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# **Stimulating Black Economic Empowerment in the Business Process Outsourcing / Contact Centre Sector**

**A report prepared by Charley Lewis,  
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March 2008**

## **1 Executive Summary**

South Africa's business process outsourcing, offshoring and contact centre sector has been identified by government at both national and provincial level as an important source of foreign direct investment, as well as a lever towards the creation of jobs. The creation of national and provincial co-ordination bodies, as well as the provision of a number of national incentive schemes, provides essential support towards the growth of the sector.

The global business process outsourcing, offshoring and contact centre market is both substantial and growing. Estimates vary, but a market size of several hundreds of billions of US dollars and an annual growth rate above 5% are likely. India remains the leading international outsourcing destination, but competition is fierce, with South Africa the only African country amongst the top 30 global outsourcers.

South Africa's business process outsourcing, offshoring and contact centre market is also sizeable, believed to consist of upwards of 1 300 companies employing over 200 000 agents, and with annual growth rates in excess of 25%. Most South African operations in the sector are in-house, serving the parent company, but there are a substantial proportion of providers of outsourced services, and a growing number of international outsourcers.

South Africa is well placed as a global business process outsourcing destination, offering high quality services at reasonable prices. It further boasts a strong institutional framework through national and regional associations, together with extensive government support which includes a number of incentive schemes. Considerable efforts are being undertaken to grow the skills base in the sector, although bottlenecks at higher levels remain. Despite wide commitment to BEE within the sector, direct black ownership of companies appears to remain low.

A number of options exist for the NEF's Strategic Projects Fund to strengthen the BEE component of the sector. These include: support for a BEE component to local investment by global outsourcers; support for BEE investment in the SME sector of the domestic outsourcing market; and support to grow the pool of black, middle to senior level managers.

Each of these options requires further investigation, analysis and feasibility studies. Further, research into critical success factors for strengthening BEE in the sector as identified by black CEOs would be worthwhile.

## 2 Glossary

AsgiSA	-	Accelerated and Shared Growth Initiative for South Africa
BEE	-	Black economic empowerment
BPeSA	-	Business Process enabling South Africa <sup>1</sup>
BPO	-	Business process outsourcing <sup>2</sup>
BPO&O	-	Business process outsourcing and offshoring
CC	-	Contact centre / call centre <sup>3</sup>
dti	-	Department of Trade and Industry
GAS	-	Government assistance and support
ICT	-	Information and communications technologies
NEF	-	National Empowerment Fund

## 3 Introduction

This report is intended to identify a range of possible strategic options for the National Empowerment Fund to strengthen black-owned equity involvement in the business process outsourcing, offshoring and contact centre sector within the broader ICT-enabled economy through its Strategic Projects Funds.

The report begins by outlining the priorities and rationales that have led a number of role players to focus on business process outsourcing, offshoring and contact centres as a priority for institutional and investment support. After an examination of both the global and national status of the sector, some key trends of relevance to the important objective of strengthening black economic empowerment are identified, and a range of possible interventions are examined.

## 4 Business process Outsourcing / Contact Centres: A Priority Sector

Although South Africa's call centre sector has been in existence since at least the mid-1970s<sup>4</sup>, it was not until the mid-1990s that combined advances in information technology and telecommunications connectivity enabled the sector to expand substantially.

In recent years, however, substantial efforts have been made to stimulate the growth of contact centres and business process outsourcing operations. In 2002 an ICT sector jobs summit was held between business, organised labour and government, which identified call centres as an investment focus aiming to stimulate "labour

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<sup>1</sup> National umbrella body for business process outsourcers and contact centres in South Africa, successor to SACCCOM (South African Contact Centre Community).

<sup>2</sup> BPO refers to third-party performance, usually ICT-enabled, of key business functions such as customer contact centre or data processing services.

<sup>3</sup> A 'call centre' utilises telephony exclusively, either to interact with ('in-bound') customers phoning in to lodge complaints and solicit support, or to reach out for sales or survey ('out-bound') purposes. The more favoured current term of 'contact centre' is distinguished by the use of a wider range of interfaces, such as e-mail, online forms and SMSs.

<sup>4</sup> A recent survey (Benner, C, Lewis, C & Omar, R (2007) *The South African Call Centre Industry: A Study of Strategy, Human Resource Practices and Performance*, LINK Centre, Johannesburg) found one call centre that had been in existence since 1976.

absorbing activities”<sup>5</sup> within the context of ongoing high levels of structural unemployment in South Africa.

The same year, 2002, saw the establishment of the first provincial BPO&O / CC umbrella body, *Calling the Cape*<sup>6</sup>, aimed at fostering the growth of the sector with the active support of both provincial government and existing local players<sup>7</sup>. There are now a number of such provincial bodies (including *Contact in Gauteng*, *KZNonSource* and, to a lesser extent, the *COEGA Development Corporation*<sup>8</sup>) all now under the national umbrella of *Business process enabling South Africa*<sup>9</sup>. All enjoy significant support from government at various levels, as well as industry, and share a common vision of business process outsourcing and contact centre operations as a vehicle to stimulate the local economy, create jobs and attract foreign direct investment (FDI).

