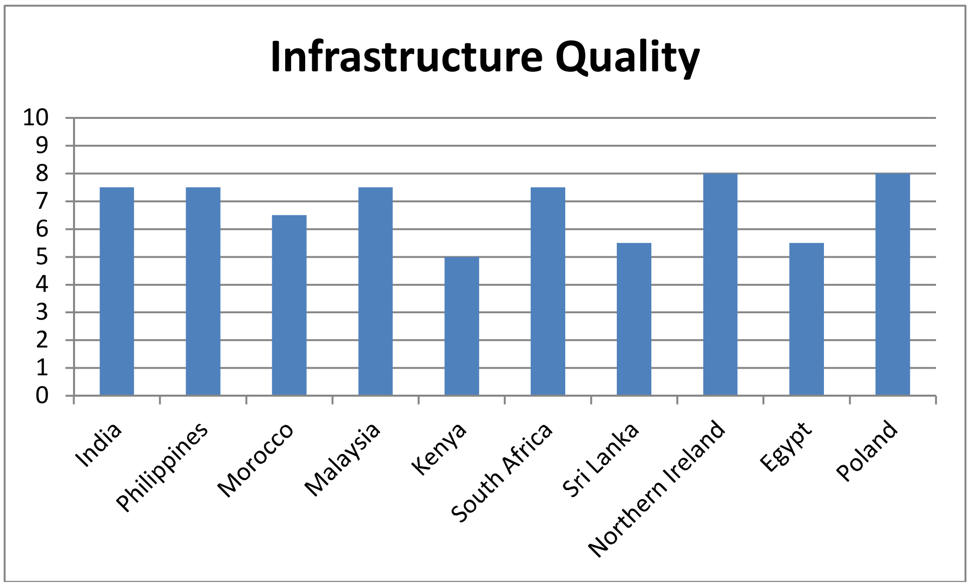

Figure 1.4 Offshoring - infrastructure comparison for ten countries
(Scale: 1-4 inferior, 5-6 meets minimum requirements, 7-8 good, 9-10 high performance)
Response rate N=26

Factor Five: Risk Profile

Offshoring and outsourcing are inherently risky and companies need to draw up very detailed macro and operational risk mitigation plans. In this section we assess the following risks at the country level:

- Security (risks to personal security and property from fraud, crime and terrorism)
- Disruptive events (risk of labour uprising, political instability/unrest, natural disasters)
- Macroeconomic risks (cost inflation, currency fluctuation and capital freedom)
- Regulatory risks (stability, fairness, efficiency of legal framework)
- Intellectual property risk (strength of data and intellectual property protection regime)

When making offshoring decisions, companies have been typically driven primarily by cost, skills availability and service factors. But since 2008, and through the Arab Spring and after, risk has taken on a heightened significance in their BPO calculations. Events have driven this. One needs only to think of Egypt's BPO activity being stalled by unexpected political and social events, and natural disasters affecting Bangkok's business attractiveness. Providers are also aware that clients in recessionary US, and Western Europe cannot be guaranteed. By establishing a presence in new offshore locations, a provider can improve the cost and skills proposition, making it more competitive in its existing markets. But the provider can also spread risk by establishing a local presence to seek secondary markets within the new region.

In practice the risks inherent in modern offshoring and outsourcing have driven large clients to multi-source and also multi-locate, that is to global source in order to mitigate risk. Providers, likewise, increasingly seek multiple locations that can be switched in and out of. With risks increasingly difficult to estimate, this offshore strategy avoids the risk of being over-dependent on one location, supports 24x7 continuity, creates options in the face of a location's changing cost/skills dynamics, and may also respond to a client's requirements for risk-mitigated service.

Risks can be on a country scale but can also be limited to specific locales within a nation. Terrorism has had high profile in India, Sri Lanka, Egypt, Northern Ireland and more recently Kenya. But much of this has been historical, and surprisingly small in scale despite media magnification. Except for Sri Lanka, which has recently ended a 30 year long civil strife in its north west region, one could point to similar levels in the UK and Spain, for example. More critical are risks to personal security from fraud and crime, and this tends to vary by region and city within each country, and also by neighbourhood within each city. In our ten locations at least, the BPO industries tend to be located in quite well protected areas.

Some countries are more prone to natural disasters than others and this can affect location attractiveness. Japan, for example, regularly experiences earthquakes, Mumbai seasonal torrential rain. More anticipatable are political risks. Here Egypt followed by Kenya, then Sri Lanka are the highest risk countries. Our respondents score Malaysia, Northern Ireland and Poland as countries with the lowest political risk. Morocco has remained largely unaffected by the Arab Spring of 2011, while South Africa's recent labour unrest is put in the context of a relatively stable democratic state and economy. India and the Philippines are also considered relatively stable political entities for BPO purposes.

On regulatory risks Northern Ireland, Poland and Malaysia have the best profiles, Kenya, and Egypt the worst, followed by Sri Lanka. India receives some adverse comments on legal inefficiencies, while the Philippines, South Africa and Morocco are rated as meeting requirements. Intellectual property risk is rated as at its worst in Sri Lanka, Kenya and Egypt, followed by Morocco. There is divided opinion on India and the Philippines which may reflect their large market sizes, thus offering a diverse range of experiences on this issue. Northern Ireland and Poland are rated as better than requirement on this issue, likewise (though with a lower mark) South Africa and Malaysia.

Respondents found macroeconomic risks difficult to anticipate in 2012. Sri Lanka and Egypt received the lowest scorings (5), followed by Kenya (6), while India, the Philippines and Northern Ireland received the highest (8). The other four countries – South Africa, Poland, Morocco and Malaysia received 7 each meaning 'better than requirement.' The respondents registered more reservations, and were more different in their scoring this item than for any other single factor in the survey.

Risk Profile Perception Analysis

Combining the five risk factors, Northern Ireland and Poland emerge as having the best risk profiles of the ten locations, followed by India, South Africa, and Malaysia. Kenya and Egypt are considered the most risk prone countries in the sample, followed by Sri Lanka. The point should be made here, that all locations are rated as meeting minimum requirements or more, making them all as includable in any offshore decision process.