Despite the fact that the overwhelming preponderance of activity in the sector services local clients, much of the attention has been focused on the effort to grow the international segment of the market and to attract global outsourcers to SA. The web sites of the various umbrella bodies are replete with information on the ‘South African (and Gauteng / Western Cape / KZN) value proposition’<sup>10</sup>. More recently, the South African Government identified business process outsourcing as one of three key pillars of its 2006 AsgiSA economic strategy aimed at stimulating economic growth and reducing unemployment<sup>11</sup>. After considerable industry lobbying, the following year saw the launch of a multi-million rand business process outsourcing and offshoring (BPO&O) support programme under the acronym GAS (Government Assistance & Support). This programme sets out to provide financial grant support to incentivise local or foreign investors that are either establishing or expanding BPO&O operations to service international clients<sup>12</sup>. Significantly, the incentives, which subsidise the creation of BPO agent positions and the training of staff, do not include any black economic empowerment criteria<sup>13</sup>. This is perhaps understandable, given the intention of attracting foreign firms who may not be eager for local partnerships. Despite a few grumbings from established players within the sector, as well as some

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<sup>5</sup> See NEDLAC (2002) ‘Information & Communication Technologies Sector Summit: Agreement’, National Economic Development and Labour Advisory Council, Johannesburg, available online at <http://www.nedlac.org.za/docs/agreements/ict.html>, p12.

<sup>6</sup> See <http://www.callingthecape.org/index.html>.

<sup>7</sup> Interview with Luke Mills, then CEO of Calling the Cape, 2 February 2007.

<sup>8</sup> See <http://www.callcentres.co.za>, <http://www.kznonsource.co.za>, and <http://www.coega.com/content.asp?id=271&node0id=33&node1id=47> respectively. Whereas the other bodies have a specific focus on BPO&O and call centres, this is one of several focus areas of the Coega Development Corporation.

<sup>9</sup> See <http://www.bpesa.org.za>.

<sup>10</sup> See, for example: Calling the Cape (nd) ‘value Proposition’, Calling the Cape, Cape Town, available online at <http://www.callingthecape.org/170.html>, or Contact in Gauteng (nd) ‘Joburg, the African BPO Hub – Executive summary’, Contact in Gauteng, Johannesburg, available online at [http://www.callcentres.co.za/Documents/JoburgBPO\\_Executivesummary](http://www.callcentres.co.za/Documents/JoburgBPO_Executivesummary) [www.callcentres.co.za/pdf](http://www.callcentres.co.za/pdf), or the dti (2006) ‘BPO2SA Value Offshoring: South Africa’s value proposition for BPO&O’, Department of Trade and Industry, available online at <http://www.bpesa.org.za/downloads/SouthAfricasValueProposition.pdf>

<sup>11</sup> See GCIS (nd) ‘Accelerated and Shared Growth Initiative for South Africa (AsgiSA)’, <http://www.info.gov.za/asgisa/asgisa.htm>. The other two sectors are tourism and bio fuels.

<sup>12</sup> See: the dti (nd) ‘BPO Government Assistance & Support Programme’, <http://www.bpo2sa.org.za>.

<sup>13</sup> See: the dti (2007) ‘Programme Guidelines: BPO&O Investment Incentive’, <http://www.bpo2sa.org.za/incentives/BPOIncentives-ProgrammeGuidelinesCapex.pdf>.

press reports casting doubt over the scheme as a failure, November 2007 saw the arrival of the first international outsourcer to benefit from the scheme when the US-based Teletech began construction on a call centre in Cape Town<sup>14</sup>. Further, government has been able to negotiate reduced fixed line call charges for BPO&O operators<sup>15</sup>, removing a further hurdle to foreign investment in a sector where price leadership is a critical factor underpinning investment decisions.

## 5 Global Market Trends

With South Africa clearly having made business process outsourcing a central feature within its economic growth strategy, it is worth examining the global state of play in the sector.

Although few analysts would dispute the leadership position of India<sup>16</sup>, there is, unfortunately, no freely available authoritative data covering the global BPO&O / CC market. Call Centres India Inc claims a current IT / BPO offshoring global market of one trillion US dollars currently<sup>17</sup> whilst Price Waterhouse Coopers in 2005 cited Gartner as estimating that the BPO sector would grow to \$310 billion by 2008<sup>18</sup>. Such figures for the global market size are hard to verify or dispute. Figures for the numbers of call centre agents worldwide are even harder to come by.

A recent extensive global survey which covered 2 477 call centres with 474 941 employees across 17 countries<sup>19</sup>, can still not claim to be fully comprehensive, although it does reveal certain common global characteristics. For example, the perception of BPO as a recent global phenomenon shows up in the fact that the global average age of call centres is 8 years (in 2007). The report found considerable uniformity across the 17 survey countries, referring to

*many similarities across countries, suggesting that the call centre sector has developed in broadly similar ways across advanced and recently industrialised countries with regard to markets, services, and some organisational characteristics*<sup>20</sup>.

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<sup>14</sup> See: Engineering News (2007) 'TeleTech establishes SA call centre facility', by Christy van der Merwe, *Martin Creamer's Engineering News*, Johannesburg, 26 November 2007, [http://www.engineeringnews.co.za/print\\_version.php?a\\_id=122116](http://www.engineeringnews.co.za/print_version.php?a_id=122116).

<sup>15</sup> See: Engineering News (2007) 'Govt, Telkom agree to special call-centre tariff', by Matthew Hill, *Martin Creamer's Engineering News*, Johannesburg, 16 November 2007, [http://www.engineeringnews.co.za/print\\_version.php?a\\_id=120723](http://www.engineeringnews.co.za/print_version.php?a_id=120723).