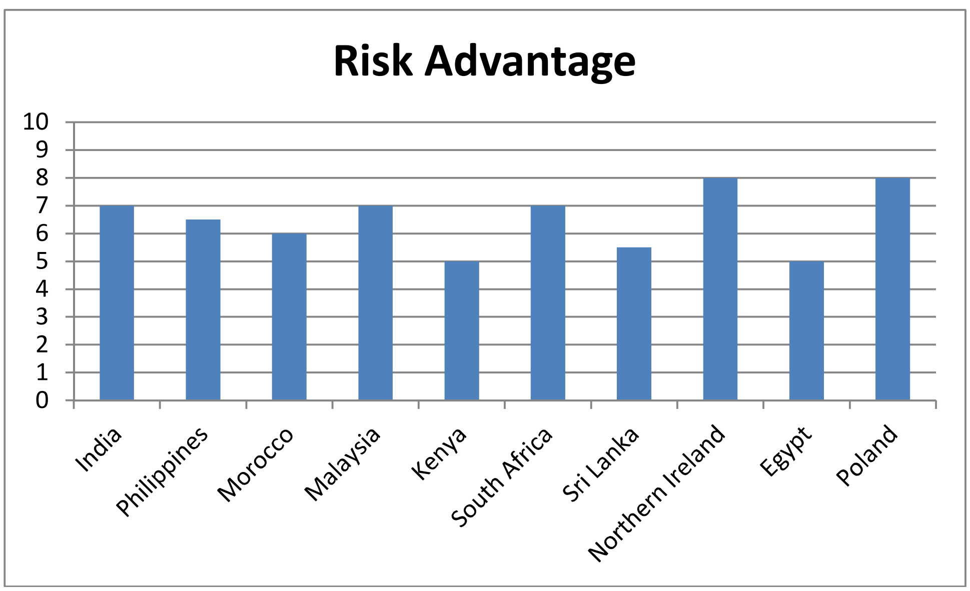

Figure 1.5 Offshoring - risk profile comparison for ten countries
(Scale: 1-4 inferior, 5-6 meets minimum requirements, 7-8 good, 9-10 high performance)
Response rate N=22

Factor Six: Market potential

Market potential here refers to a country's future attractiveness as an offshore location for business process, voice and IT services. This may take one or more forms:

- As a captive operation using local labour, infrastructure and resources
- As an outsourced operation using local service providers
- As an ITO/BPO provider to organizations based in the host country and nearby region.

In terms of scale and range of services, India with a $68 billion plus ITO/BPO annual revenue is easily number one in the captive and offshore outsourcing market but is not so strong on supply to the host and nearby region. Surprisingly, India remains a largely export phenomenon. The Philippines is next with $11billion in revenues, and by 2001 had overtaken India as the biggest contact centre location by number of seats. Recently there has been some moves away from India on call centres but it still attracts such work and remains second in size and revenues. According to our respondents these counties now have major offshore industries and will use this base to accelerate their growth over the next five years. Neither country will slow down. Indian providers are increasingly providing best-shoring models, mixing skills onshore (close to the customer), offshore and 'anyshore' in the search for optimal price points and labour skills pools. Both are attempting to move higher up the value chain into complex BPO, with India, indeed, seeking to rebrand itself as a business process services country.

Given these advantages, the other eight countries tend to seek service niches in order to differentiate, gain new business, and build momentum and scale. Sri Lanka gains 'overload' work from its neighbour India at a lower price point, but offers and is gaining further momentum in software development, accounting and legal processing services. Morocco will continue to be a relatively small but growing market, mainly nearshoring into Western Europe. Egypt has voice captives, and a small but growing IT services and BPO market but its offshore future is temporarily on hold while political and economic instabilities work their way through. Malaysia is a second tier outsourcing location with good cost competitiveness and English and technical skills. It looks to grow itself as an ITO/BPO location, has good infrastructure for captive operations but is still looking for its precise focus and market(s).

Poland has been growing fast as a destination especially for nearshore work from West Europe and large global providers. Its education dividend in technical and engineering skills and employable workforce gives it leverage in complex ITO/BPO work as well as more commoditised services. In time cost pressures will emerge as a 'problem of success,' as we already see in India. Northern Ireland also has a strong employable ITO/BPO workforce and a less attractive price point and is likely to regain momentum in less recessionary conditions taking advantage of its nearshore positioning with Europe and links with the US.

The southern African countries in our sample are South Africa and Kenya. Our respondents see South Africa as a rising offshore location with strongly differentiated services, high quality contact capability, but still underplaying its potential strengths in financial services and legal process outsourcing and accounting. They note that the large global providers investing in captive operations could push South Africa to scale quite quickly, requiring anticipatory policies on skills, pricing, transportation, and industry organization. Kenya is seen as a start-up location with limited scale, able to deliver on IT and voice and some commodity back office work, but needing several years of sustained investment and marketing to achieve the scale of any of the other locations.

Market Potential Perception Analysis

Respondents were asked to rate the attractiveness of local markets, and the access to nearby markets. Here India and South Africa were perceived as having the top market potential though both received lower scores for 'access to nearby markets' than for 'access to local markets.' Clearly also the scale of the opportunity in each case is quite different. The Philippines, Malaysia and Poland were the next ranked, while Kenya and Egypt were ranked the lowest. In Egypt's case this reflects a real downturn in fortunes from 2009 when it was ranked the top non-BRIC country on this factor. Unfortunately recent political events and its poor risk profile has downgraded its market potential considerably.

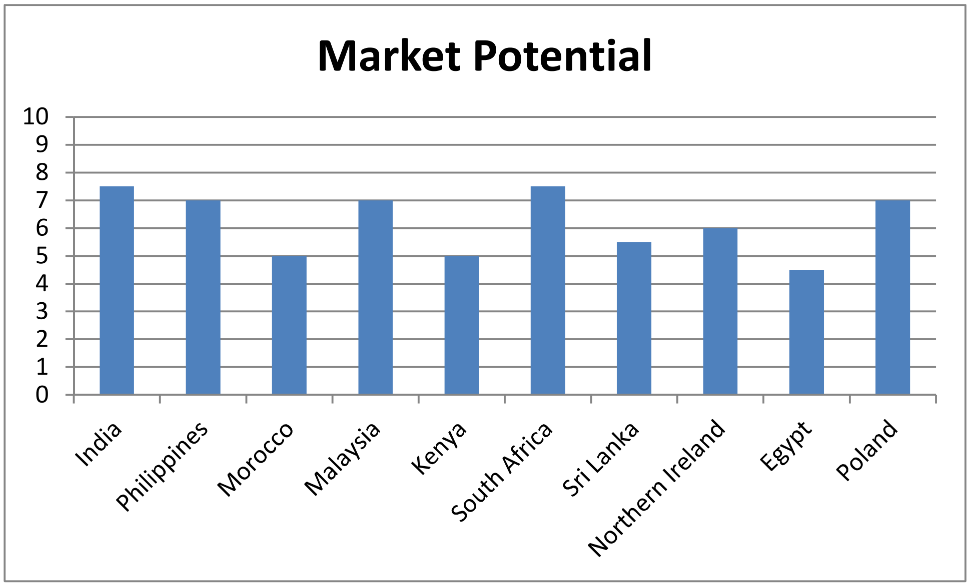

Figure 1.6 Offshoring - market potential comparison for ten countries
(Scale: 1-4 inferior, 5-6 meets minimum requirements, 7-8 good, 9-10 high performance)
Response rate N= 28

Conclusion

Our country competitive analysis considered South Africa and its top nine competitors based on informed opinions from 30 experts. While the detailed analyses pointed to specific strengths and weakness within each of the six factors comprising Cost, Skills, Environment, Infrastructure, Risk, and Market Potential, all ten of these countries are valid offshore destinations. **Considering the average country competitiveness scores for all six factors, India is ranked first and the Philippines, South Africa and Poland are tied for second** (see Figure 1.7). However, the most important finding is that there is very little variation among the top six ranked countries. India, the Philippines, Poland, South Africa, Northern Ireland, and Malaysia are all rated as "good" offshore destinations overall. Morocco, Sri Lanka, Egypt, and Kenya are all rated within the "meets minimum requirements".

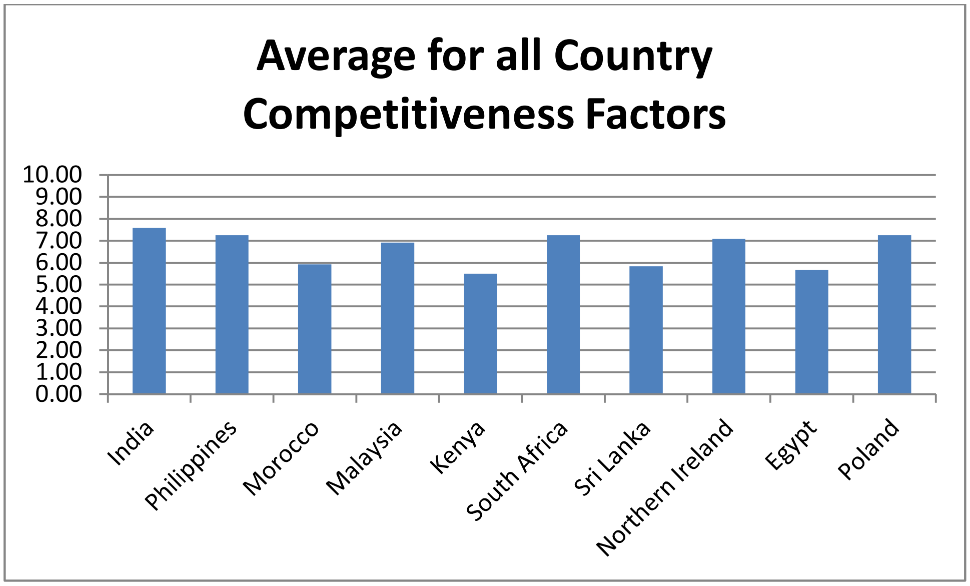

Figure 1.7: Average Scores across all Six Factors:
Cost, Skills, Environment, Infrastructure, Risk, Market Potential
(Scale: 1-4 inferior, 5-6 meets minimum requirements, 7-8 good, 9-10 high performance)
Response rate N=22

We do note that client organizations will not select offshore destinations by focusing solely on relative country advantage in terms of costs, skills, environment, infrastructure, risks, and market potential. Clients understand that cost drivers, environmental factors, and risk profiles can rapidly shift. A better way to select destinations is to use these country advantages in conjunction with a broader set of business criteria by considering the company's strategic objectives and overall commitment to certain destinations. For example, one aerospace company selected Malaysia as their IT offshore destination because they hope to sell planes in that country. The Malaysian government requires that some of the manufacturing be done in Malaysia, and the IT presence will certainly help to meet that requirement. Another hardware company selected China because they hope to sell computers there. One U.S. client chose Canada because it wants suppliers in close physical proximity to their end customers for rapid deployment. Other participants selected offshore locations where they have existing manufacturing or R&D facilities. The existing facilities serve as a launch pad, with current employees serving as guides to the country, suppliers, and culture.[16]

In conclusion, this study shows 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 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.

3. OU Study 2 - South Africa BPO: Performance and Prospect

The accumulating interest in the South African BPO market has sparked a number of recent reports. These establish a foundation for understanding South Africa's positioning and development. As with our first study of country comparisons, our second study based on interview research corroborated these recent reports in many important ways, but also extends them.

Recent Reports 2011-12

Frost and Sullivan 2012

According to Frost and Sullivan (2012)[17] in 2010, the South Africa BPO and contact centre market earned revenues of $1.3 billion. This is estimated to reach $3.06 billion in 2016 - a compound annual growth rate (CAGR) of over 19% for this period. The report makes South Africa one of the leading BPO destinations in the world, with the country competing with the likes of India and the Philippines. The report sees South Africa's key selling points to include an assortment of government incentives in the form of grants and subsidies, good infrastructure, and cultural affinity with key western markets such as US and UK. A Frost and Sullivan analyst saw South Africa as an *"increasingly popular as a preferred destination of contact centres ... South Africa specifically has been a natural choice for contact centres due to its large and articulate English-speaking population and service-oriented business culture. Another strength is its expanding broadband connectivity, thus ensuring that the latest unified communications and collaboration tools will run efficiently*[18]." However, telecommunication costs and inadequate flexibility in the labour market were still obstacles for the country.

BPO drivers, according to the report, include the uncertain climate pushing clients to look for business efficiency and cost management, together with shortage and high cost of personnel, especially in IT and accounting. The result is expansion of demand beyond voice into more complex ITO/BPO, and a demand also for service providers offering one-stop shops. As a result, Frost & Sullivan predicts a notable degree of consolidation in the BPO sector over the next five years. On their figures, offshore-related FTEs were set to increase from 10,000 in 2010 to 40,000 in 2015. Frost and Sullivan see large global BPO operators dominating South Africa's BPO landscape within four years, mainly through acquisitions.

Nelson Hall 2011

The Nelson Hall (2011) study[19] found South Africa offering a viable BPO alternative to onshore services for delivery of high levels of customer experience and handling of relatively complex processes. In particular, organizations looking for new BPO delivery centres – either captive or outsourced – are recommended to see South Africa as an onshore equivalent for contact centre services (see the iiNet and Amazon cases in Part 2) and as a centre for financial industry-specific and back-office services. Nelson Hall also notes improved financial attractiveness with a new incentive scheme putting BPO delivery at 50-55% lower than equivalent European, and within touching distance of Philippines offshoring.

Nelson Hall found the emphasis on end-to-end customer service across a range of customer query types. Companies are using South Africa as an 'onshore equivalent' for their contact centre services, including for international customer service. Telecoms, ISPs, high tech companies, online retailing and home shopping were the dominant sectors serviced but insurance, financial services and media were increasingly being represented. Benefits cited by clients included equal or better customer experience (compared to onshore delivery), cultural alignment with UK/Australia (see iiNet case in Part 2), cost savings, availability of agents and lower attrition levels than onshore, and ease of management compared to other offshore locations. Nelson Hall found the main reasons for offshoring to South Africa were – need to scale to support business growth, lack of onshore capability or high attrition rates, need to match onshore customer experience at lower price point, brand protection at lower price point, and disillusion with customer service from another offshore location.

While 70% of 2011 BPO delivery by South Africa was contact centre services , there was already a significant level of global delivery network service delivery around the more complex financial industry-specific and back-office services, particularly for the energy, wealth and life insurance sectors e.g., CSC and Mutual Life and Discovery. Benefits cited by respondents included: high calibre workforce for non-voice financial services works staff more productive on complex work than other offshore location, 40% cost reduction compared to Europe, time zone benefits, customers preferred South Africa (see British Gas case in Part 2) accent neutrality and cultural affinity, access to younger workforce with pride in serving international customers.