<sup>16</sup> A 2005 McKinsey report (Kaka, N, Kekre, S and Saranagan, S (2005) 'Benchmarking India's business-process outsourcers', McKinsey & Nasscom, available online at [http://www.mckinsey.com/client-service/bto/pointofview/pdf/MoIT8\\_Nasscom\\_F.pdf](http://www.mckinsey.com/client-service/bto/pointofview/pdf/MoIT8_Nasscom_F.pdf)

<sup>17</sup> See <http://outsourcingindia.blogspot.com>, 14 February 2008.

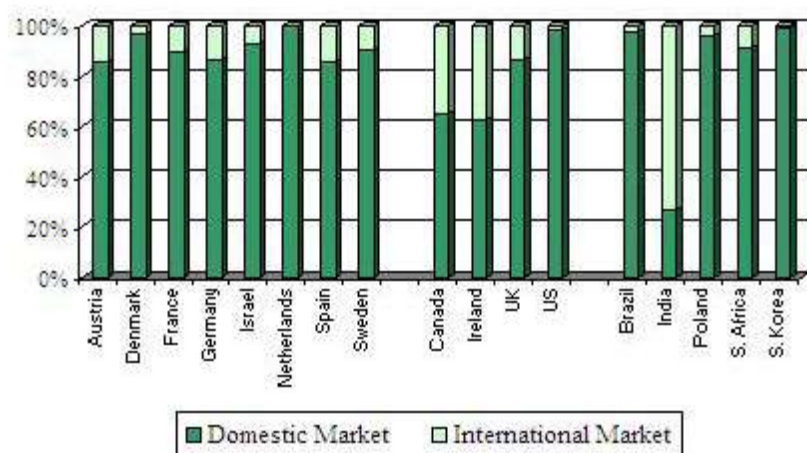
<sup>18</sup> PWC (2005) 'The Evolution of BPO in India', Price Waterhouse Coopers, available online at [http://www.pwc.com/extweb/pwcpublications.nsf/docid/244E23BB170A0B69CA25718100075183/\\$file/IACC\\_PwCBPOSurvey2005.pdf](http://www.pwc.com/extweb/pwcpublications.nsf/docid/244E23BB170A0B69CA25718100075183/$file/IACC_PwCBPOSurvey2005.pdf)

<sup>19</sup> Holman, D, Batt, R & Holtgrewe, U (2007) 'The Global Call Centre Report: International Perspectives on Management & Employment: Report of the Global Call Centre Network', Global Call Centre Project, School of Industrial and Labour Relations, Cornell University, Ithaca, NY, available online at <http://www.ilr.cornell.edu/globalcallcenter/upload/GCC-Intl-Rept-UK-Version.pdf>.

<sup>20</sup> Ibid, p15.

Nevertheless, the survey points to considerable differences in terms of “the types of work and employment practices”, suggesting a worldwide industry with unique national flavour despite global commonalities.

Further the typical call centre is very different from the popular Indian stereotype - only 14% of call centres in the survey's sample primarily served international markets, while 67% were in-house (or captive) as opposed to



**Figure 1: Global call centres - domestic vs international markets**

*Source: Holman et al, 2007<sup>21</sup>*

outsourced operations. India is in fact a significant outlier, with 73% of its call centres serving the international market and 80% being outsourced.

Gartner reports high levels of steady growth in the BPO&O / CC sector, predicting growth of just over 8% for 2008<sup>22</sup>. Gartner further suggests a move towards “multi-sourcing”, locating BPO operations in a number of international destinations to reduce risk - a trend that can only benefit countries like South Africa who are aiming to increase their presence in the global market. Gartner also ranks South Africa amongst its top 30 global outsourcing destinations, the lone entry from the entire continent of Africa, and suggests, along with several other analysts, that the pre-eminence of India is on the wane<sup>23</sup>. However, the international outsourcing market remains highly competitive and contested, with destinations such as China, Ireland and the Philippines vying for market share.

## 6 South Africa's BPO&O / CC Market

The South African business process outsourcing and contact centre market, by contrast, is relatively well documented, although finding accurate and up-to-date data remains a challenge. The standard sets of figures quoted are those from the publicity material of BPeSA, but these are now considerably dated, especially in the light of annual growth rates estimated to be in the order of 25% and more.

<sup>21</sup> Ibid, p 16.

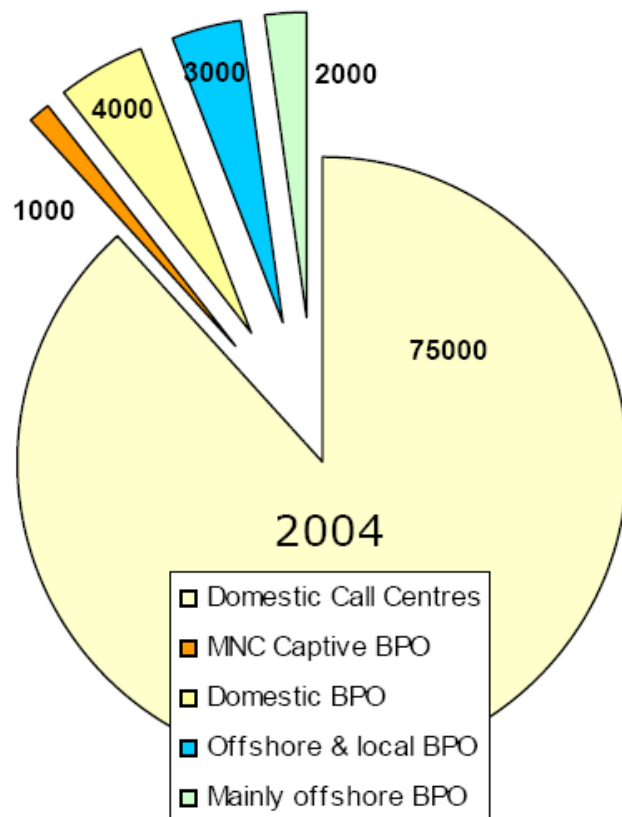
<sup>22</sup> Cited in VnuNet (2008) 'Outsourcing market reaches 'tipping point'', by Robert Jaques, VnuNet, 8 January 2008, available online at <http://www.vnunet.com/vnunet/news/2206683/global-outsourcing-market>.