Nelson Hall found a strong skills base in voice, accounting and financial expertise, a city physical infrastructure comparable with those in western Europe and a robust telecoms infrastructure, which still remained high cost relative to some other potential offshore locations. The report notes the active support of government for the BPO industry through incentives for job creation, and financial support and collaboration through the partnership of three bodies (DTI, Business Trust, BPeSA) aiming to create 40,000 offshore BPO jobs by 2015.

BPeSAWestern Cape (2012)[20]

This Key Indicator report focuses on an industry analysis for BPO services based in the Western Cape. The analysis surveyed 80% of the market in 2012.Growth historically has been based around the mature domestic market. Call centre agent numbers have seen a 34% increase from 2008 to reach 27,552 in 2012. However, agents in the offshore sector increased by 59.5% in the same period to 4,727 in 2012. The captive market continued to dominate the BPO/call centre industry making up 78% of the market (outsourcing 22%).The financial services sector accounted for the highest proportion of agents in the industry at 35.2%. Overall attrition rate of agents was 9.6%. The potential 50% cost savings to UK investors are enhanced through Department of Trade and Industry incentives for jobs created and maintained over three years. Average entry level salary for agents working in an outsourcing environment ranged from R3500-4500 per month, while in a captive environment it averaged R6,500 per month. Industry leaders highlighted that a reduction in workforce flexibility, together with increased labour legislation could threaten potential foreign investment.

The Report makes clear the South African/Western Cape BPO and offshoring value proposition. This is premised on firstly a large skilled English speaking pool together with cultural affinities with the UK, Australia and the US. There are also deep domain skills, including a large number of qualified actuaries, accountants and other specialists produced by its tertiary education system. South Africa is also world class in auditing and reporting standards and strong in data protection laws and certifications, similar to UK and EU. Unsurprisingly, it is a legal process outsourcing destination. Thirdly, South Africa offers cost savings to UK and similar destinations of approximately 50%, which is then supplemented by the national job creation incentive scheme, and a region specific incentive of free telecoms for new investors for six months. The BPO industry also offers world class roads, power, education, healthcare and entertainment. Its infrastructure makes it an easy place to do business. It is well placed to service Europe in terms of time zones, and provide 24x7 support to US and Australian companies. Fifthly, both government investment and the telecoms landscape (costs expected to drop a further 15-20% by 2015) make South Africa a robust enabling environment for the expanding BPO industry, which makes a £705 million a year contribution to Western Cape GDP alone.

Everest Group (2012)[21]

Reporting in August 2012, the Everest Group provides the most recent research-based analysis of the South African BPO industry. It corroborates and extends the earlier reports. Everest finds South Africa servicing three segments as at mid-2012 – contact centres for UK, complex, non-voice BPO, and a platform to provide shared services or access broader markets in the sub-Saharan African region. 62% of the offshore jobs market is UK, 13% Europe and 7% US. Currently 84% of jobs were voice, 11% back office and 8% knowledge and legal process outsourcing (KPO/LPO). The main industry sectors represented were telecoms (35%), banking finance and insurance (27%), aviation (15%) and retail (8%).

Everest points to South Africa having skilled English-speaking talent in scale, sustainable cost competitiveness and incentives to benefit investors. Examples include 50% plus savings on UK tier 2 locations, flat salaries and real estate costs since 2010, and business process service incentives of £13 million committed for offshore jobs created in 2011. The report highlights the fast-paced momentum of the BPO industry in South Africa. Offshore jobs are growing at 18% per year, and South Africa aims to create 30,000 additional BPO jobs by 2015. Meanwhile the recent spate of inbound M&A activity we remarked upon in the Introduction is paired with success in serving the UK market and multiple new captive and outsourcing deals signed. Everest also pinpoint the business friendly enabling environment – in particular the robust telecom infrastructure and the Monyleta talent development programme generating a 4,500 pool of industry employable talent. The research points to 14 key global service providers already present (including captives), and 16 key multinational clients sourcing services from South Africa.

Everest finds South Africa amongst the top three global locations that can support English language skills at scale. It has a 370,000 BPO addressable workforce added annually across its educational streams, and 3.6 million English speakers. It has distinctive strengths in its English accent, cultural affinity with the UK and specialized skills, particularly in financial services. It has domain advantage in financial services, with a mature domestic financial services market, developed education system, and similarities with West European certification and accounting standards. According to Everest figures, South Africa offers 50-60% cost arbitrage from source destinations, and is 10-20% lower than locations in Central and Eastern Europe. Post incentives, South Africa's cost of operations reduce by 15-20% and make it comparable to costs in established low-cost locations like Egypt and closer to India (which itself offers tax rebates). Once more, Everest finds South Africa offering what it calls '*a First World experience in terms of its infrastructure and quality of life*' (physical infrastructure, low cost of living, compatible time zone with UK, ease of international access, standard of education, healthcare, entertainment). Everest also support other research reports in pinpointing a stable telecom infrastructure, with steady addition of undersea cables and rapidly reducing costs – a 50% drop since 2008, with a further 15-20% reduction annually over the next three years. It also confirms the very active, practical, government and industry association support to potential and existing investors in the BPO industry. Everest also points to Western Cape as a key location for offshore BPO with a 18% a year growth rate and comprising greater than 50% of the market (FTEs: Western Cape 6,800, Gauteng 3,900, KwaZulu-Natal 3,300).

These reports, combined, provide a detailed researched picture of the South African BPO value proposition, its future direction, and how exactly it will progress. Our own new research in studies 2 and 3 corroborates, updates, extends, and gives much more detail on the performance and prospects for the South African BPO industry.

LSE Outsourcing Unit – Further Insights

Positively, our detailed interview research with 21 clients, providers and analysts (see Appendix 1 for Research Base and Methodology) largely corroborated these findings. We focus here on where our research provides additional or deeper insight. Here we looked at captive/outsourcing BPO arrangements covering ten client organizations and eight service providers. We identified six areas requiring further commentary. For reasons of space, the quotes are illustrative of more in-depth findings. The issues are pursued in our third, more detailed study of British Gas, iiNet, Amazon and Capita (see Part 2).

1.The Service Advantage

South Africa's service advantage has not emerged strongly enough from previous studies. But all our respondents, without fail, made the point that service was (to them at least) the not so 'secret sauce' of South Africa's performance successes so far. The type of service praised covered voice and non-voice, and included service to the client's end customers. In practice, high quality of customer-facing service was the differentiator for many companies choosing South Africa in the first place. Indeed, client companies like British Gas, Amazon, iiNet, Kleinwort Benson, State Street Shop Direct, Mercedes Benz, and Serco, as just examples, place customer experience as critical to their firm's mission. When seeking offshoring cost and skills advantages, they cannot risk that customer experience.

In voice, clients stressed the importance both of accent neutrality and cultural affinity:

'The South African geography allows us to get a higher quality of agent that can deliver a better service than we're getting in, for example, the Philippines and India. The South African accent lends itself well to telephone services, and the culture of South Africa lends itself well to a British customer'. - Stuart Gunnarsson, country manager South Africa, EE.

One respondent talked of operators' 'off-script communication capabilities':

'One of the major reasons why the brands come here is people can naturally hold conversations… The ability to have off-script conversations with customers, and strong empathy to help clients, is one of the key strengths to international investors. It's a key performance area for South Africa to capitalise on in order to grow.' - Kobus Van Der Westhuizen, Senior Vice President, Aegis.

In one recent outsourcing deal, the provider, who operates in several countries, told us that the retail client had pre-chosen South Africa for these very reasons. Thus:

Had we offered xx seats in Philippines, Mauritius, India and South Africa, and went head-to head on the champion challenge basis, South Africa would still have come out on top'. Senior executive, UK-based provider.

The client was very driven by quality of service directed to the UK customer. The company found that the South Africa-based provider could accomplish both selling support and problem solving voice and outperform its own UK-based service centres.

In South Africa, in the present state of the market, the service advantage has flowed from voice to non-voice BPO. However, a number of our respondents suggested that this service advantage could not go on forever. Rising demand for skills required active development of service-focused leaders and operators. Scott Sommers of Amazon also saw the need for - and was actively pulling in- skills from other customer-focused industries including retail, hospitality and tourism.

2. The Performance Record

In our research we verified the service advantage identified in the interviews by using an instrument measuring service performance and quality. Specifically, this invited respondents to measure the ten arrangements on Performance, Business Value, and Service Quality. On a scale of 1-10 all ten arrangements studied came out between good and very good (average 8.2) with service quality scoring an average of 9.1. Service quality covers tangible physical evidence of delivery, reliability – accuracy and dependability, responsiveness – right timing and speed, assurance – giving confidence and trust, and empathy - attention to users.

We also gained performance ratings on eight of the major South African offshore/outsourcing arrangements involving foreign multinational companies. Taken overall, three of these were deemed high performance arrangements while the other five were good (see Appendix 2 for the high performance BPO factors). Several of the clients also had work in the Philippines and India and provided comparators against which South Africa emerged favourably. We also gained assessments of recent investments by three foreign providers in local acquisitions and partnerships. These also were adjudged performing well to very well, though in some cases it was still early days. On attrition rates these were generally higher than UK ones but very favourable compared to other offshore locations. Here are some illustrative quotes on performance:

'The ability to perform higher standard service was critical to our decision…. On customer satisfaction these guys are scoring equal to our UK call centres'. - Senior executive UK utility.

'What the South Africa geography does for us is it allows us to get a better quality of agent deliver a better quality service than we are getting, for example, in the Philippines and India' - Senior executive, telecommunications company.

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'If you're looking for thousands of contact centre agents working at very low cost doing high volume low margin work, South Africa is not going to be the place. But if you are looking for high quality type of customer care, in the call centre or higher quality type activities, or higher margin BPO functions it's a very good place to look at' - Peter Ryan, Practice Leader, Ovum services team.

3. BPO Potential: General, Financial Services and Legal Process Outsourcing

All our respondents talked in detail about the considerable potential for South Africa to grow in both voice and non-voice BPO. Such growth has several dimensions. Firstly, large providers like WNS, Serco and Capita bring with them global ambitions and new activity bases. Several respondents talked of now moving into the business process management space - finance and accounting, spend management, IT and HR outsourcing – from a South African location. Large providers also bring with them existing clients for which South Africa could, on several criteria, provide an attractive option. One provider executive told us: *'there's enough people to build a substantial international BPO capability.'* As a financial service senior executive commented:

'Expansion in South Africa has seen a sea change, particularly more recently, and presence attracts more presence. It's cheaper and easier – for clients and providers - to move to a place that's already in place'.

On voice, the South African advantage was set to continue for several years, but the nature of services would change. Some saw clear markets in travel and retail using a telephony and voice-based infrastructure. South Africa was better positioned than many here, but was not picking up yet on the opportunity in the new technologies. Others were already building from voice into the whole customer service value chain, including customer intelligence. South Africa needed to prepare for a world where voice would only be one aspect of customer contact.

South Africa has considerable potential in higher valued, higher margin BPO areas. However, according to Peter Ryan, Practice Leader for Ovum's service team, this could not be on the scale of India or the Philippines due to population size, and would also require a transfer of the service ethos and rapport from current areas. A senior provider executive agrees: *'The step into knowledge process outsourcing would be niche, and choosing the niche is going to be critical.'* Given limits on scale, one approach would be to focus on voice/non voice with domain-centric skills in verticals such as retail, healthcare and finance. Another potential space is 'fringe skills.' For example, one commentator has suggested that one of South Africa's more successful BPO niche areas, software development, can be further strengthened by focusing on fringe skills such as software testing. The most promising mentioned were legal process outsourcing (LPO) and financial services.

Respondents identified that South Africa had the right higher educational base and qualified skills base and institutional environment to leverage much more into the LPO market. Actuarial talent was there, but according to Shyan Mukerjee, Practice Director at Everest Group:

'While South Africa has one of the highest pool of actuaries to boast of, attracting them to work in the offshore BPO sector has been a challenge barring a few instances. The BPO sector has to make that compelling pitch to them'

On financial services, in practice, as a bank for institutional investors, State Street in South Africa had been running the back office for UK clients since 2006, in preference to using their other locations in China, Poland and India. A senior executive in a financial services company explained:

'There is a high level of operational risk when you outsource your heart and lungs –all your processing - and we were seen (by UK clients) as a safe pair of hands with a track record that we could take on projects of this scale and execute them'. He added: *'South*

Africa could do administration in and around financial products very well because it has a mature financial services sector and so a talent pool – you can hire people with experience'.

This was confirmed by a senior Fund Administration executive whose bank, Kleinwort Benson, has been operating back-office services in South Africa since 2006:

'There is no reason why any of the large banking and financial service organizations in London should not be looking at South Africa for the less client-facing roles – for example accounting, administration and other back office functions – I just don't think we've sold it'

4. <u>Rising Demand: The Skills Supply Challenge</u>

All respondents identified a pending skills challenge for South Africa. Rising demand would, ironically, create problems from success. According to Scott Sommers of Amazon: '*There is a strategy to attract investors, but more is needed to prepare the industry for all these investors coming in'*. Government, higher education and BPO clients and providers needed to anticipate and short-circuit shortages and wage inflation amongst operators, but particularly for middle management and team leadership skills:

'I think the biggest challenge they have when I think about the value chain is skills. The challenge is at the middle management level'. – Adam Eley, General Manager British Gas Residential.

'At the operations level, I think it's largely about building the talent pipeline, especially in customer service and team leadership skills. - Martin Roe, BPO consultant.

'The success of their operation will be because they have good quality team managers who can manage people. If you have poor team managers, you will probably get poor outputs.. I know this was a concern for us, and this is one of the areas that we highlighted when we went to South Africa' – Adam Eley General Manager British Gas Residential.