<sup>23</sup> See, for instance: Network World Asia (2008) 'Alternative offshore locations emerge for 2008', <http://www.networkasia.net> and CIO (2007) '10 Outsourcing Predictions for 2008 (and One to Grow On)', by Stephanie Overby, <http://www.cio.com/article/print/166108>.

An updated national survey of South Africa's BPO&O / CC sector is currently being undertaken by [C3Africa Research](#) on behalf of the Contact Industry Hub, and is expected to be released shortly<sup>24</sup>. Some data from the report has been sourced from the authors and will be discussed below.

The currently available official figures from BPeSA and the dti (see Figure 2 right) show the breakdown of the sector as of 2004 by agents<sup>26</sup>, a readily available proxy for market share. Somewhat more than 500 BPO&O / CC operations are identified, comprising between 75 000 and 85 000 agents<sup>27</sup>. Most of these are domestic in-house or 'captive' call centres: in other words, they include examples like the call centres of Telkom, wholly owned by their South African parent companies and exclusively supporting the business functions of those parent companies.

The overwhelming preponderance of domestic in-house call centres - comprising 88% of the sector by agent numbers - is to be expected and is in line with international trends (see section 3 above), but it does reduce the scope for start-up SME and BEE operations. Nevertheless, the domestic outsourcing market is relatively substantial, comprising approximately 6% of the total market, and employing somewhat over 5 000<sup>28</sup> agents.



**Figure 2: BPO / CC Agents in South Africa, 2004**  
Data source: dti / BPO2SA<sup>25</sup>

<sup>24</sup> See Rod Jones et al (forthcoming) 'National BPO & Contact Centre Report', Contact Industry Hub, Gauteng, shortly available via <http://www.contactindustryhub.co.za/research.php>.

<sup>25</sup> See: the dti (2006) 'BPO2SA Value Offshoring: South Africa's value proposition for BPO&O', Department of Trade and Industry, available online at <http://www.bpesa.org.za/downloads/SouthAfricasValueProposition.pdf>.

<sup>26</sup> Contact centre market share is commonly measured by either the number of agents or the number of seats. The former measure is the number of employees engaged in direct contact centre interface work. However, several agents may share a single seat or work station. Hence the number of seats tends to be smaller than the number of agents in any one contact centre. The ratio between seats and agents is variable and determined by a variety of factors. The two measures are therefore not comparable.

<sup>27</sup> Ibid. BPeSA (Mfanu Mfayela, personal communication, February 2007) insists these figures reflect the position at the end of 2006, but the dti publication clearly labels them as 2004 data.

<sup>28</sup> See: the dti (2006) 'BPO2SA Value Offshoring: South Africa's value proposition for BPO&O', Department of Trade and Industry, available online at <http://www.bpesa.org.za/downloads/SouthAfricasValueProposition.pdf>.



Given its international marketing function, BPeSA has tended to focus more on those centres that provide business process outsourcing and offshoring functions to both domestic and, more importantly, international markets. Their research identifies some 70 companies in this BPO&O sub-sector, employing approximately 10 000 agents. They further suggest that the market sub-segment targeting international clients is a growing proportion of the sector, estimating it to comprise some 45% of these BPO&O agents<sup>29</sup>. International offshoring tends, however, to be the terrain of the larger BPO&O companies, while providers employing fewer than 50 agents tending to focus more on the domestic market<sup>30</sup>. However, many BPO&O centres serve both domestic and international clients.

South Africa's BPO&O / CC sector tends to be dominated by smaller operations, with over 50% of all operations having fewer than 50 seats<sup>31</sup>, and with 85% of staff engaged in contact and call centre work<sup>32</sup>.

The Department of Trade and Industry, along with the industry associations, as mentioned at the outset, has in recent years marketed South Africa aggressively as a global BPO&O destination, primarily on the basis of its low-cost, high-quality value proposition<sup>33</sup>. For example, they point out that the cost of establishing a 1 000 seat call centre in South Africa is 55% cheaper than the equivalent in Ireland, and 59% cheaper than the USA. Whilst South Africa is more expensive than India, the quality of service is higher: South African call centres claim a first call resolution rate of between 89% and 95% (as opposed to only 66% in India) and boast an average call-answering time of 10% below the global benchmark of 30 seconds. In addition, much is made of the SAQA unit standards developed for in-bound and out-bound contact centres and back-office processing operations<sup>34</sup>. South Africa's favourable time-zone with respect to Europe and the UK is also often cited, along with the ready availability of English speakers and a wide range of other European-language communities. It is also interesting to note that recently several BPO&O / CC providers have investigated the expansion of their operations elsewhere into Africa. (The specific support measures to grow the BPO&O sub-sector have already been outlined in section 2 above and so are not dealt with again here.)