'We need to do more around preparing middle management for the kinds of contracts and companies that are coming over now and in the future. So certainly middle management and then at specialist level, where disciplines such as workforce management and quality management need special attention." - Fagri Semmar, CEO, Teleperformance.

By way of summary, we were told:

'It's been the people element that's been the really attractive thing. …so we need to invest heavily in skills, and higher education need to be developing the curriculum further in terms of sector-specific and leadership capabilities. We also need a multiple location strategy across cities in South Africa…. However, the more we see large experienced providers like Serco, Capita and WNS coming to South Africa driving best practice and skills, the more we will see local talent developing, including in leadership and middle management.' **-** Fagri Semmar, CEO, Teleperformance.

5. Providers 'Upping' Their Game

Our previous research into offshore locations suggests that government and sector agencies can do only so much in terms of providing an enabling BPO environment. Certainly in South Africa government now needs to do more on incentives to retain as well as create investors, become better organized and focused in strengthening the BPO sector, and to strengthen support for education and training initiatives. However, providers and captives need to become viable without waiting for government cheques, and take responsibility for their training needs, and dealing with specific skills gaps. Providers also need to collaborate more to anticipate and deal with wage and skill pressures before they become subject to a win-lose competitive spiral, as in India. There is also anticipating and gearing up for the potential markets mentioned above. On one summary Shyan Mukerjee, Practice Director at Everest Group, suggests:

'Providers in South Africa need to grow in scale. They need to be out there in their target markets effectively communicating the South African value proposition. While marketing should be the focus, they need to fix the talent side, demonstrate the breadth and depth in skills and also provide services that credibly demonstrate "high-performance" and "high-value" work delivered from South Africa . A bunch of global service providers now have operations in South Africa, bringing global best practices: capabilities and tool kits plus marketing resources. To compete, local service providers need to up-shift their investments in capabilities, marketing and leadership.'

6. Marketing, Alignment and Support

All respondents were consistent on a related set of issues. The marketing of South Africa was disparate. As one financial services company senior executive put it: *'The actual BPO experience has been very good and South Africa is an undersold offering. Other countries are better at co-ordinating industry, government, and NGOs to consistently market the benefits of offshoring to that country.'*

The strong suggestion was the creation of one single body for South Africa, funded by the public and private sectors, that would bring all the stakeholders together to work in the same direction. This would offer a single, higher profile for the country's BPO sector. The objective would be to ensure that no offshore investor could make an offshoring decision without South Africa being in the frame. This single body would allow the South African BPO industry to communicate a consistent message, and also explain and contextualize hot, sometimes negative headlines as they appear, for example on recent labour disputes in the northeastern part of the country:

'What distinguishes a good outsourcing association is the ability not just to promote the country but also to outline to investors why what they might be seeing in the global headlines whether it's violence, corruption, politics, economic fluctuations - may not be as important in decision-making and its impact on the BPO sector, as what you might believe from the media discussion' - Senior executive of a financial services company.

According to several respondents, it is also important to communicate that South Africa is a relatively new democracy, there will be bumps, patience is needed at times, but it has a better chance of succeeding than most of countries in its position anywhere in the world.

A second identified area is lack of alignment amongst the overseeing bodies in South Africa. One of the results is that grants, support and policies tend to be piecemeal rather than strategically targeted, and subject to decisions from different national and provincial entities, often pulling in different directions. This makes it difficult to deliver on one suggestion, for example, namely to establish a national strategy on BPO that draws upon a national BPO talent pool.

5. Becoming Strategic – Recommendations

A 2012 report by McKinsey suggest that Africa has a demographic dividend of the largest labour force in the world by 2035. At the current rate Africa will create 54 million new, stable wage-paying jobs over the next ten years—but this will not be enough to absorb the 122 million new entrants into the labour force expected over the same period. To fully capture this potential it must accelerate its creation of wage paying employment. McKinsey (2012)[22] point to how Africa can accelerate this to 72 million. The more developed diversified economies of Egypt, Morocco, South Africa, and Tunisia have higher unit costs than India and China and so must compete in higher value added industries. They already have significant manufacturing and service industries and stand to gain immensely from links with the global economy.

The untapped potential is, according to the report, in higher value added work in agriculture, construction, government, manufacturing retail/hand hospitality and financial services. **But, we would add,** Egypt, Morocco, **South Africa,** and Tunisia **also have burgeoning BPO industries which can act as prime job incubators.** South Africa, in particular, starts with advantages in business environment, infrastructure, education, financing and political and macroeconomic stability. In South Africa a shortage of skills--especially technical skills--is cited amongst the top three barriers to growth[23]. However, creating training programmes are amongst the top three actions being taken by businesses.

The McKinsey report makes general recommendations that have much resonance for South Africa. For Africa generally, McKinsey recommend identifying sub-sectors to invest in, improving access to finance, favouring foreign direct investment, building suitable infrastructure, cutting unnecessary regulations, developing skills in target sectors and building strong collaboration between public policy makers and business leaders to establish the sufficient pool of skilled workers for the targeted sector.

At a finer level of granularity, South Africa's challenges in the BPO space come primarily from its recent successes, and the anticipated high levels of growth. Becoming strategic requires South Africa to drive faster and more concertedly down the paths already set. We make five recommendations:

1. Accelerate and scale the investment in skills development in leadership, middle management as well as at operator levels. The BPeSA Western Cape skills project may be taken as a model that can be replicated and implemented in other provinces. This example of collaboration across provinces will ensure optimal use of resources and a unified approach to skills development.

2. Continue government support in investment grants together with deeper government body and company investor collaboration in the vital area of training technical and graduate employees for the BPO industry to meet the surge in demand over the next three years. Over time it is important that government provides the enabling environment but that skills and business development is driven by the BPO industry itself.
3. Develop and actively support to suitable scale the embryonic BPO markets in financial services and legal process outsourcing.
4. Preserve the service advantage by investing in service skills when scaling voice and non-voice BPO and moving into other activity segments.
5. Market South Africa, as a BPO location, as and through a single entity, as achieved, with great effectiveness, by a country such as Poland, and one as massive as India. In studying China's indifferent performance to date as an offshore location, we noted its lack of such a single-source marketing and support entity. Restructure and build a national BPeSA which centres on Johannesburg, Durban and Cape Town. Ensure such an entity has stable leadership. Part of its mission is not only to attract investors, but also to make it easy to do BPO business with South Africa as a whole, and drive the training and skills development efforts.

Collaboration between the government, industry and investors – already in train – is the foundation for securing South Africa as a sustainable world class BPO location and for realizing its great potential.

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Outsourcing: An International Journal. Her research focuses on global outsourcing of business and IT services. She has conducted case studies and surveys of hundreds of organizations on their outsourcing and management practices. She has given executive seminars world-wide and has served as an expert witness for the US Congress. She was the recipient of the 2008 Gateway to Innovation Award sponsored by the IT Coalition, Society for Information Management, and St. Louis RCGA and the 2000 World Outsourcing Achievement Award sponsored by PricewaterhouseCoopers and Michael Corbett and Associates. She has published 15 books, most recently *Advanced Outsourcing Practice: Rethinking ITO, BPO, and Cloud Services* (Palgrave, 2012; co-author Leslie Willcocks). Her publications have appeared in the *Harvard Business Review, Sloan Management Review, MIS Quarterly, IEEE Computer, Communications of the ACM,* and many other academic and practitioner outlets. She was Program Co-chair for ICIS 2010. Before earning her Ph.D. at the University of Houston, she worked as a consultant for Technology Partners International and as a systems analyst for Exxon Company, US.