The generally high growth estimates for the sector would suggest that the sector in early 2008 is considerably larger and more fully developed than it was a mere four years ago. More recent figures from the Western Cape (which, after Gauteng, is probably the largest BPO&O / CC node) show astronomical growth rates - approximately 40% per annum<sup>35</sup>. From 116 companies employing 8 141 agents in

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<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Benner et al report 52% of call centres as employing fewer than 50 agents, although the sheer numbers employed by the few large operations pushes the average size up to 77 (Benner, C, Lewis, C & Omar, R (2007) 'The South African Call Centre Industry: A Study of Strategy, Human Resource Practices and Performance', LINK Centre, Johannesburg),

<sup>32</sup> See: the dti (2006) 'BPO2SA Value Offshoring: South Africa's value proposition for BPO&O', Department of Trade and Industry, available online at <http://www.bpesa.org.za/downloads/SouthAfricasValueProposition.pdf>.

<sup>33</sup> Ibid.

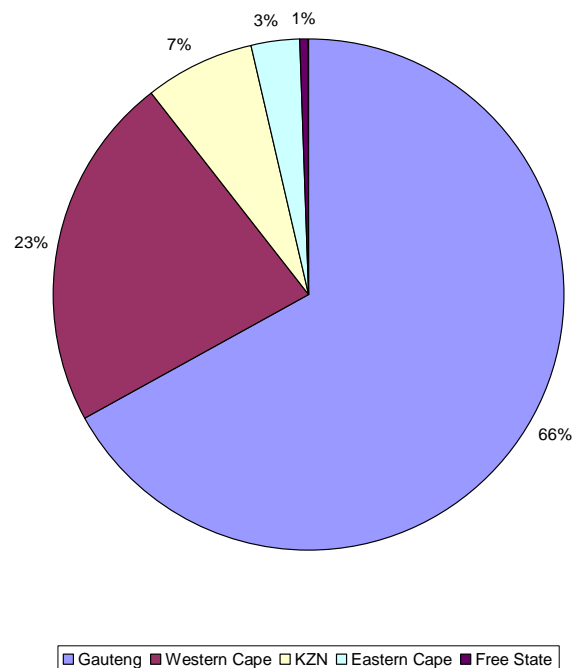
<sup>34</sup> Ibid.

<sup>35</sup> See: Deloitte (2007) 'Contact Centres and Business-process Outsourcing in Cape Town: 2006/7 Key Indicator Report', Calling the Cape, Cape Town, available online at



2004 (the same date as the dti / BPO2SA data cited above) the sector almost doubled to 201 companies and 15 899 agents by 2006 / 7, with an estimated contribution to provincial GDP of the order of 2,4%. Significantly, the study suggests that in-house or captive domestic contact centres remain the largest proportion of the market (69% in 2006/7 as opposed to 71% in 2004). Interestingly, and perhaps in vindication of the role of *Calling the Cape*, the proportion of agents serving international clients has risen from 6% to 15%, suggesting that this is the primary engine of growth<sup>36</sup>.

The Contact Industry Hub survey currently underway provides a breakdown at a national level, and confirms that the sector is substantially larger than it was in 2004. It is based on the C3Africa Research database, which comprises 1 342 contact centres countrywide<sup>38</sup>, a figure closely in line with a 40% compound annual growth rate off the base of 2004 figures of BPO2SA. The accompanying figure gives a breakdown of their database by province, reinforcing the pre-eminence of Gauteng, distantly followed by the Western Cape, with other provinces remote also-rans.



**Figure 3: Contact centres by province, 2007**

*Data source: Jones et al<sup>37</sup>*

A total number of agents or seats is not obtainable from the data, given that it is a sample, but if the growth rate estimate of 40% per annum is to be believed, the sector can be expected to have had about 200 000 agents by the end of 2007.

The split Jones et al report between captive and outsourced contact centres does suggest that the latter market segment may have grown more substantially since 2004 (from 12% to at least 19%) leaving exclusively captive contact centres with only 65,5% of the market. (However, the figures are not truly comparable as the split by Jones et al is by centre rather than by agent numbers<sup>39</sup>, and the BP2SA figures do not provide for centres that supply both captive and outsourced services.)

Their figures similarly suggest that the majority of BPO&O / CC operations are small, with 64% employing fewer than 50 agents. The very smallest operations (those employing fewer than 20 agents) are overwhelmingly in-house (92%), whereas a

<http://www.callingthecape.org.za/Downloads/documents/Key%20Indicator%20Report%202006-07.pdf>.

This is well in excess of the global growth rate of 8% previously suggested by Gartner.

<sup>36</sup> Ibid.

<sup>37</sup> See Rod Jones et al (forthcoming) 'National BPO & Contact Centre Report', Contact Industry Hub, Gauteng, shortly available via <http://www.contactindustryhub.co.za/research.php>

<sup>38</sup> Ibid.

<sup>39</sup> Ibid. Their own figures suggest that in-house or captive centres tend to be larger.

substantial number (30%) of the rather larger (21 – 49 agents) are outsourcers to either the domestic or international market.

## **7 Market Trends and Characteristics**

From the above analysis, it appears that South Africa's contact centre and business process outsourcing sector is both robust and growing. Figures from the role players in the sector and the analysis of international observers alike suggest high levels of growth, with every chance that South Africa could become a major international BPO&O player.

South Africa's market is clearly well placed to exploit the global BPO&O upswell, with its unique combination of high-quality service provision at relatively low cost. Lower cost has historically been a key driver for global BPO&O, while quality is becoming increasingly so. In addition, South Africa enjoys a favourable time zone location relative to Europe together with the ability to source multiple European linguistic competencies<sup>40</sup>.

In early 2007 a series of interviews with senior personnel at leading contact centres and their umbrella bodies<sup>41</sup> identified a number of critical success factors underpinning the development of the BPO&O / CC sector, some of which are dealt with below.