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Appendix 1 - Research Base and Methodology

This study draws upon primary research conducted by the authors between July 2012 and October 2012. This consisted of:

1. A quantitative, comparative analysis of selected competitive country locations. Benchmark assessments of the United Kingdom were provided from our own database analysis. Data on the nine additional countries was then obtained by questionnaire from 30 senior global sourcing analysts working in client (10), provider (8), management consultancy (3), market analysis (5), and research (4) organizations. These analysts were carefully selected as a) highly experienced and knowledgeable professionals in the global sourcing field and b) having specific expert knowledge about South Africa and its competitors. (*Technical note: Some analysts did not rate all ten countries, but data was collected from at least 18 respondents for each country in the study. For each country analyst ratings were relatively close. Final figures in the Report show median ratings as the most representative*).

2. Further detailed interview research with 14 client organizations (9) and providers (5) operating in South Africa, 2 potential clients, and 5 market analysts. The interviews covered ten of the major captive/outsourcing arrangements in South Africa and involved five of the major service providers. All respondents were experienced in global sourcing and expert in business and IT service location attractiveness. Interviews were typically 60-75 minutes in length with the tape transcription quotes verified by respondents. Client organizations were from utilities, telecommunications, financial services, legal, retail and airline sectors. Additionally we devised and administered a survey instrument to measuring service performance. This invited respondents to measure the ten arrangements on Performance – quantity versus target, Business value – does it make business sense and Service quality. Service quality covered:

- Tangible physical evidence of delivery,
- Reliability – accuracy and dependability
- Responsiveness – right timing and speed
- Assurance – giving confidence and trust
- Empathy - attention to user

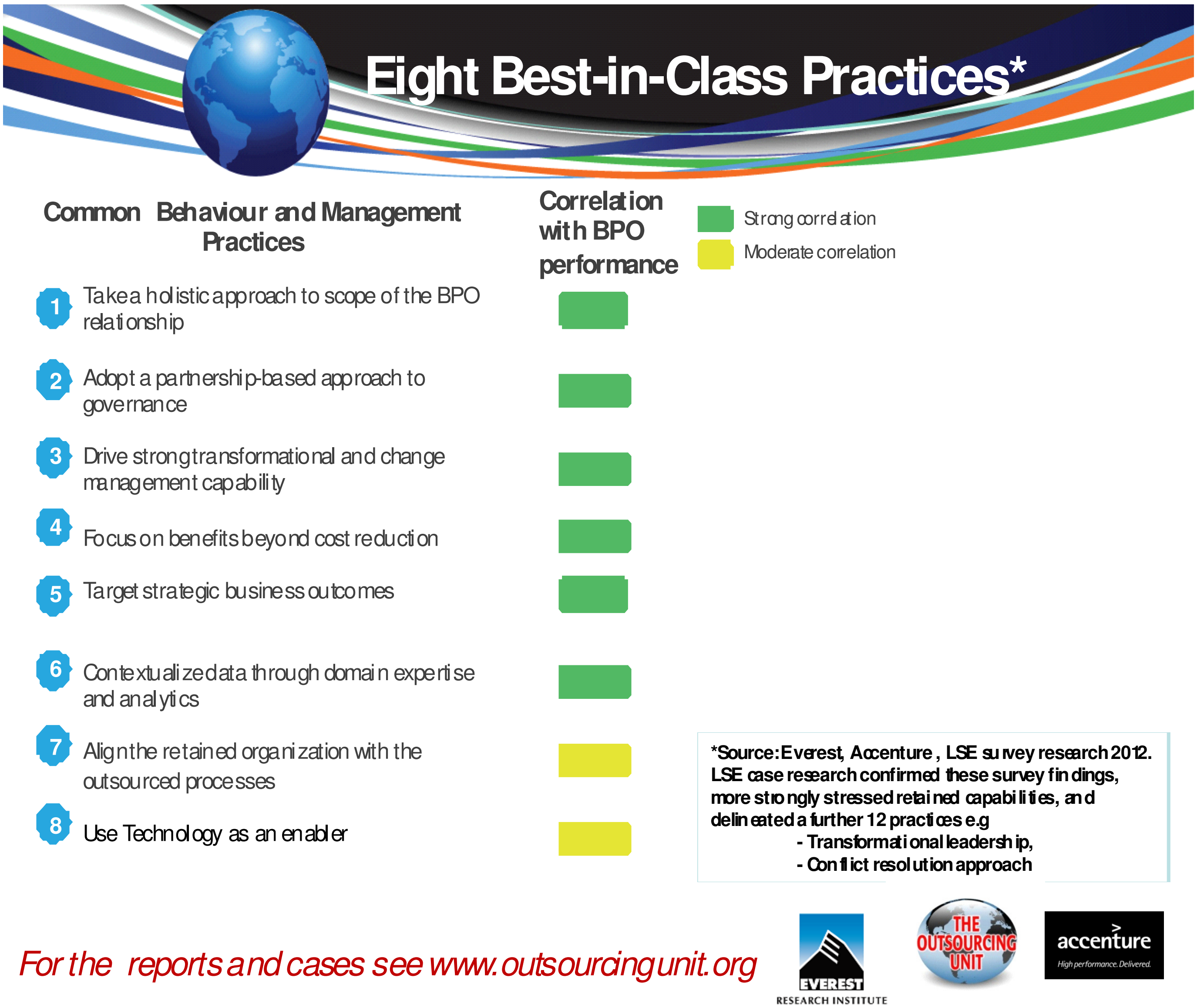
Scoring was on a scale 1-10 with 1-3 being inadequate, 4-6 meets minimum satisfaction threshold, 7-9 good to very good, and 10 exemplary.

3. Total research was through a mix of interview, questionnaire, desk research and client and provider interviews in Europe, Asia Pacific, and Africa across the July-October 2012 period.

4. The study draws directly on three recent LSE Outsourcing Unit streams of research and findings. The first is a study of High Performance BPO conducted by Mary Lacity and Leslie Willcocks throughout 2011-2, sponsored by Accenture. This looked at over 20 global BPO arrangements and drew also on a 230 plus respondent Everest survey. The reports can be found at *www.outsourcingunit.org*. The study developed the eight factor benchmark for high performance BPO used in the present report. The second study into cloud computing by Leslie Willcocks, Will Venters and Edgar Whitley was published as *Cloud and The Future of Business* LSE/Accenture, London. The third study of location attractiveness in BRIC and non-BRIC countries was published in Oshri, I., Kotlarsky, J. and Willcocks, L. (2011) *The Handbook of Global Outsourcing and Offshoring*. Palgrave, London. Its 20 factor Location Attractiveness instrument is used in the present study.