A number of institutional factors combine to underpin the strength of the BPO&O / CC sector. These include high levels of government support through initiatives such as ASGISA, the dti's Government Assistance & Support BPO&O incentive scheme<sup>42</sup>, and high level support for international trade and investment missions<sup>43</sup>.

Further, the sector is buttressed by strong internal institutional support through its regional and national umbrella support bodies, principally BPeSA, *Calling the Cape*, *Contact in Gauteng* and *KZNonSource*.

Initiatives are underway to address those areas identified as key blockages to the further development of BPO&O / CC in South Africa. Chief amongst these is the cost of communications: telecomms costs were repeatedly identified as a major inhibiting factor in bringing BPO&O /CC business to South Africa<sup>44</sup>, being described by one interviewee as a "deal-breaker". Negotiations with Telkom, the fixed-line incumbent and monopoly controller of international undersea fibre-optic connectivity for voice traffic through the SAT-3 cable, have reportedly resulted in considerably lower pricing

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<sup>40</sup> This is partly due to ongoing migration from Africa, including francophone and lusophone Africa, but South Africa also has relatively large numbers of Greek, Portuguese, German and Italian speakers.

<sup>41</sup> Conducted by the author in February 2007.

<sup>42</sup> Repeatedly cited by key industry players interviewed in early 2007 as a critical success factor in attracting foreign investment. The only objection was voiced by some existing investors: that the scheme was not retroactive to support sunk investments.

<sup>43</sup> See the dti (2007) 'USA Trade & Investment Mission, 17 – 23 March 2007', press statement issued by Meropa Communications on behalf of the Department of Trade and Industry and the International Marketing Council of South Africa.

<sup>44</sup> See, for example: ITWeb (2006) 'Telecom costs debilitate SA BPO growth', by African News Dimension, *ITWeb*, Johannesburg, 3 November 2006, available online at <http://www.itweb.co.za/sections/quickprint/print.asp?StoryID=168122>.

structures to BPO&O / CC providers<sup>45</sup>. In addition, planned construction of further undersea cables by state-owned Infraco, by the multi-national EASSY consortium and by private investor Seacom, are expected to result in dramatically increased competition over bandwidth availability and pricing. A more competitive bandwidth market is also likely to improve levels of customer service to contact centres by providers - something also cited by some interviewees as critical in an environment where downtime can be catastrophic.

Government has further sought to incentivise the location of BPO&O / CC operations away from the established urban centres to areas where job creation and economic growth are a higher priority - what it refers to as "Contact Centres for Designated Areas"<sup>46</sup>. Despite this nominal commitment on its web site and in the President's 2007 opening of parliament speech<sup>47</sup>, this initiative seems subsequently to have languished. Its success is likely to be dubious, given the dependence of the sector on advanced communications infrastructure and skilled staff, both far harder to source in remote areas, and given the Porter industrial cluster effect<sup>48</sup>.

Skills constraints, especially at middle to senior management levels were also identified by interviewees as a blockage to the further development of the sector. This is both because of their impact on the position of South Africa as a high-quality destination, and because of their role as an inhibitor of expansion. To address this bottleneck, training unit standards for inbound and outbound contact centres, as well as an industry Code of Practice, were developed during the course of 2006, under the umbrella of BPeSA and with the support of the dti and the Business Trust<sup>49</sup>. Further, a number of incentive schemes on the part of the dti are aimed at ensuring the sector is well supplied with skills. For example, the GAS investment incentive scheme includes a training support component of R 12 000 per seat<sup>50</sup>. A further intervention, the Monyetla Work Readiness Programme<sup>51</sup>, aims to skill 1 000 unemployed graduates and school leavers for BPO&O / CC employment<sup>52</sup>. Whilst it

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<sup>45</sup> See: Engineering News (2007) 'Govt, Telkom agree to special call-centre tariff', by Matthew Hill, *Martin Creamer's Engineering News*, Johannesburg, 16 November 2007, available online at [http://www.engineeringnews.co.za/print\\_version.php?a\\_id=120723](http://www.engineeringnews.co.za/print_version.php?a_id=120723).

<sup>46</sup> See: the dti (nd) 'Executive Summary of Government's Commitment to BPO&O', Department of Trade and Industry, Pretoria, available online at <http://www.thedti.gov.za/BPO/overviewsummary.htm>.

<sup>47</sup> See: ITWeb (2007) 'Tension over govt's 'special 10' plan, by Nicola Mawson and Damaria Senne, *ITWeb*, Johannesburg, available online at <http://www.itweb.co.za/sections/quickprint/print.asp?StoryID=170884>.

<sup>48</sup> See: Porter, M (1990) 'The Competitive Advantage of Nations', *Harvard Business Review*, Harvard Business School. It is suggested that industries geographically clustered on an industry basis enjoy considerable competitive advantages because of increased productivity, higher levels of innovation and the stimulation of new business opportunities.

<sup>49</sup> See Contact in Gauteng (nd) 'The Business Process Outsourcing & Offshoring (BPO&O) sector quality standards', Contact in Gauteng, Johannesburg, available online at <http://www.callcentres.co.za/Default.aspx?TabID=286>.

<sup>50</sup> See: the dti (2007) 'Programme Guidelines: BPO&O Investment Incentive', Department of Trade and Industry, Pretoria, available online at <http://www.bpo2sa.org.za/incentives/BPOIncentives-ProgrammeGuidelinesCapex.pdf>.

<sup>51</sup> See: Business Trust (2007) 'Business Processing Outsourcing (BPO) Sector Support Programme: Monyetla Work Readiness Inception Project Request for proposals RFP No BT/BPO/TD/070805', Business Trust, Johannesburg, available online at [http://www.btrust.org.za/images/Publications/PUBLIC\\_BPO\\_RFP\\_5Aug07.pdf](http://www.btrust.org.za/images/Publications/PUBLIC_BPO_RFP_5Aug07.pdf).

<sup>52</sup> See: the dti (nd) 'Executive Summary of Government's Commitment to BPO&O', Department of Trade and Industry, Pretoria, available online at <http://www.thedti.gov.za/BPO/overviewsummary.htm>.

is perhaps too early to determine their impact on accelerating skills development in the sector, these programmes may already to have strengthened the positioning of South Africa as a destination where contact centre and BPO standards are high.

Interestingly South Africa already ranks relatively highly in global terms in respect of the provision of training to agents, providing on average 25 days of initial training in comparison to a global average of 15 days<sup>53</sup>.

The extent of black ownership of companies in the BPO&O /CC sector remains under-researched. The web sites of the umbrella associations do cite some examples of BEE call centres, although this is not a major aspect of their marketing strategy. Some have a national presence, others a more regional footprint. For example, Direct Channel, under CEO Suleman Shaik, is a domestic outsourcer serving the South African market, having some 2 000 seats (in Durban, Cape Town and Johannesburg) and operating primarily in the areas of financial services, insurance and telemarketing<sup>54</sup>. Based primarily in kwaZulu-Natal is Bizworks, under CEO Willy Govender, with 230 agent seats providing inbound and outbound services in the areas of telecomms, telesales, and Internet service provider support, and boasting three UK international outsourcing clients (Brightview, AWD and Rackspace<sup>55</sup>).

Western Cape-based *Calling the Cape* perhaps takes the issue somewhat further, employing an Enterprise Development Manager, whose brief includes the twin responsibilities of SMMEs and BEE. *Calling the Cape* points to a number of black-owned BPO&O / CC operations<sup>56</sup>, which include the OC2 Outsource Contact Centre (with 65 agent seats<sup>57</sup>) and Syntell Business Solutions (with 90 seats and room for expansion up to 300, and whose clients have included Old Mutual, the UCB Cricket World Cup 2003 and the British Council<sup>58</sup>).

*Calling the Cape* suggests that the majority of BPO&O / CC companies are BEE compliant in terms of their verification certificates, which are based on evaluation across a wide scale of indicators, including ownership, management, employment equity compliance, skills development, preferential procurement and enterprise development<sup>59</sup>. In line with this they suggest that their focus has moved away from

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<sup>53</sup> See Benner, C, Lewis, C & Omar, R (2007) *The South African Call Centre Industry: A Study of Strategy, Human Resource Practices and Performance*, LINK Centre, Johannesburg and Holman, D, Batt, R & Holtgrewe, U (2007) 'The Global Call Centre Report: International Perspectives on Management & Employment: Report of the Global Call Centre Network', Global Call Centre Project, School of Industrial and Labour Relations, Cornell University, Ithaca, NY, available online at <http://www.ilr.cornell.edu/globalcallcenter/upload/GCC-Intl-Rept-UK-Version.pdf>.

<sup>54</sup> See KZNonSource (nd) 'Direct Channel Holding', KZNonSource, Durban, available online at [http://www.kznonsource.co.za/cs\\_dcm.html](http://www.kznonsource.co.za/cs_dcm.html).

<sup>55</sup> See KZNonSource (nd) 'Case Study - Bizworks', KZNonSource, Durban, available online at [http://www.kznonsource.co.za/cs\\_bizworks.html](http://www.kznonsource.co.za/cs_bizworks.html). See also the Bizworks web site at <http://www.bizworks.co.za>.

<sup>56</sup> Telephonic interview with Nomakhaya Mngqibisa, Enterprise Development Manager (SMME's & BEE), *Calling the Cape*, 19 February 2008.

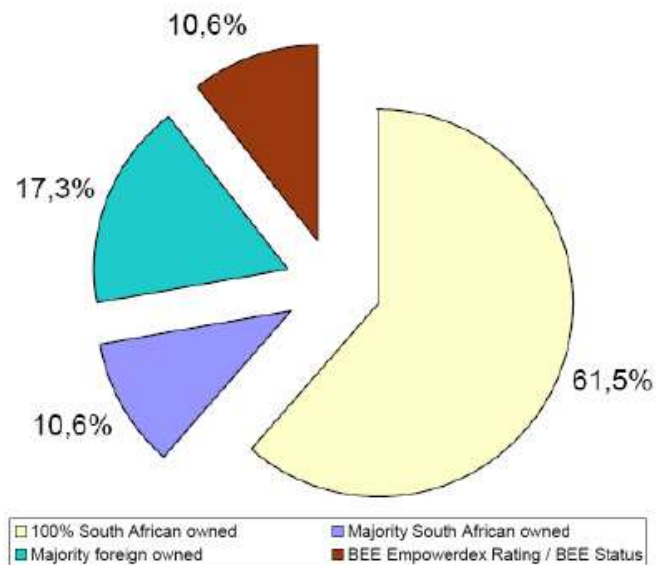
<sup>57</sup> See their web site at <http://www.oc2.co.za> which gives few other details.

<sup>58</sup> See their web site at <http://www.syntell.co.za/content/view/66/89/>. They specifically market themselves as a BEE company.