5. The study also draws upon the Outsourcing Unit's 20 year longitudinal case database of 1,600 plus global sourcing IT, BPO and offshoring arrangements studied in-depth from 1993-2012. Including survey work the research base represents data from 2,500 plus organizations. The most recent findings appear in Willcocks, L. and Lacity, M. (2012) *Advanced Outsourcing: Rethinking ITO, BPO and Cloud Services*, Palgrave London, and Willcocks, L. and Lacity, M. (2012) *The New IT Outsourcing Landscape*, Palgrave, London. The multiple case studies are also represented in Lacity and Willcocks (2009) *Information Systems and Outsourcing: Studies in Theory and Practice* (Palgrave), Oshri, Kotlarsky and Willcocks (2008) *Outsourcing Global Services* (Palgrave), Kotlarsky, Oshri and Van Fenema (2008) *Knowledge Processes in Globally Distributed Contexts* (Palgrave) and Willcocks and Lacity (2009) *The Practice of Outsourcing: From ITO to BPO and Offshoring* (Palgrave). The cases are in-depth and longitudinal i.e. studied qualitatively and quantitatively, in some cases over three generations of outsourcing. The research base covers all major economic and government sectors, including financial services, energy and utilities, defense and aerospace, retail, telecoms and IT, oil, transportation, central, state and local government, health care, industrial products and chemicals, and is drawn from medium, large and multinational organizations based in Europe, US and Asia Pacific.

Appendix 2 – BPO Best-in-Class Practices



[1] Figures on size of ITO and BPO vary considerably depending on source, and basis of calculation. We propose a composite figure based on the more conservative estimates, and our data from the LSE Outsourcing Unit database case on recent developments. See Willcocks, L. and Lacity, M. (2012 *Advanced Outsourcing Practice: Rethinking ITO, BPO and Cloud Services.* Palgrave, London, especially chapter 1.

[2] In fourth quarter 2011, we administered a survey to respondents representing 84 client organizations that purchase ITO and BPO services. Nine countries are represented, but the data primarily capture US client responses. Overall, we found that client organizations are not changing their buying patterns because of anti-offshoring pressures. Instead, client respondents report strong satisfaction with offshore outsourcing of IT and business services and favourably reported on the costs savings and increased flexibility with offshore ITO and BPO. See: S. Khan, and M. Lacity, "Survey Results: Are Client Organizations Responding to Anti-Offshoring Pressures?" *Strategic Outsourcing: An International Journal*, Vol. 5, 2, (2012) 166 – 179.

[3] NASSCOM (2012) The IT/BPO Sector In India – Strategic Review 2012. NASSCOM, New Delhi

[4] Punongbayan and Araullo (2012*) Doing Business in The Philippines for Business Process Outsourcing Companies.* Punongbayan and Araullo, Philippines.

[5] See Willcocks, L. and Lacity, M. (2012), *Advanced Outsourcing Practice: Rethinking ITO, BPO and Cloud Services.* Palgrave, London. Also Oshri, I., Kotlarsky, J. And Willcocks, L. (2011) *The Handbook of Global Outsourcing and Offshoring*. Palgrave, London second edition.

[6] M. Lacity and L. Willcocks, (2012) *Advanced Outsourcing Practice: Rethinking ITO, BPO, and Cloud Services,* London, Palgrave.

[7] We recently reviewed empirical results from 87 academic studies on BPO. The review found that most clients outsourced business processes for operational reasons--to reduce costs, improve process performance, access skills, increase scalability and/or speed delivery. A minority of clients pursued BPO to achieve a rapid and substantial transformation of a back office, like the creation of a commercial enterprise, which can be high-risk. Our current research focuses on long-term results; clients from high-performing BPO relationships remain high-performing because they foster continuous, dynamic cycles of innovation. For the BPO review see: M. Lacity, S. Solomon, A. Yan, and L. Willcocks, "Business Process Outsourcing Studies: A Critical Review and Research Directions," *Journal of Information Technology*, Vol. 26, 4, (2011), 221-258. For transformational outsourcing see: M. Lacity, D. Feeny, and Willcocks, L. "Transforming a back-office function: Lessons from BAE Systems' Experience With an Enterprise Partnership," *MIS Quarterly Executive*, Vol. 2, 2, (2003) 86-103 and J. Linder, "Transformational Outsourcing," *Sloan Management Review*, Vol. 45, 2 (2004), 52-58.

[8] Oshri, I., Kotlarsky, J. And Willcocks, L. (2011) *The Handbook of Global Outsourcing and Offshoring*. Palgrave, London, second edition. See also Willcocks,L. Kotlarsky,J. And Griffith, C. (2009) *Beyond BRIC – Offshoring in Non-BRIC Countries. LSE OU/ITIDA, Cairo.*

[9] Farrell, D. (2006) Smarter Offshoring *Harvard Business Review*, 85-92. Our 20 factors are derived from a comprehensive analysis of factors considered by clients in our database and the LSEOU model is more comprehensive than Farrell's approach.

[10] See Willcocks, L. and Griffiths, C. (2012) "The neglected role of middle management in outsourcing and offshoring," In Willcocks, L. and Lacity, M. *The New IT Outsourcing Landscape*. Palgrave, London.

[11] See Willcocks, L., Cullen, S. and Craig, A. (2011*) The Outsourcing Enterprise: From Cost Management to Collaborative Innovation*. Palgrave, London. See Chapter 1, which has older figures than these more recently calculated ones.

[12] Willcocks et al (2011) op. cit. Chapter 5.

[13] This refers to the number of respondents who answered for all countries. Other respondents answered for between 2 and 6 locations

[14] NASSCOM (2012) *The IT-BPO Sector in India: Strategic Review 2012*. NASSCOM, Mumbai.

[15] See Willcocks, L. and Griffiths, C. (2012) The neglected role of middle management in outsourcing and offshoring. In Willcocks, L. and Lacity, M. *The New IT Outsourcing Landscape*. Palgrave, London.

[16] Rottman, J., and Lacity, M. (2006), "Proven Practices for Effectively Offshoring IT Work," *Sloan Management Review*, Vol. 47, 3, pp. 56-63.

[17] Frost and Sullivan (2012) *Demand Analysis of the BPO and Contact Centre Market within the South African Financial and Retail Sectors*. Frost and Sullivan, US

[18] Ishe Zingoni Frost & Sullivan's Information and Communication Technologies Industry Analyst web site 3rd July 2012
[19] Nelson Hall (2011) *Analysis of South Africa As A BPO Delivery Location*. Nelson Hall,
[20] BPeSA Western Cape (2012) *key indicator report 2011/12*. BPeSA, South Africa.
[21] Everest Group (2012) *South Africa's BPO Proposition: Discussion Document*. Everest Group, London
[22] McKinsey and Company (2012) *Africa at Work: Job Creation and Inclusive Growth*. McKinsey Global Institute, Washington, US. ,
[23] McKinsey Survey of African Business 2011.