<sup>59</sup> See Empowerdex (2006) 'Guide to the Codes of Good Practice', Empowerdex, Johannesburg.

ownership as the prime criterion of BEE status<sup>60</sup>. However, the question of black-owned BPO&O / CC operations remains an important one.

Research currently under way by Jones et al<sup>62</sup> does seek to quantify black ownership in the sector. It identifies a relatively low 10,6% (see Figure 4 at right) of their 312 respondents as BEE companies. The value of this finding is perhaps undermined by the fact the survey question counterposed ownership (100% South African owned / majority South African owned / majority foreign owned) with the far broader question (see discussion above) of the BEE Empowerdex rating or BEE status of companies. It is therefore not clear whether the 10,6% accurately reflects ownership, although it is likely to do so. The figure cited also does not contradict the previous points made by *Calling the Cape*. It is probably, therefore, safe to conclude that, whilst direct black ownership of companies in the BPO&O / CC sector remains very low, compliance with other pillars of BEE is considerably higher.



**Figure 4: BEE status of BPO / CC providers**

*Data source: Rod Jones et al<sup>61</sup>*

## 8 Strategies to Support Black Economic Empowerment

Given the objectives of the NEF (to “enable, develop, promote and implement innovative investment and transformation solutions to advance sustainable black economic participation<sup>63</sup>”) coupled with the relatively low levels of black ownership of BPO&O / CC operations as identified above, there seems to be a considerable need to strengthen black investment in the sector as well as ample scope for its achievement. Further the support for the BEE Codes of Good Practice within the sector would suggest ample opportunity for successful implementation of interventions by the NEF.

A number of suggested interventions are briefly discussed below. None have been researched in any detail at this stage. Further in-depth interrogation of these is best driven by the NEF’s assessment of those options most closely aligned to its own strategic investment perspectives.

<sup>60</sup> See Nomakhaya Mngqibisa, personal communication, 21 February 2008.

<sup>61</sup> See Rod Jones et al (forthcoming) ‘National BPO & Contact Centre Report’, Contact Industry Hub, Gauteng, shortly available via <http://www.contactindustryhub.co.za/research.php>

<sup>62</sup> Ibid.

<sup>63</sup> NEF (nd) ‘Vision’, National Empowerment Fund, Johannesburg, available online at <http://www.nefcorp.co.za/ABOUTNEF/Vision/tabid/57/Default.aspx>



### **8.1 Topping up on GAS**

The NEF could well provide support to incentivise a BEE component to the BPO&O operations attracted to South Africa under the dti's GAS support programme. As has been noted earlier, GAS does not contain any BEE provisions. It does, however, provide for joint ventures with South African companies<sup>64</sup>. It might, therefore, be feasible for the NEF to encourage joint ventures with black-owned South African companies and to provide equity financing and support as needed.

It is, however, important to note that the GAS scheme targets larger BPO&O companies and has an almost exclusive offshore focus. The scheme requires applicants to have at least 100 seats and create at least 200 jobs, whilst deriving 90% of their revenue from offshore clients. In addition the highest subsidy rates kick in only at the 500 seat threshold.

### **8.2 Local BEE Equity Support**

There are commercial opportunities in BPO&O / CC areas aside from both the larger global outsourcers targeted by the dti's GAS scheme and the domestic in-house call centres comprise overwhelming majority of the sector. As the previous analysis has shown, there remain substantial opportunities for outsourcers of medium size, whether servicing the domestic or international market. In fact, some industry sources have suggested that a BPO&O / CC business model based on a combination of international and domestic clients might be optimal, given the volatility of foreign exchange markets<sup>65</sup>.

The NEF might, therefore, consider providing financial support for black ownership of medium-sized BPO&O companies (with between 20 and 50 agent seats) serving either domestic or international clients or a combination of both. The more successful companies supported under such a scheme might well go on to partner with international investors under the GAS scheme mentioned above. Such financial support might target either start-up operations or BEE equity investment in existing companies, both listed and unlisted.

### **8.3 Human Resource Development Support**

As pointed out above, there are already a number of initiatives aimed at improving skills levels within the broader BPO&O / CC sector. While these are likely to be utilised by companies to boost their compliance with the BEE Code of Good Practice, they do not specifically target the previously-identified skills shortage at middle to senior management level.

The NEF might therefore consider providing financial support or incentives, with a strong BEE focus, on the upskilling and promotion of black employees into middle and senior echelons. Such a pool of skilled talent could well also become a source of future black-owned BPO&O / CC companies of the kinds identified above.

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<sup>64</sup> See: the dti (2007) 'Programme Guidelines: BPO&O Investment Incentive', Department of Trade and Industry, Pretoria, available online at <http://www.bpo2sa.org.za/incentives/BPOIncentives-ProgrammeGuidelinesCapex.pdf>.

<sup>65</sup> Interviews with senior industry players, conducted by the author in February 2007.



#### **8.4 Development Call Centres**

A final option would be the provision of finance and support by the NEF to BEE companies seeking to take advantage of the dti's Contact Centres for Designated Areas programme. Given the reservations about the viability of such a scheme voiced above, it might be better to await the proof of concept.

### **9 Feasibility Studies and Further Research**

Further research on each of the above suggested options would be required in order to determine their feasibility and to propose detailed modalities of implementation, should they be found to be worthy of the support of the NEF.

In addition, it would be worthwhile to tap into the expertise and experience of the current crop of black CEOs of BPO&O / CC companies. Their identification of critical success factors for strengthening BEE in the sector would clearly assist the NEF in formulating a stronger and more precisely targeted strategy.

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