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Outsourcing is good
for Job Creation in
South Africa



ABSTRACT

South Africa has identified the BPO industry as a key enabler of growth. Outsourcing service providers consider South Africa as a gateway to other African countries and are already providing services outside the country from South African delivery centres. Currently in a nascent stage, the industry can drive job creation by professionalising services across functions and industries with the help of the government and outsourcing service providers.

Executive summary

South Africa has identified BPO/Outsourcing (Business Process Outsourcing) as an enabler for economic and social growth. Taking examples from countries such as India and Philippines where the industry has had huge success, South Africa is progressing well towards developing its currently nascent BPO/Outsourcing industry.

South Africa is emerging as an outsourcing destination with a growing English speaking population, which is qualified and further supported by a time zone that overlaps with most of the regions. Cost savings, revenue-generating services, presence of large outsourcing service providers and buyers, the availability of French, Portuguese, and Dutch speaking talent is also favouring South Africa as the next outsourcing destination for the developed world.

There is always a question in the public domain whether outsourcing creates jobs or destroys them. A simplistic and locally focused perspective will look at outsourcing in isolation and call the movement of jobs from a company to a local outsourcing provider as a loss of jobs. To say a country that allows companies to outsource in order to obtain efficiencies and cost reduction causes job losses is naïve and uninformed. For many companies to survive and continue to employ some people, they need to drive efficiencies and continuously improve their manual ways of doing business. Driving efficiencies could result in job losses, whether improvements are done internally or by an outsourcing provider. Statistically, there are more employees that get retrenched annually because of company failures (mainly where the revenues cannot cover the overheads of that company), than job losses caused by efficiencies through outsourcing. Even trade unions that are more vocal against outsourcing, have asked the question: is it better to retain 100% of company employees for a short while than to sacrifice 15% of employees in order to keep 75% of them through to retirement?

However, a country that is able to import foreign jobs into its shores creates new jobs. Unfortunately it is impossible to have successful professional outsourcing providers at a global level, if the country speaks badly domestically. Successful outsourcing countries have a vibrant domestic outsourcing market that creates talented outsourcing professionals, who become attractive globally. Unlike minerals, where foreign direct investment comes to get natural gold and platinum under the ground, the services industry needs to be attracted to come to your market, because the only asset you have in the services industry is the availability of talent. Lately, the technology solutions that have differentiated India for decades are now available in the cloud and can be easily accessible in South Africa through viable and affordable broadband infrastructure, which has been significantly improved through the roll-out of the seacom cable.

The gap currently exists in professionalising (project outsourcing as high-end work, with high social status and better income) the outsourcing services. The efforts could include rebranding, impact sourcing, etc. Deloitte is working in this space and has partnered with government organisations such as Finance and Accounting Services Sector Education and Training Authority (FASSET) for sourcing and training a large population of unemployed youth.

The government steps in this direction include a number of schemes and incentives for the nascent industry. The revised Business Process Services (BPS) system effective from 1 October, 2014 through to 31 March, 2019 primarily targets increase in the country's export revenue from outsourcing services and subsequently creates more jobs within the country. Companies like Webhelp and WNS have created almost 6 000 new jobs for the youth and are benefiting from the current government incentives, just this year alone. This is in addition to companies like Barclays who have setup internal "captives" for overseas work (This is type of work a Barclays or Old Mutual would attract from their branches in other countries to be processed in South Africa, creating jobs locally). This is positive, but we need more to reduce the youth unemployment of over 50% in South Africa.

The emergence of 'as-a-service' (services delivered over the internet instead of provided physically or on-site) economy is expected to further help South Africa as it eliminates the need of the physical presence of data centres allowing these services to be delivered through the internet/cloud. The 'as-a-service' economy is poised to change the landscape in which BPO/outsourcing buyers and providers play, hence domain investment should be prioritised over marketing and adjustment in existing services to remain viable in the industry.

In the future, South African outsourcing service providers need to extend capabilities that are generic enough to boost global demand on the unitary hand, while on the other, offer services distinct enough to prevent cost pressures and competition from already established destinations such as India and the Philippines. The BPO industry has been identified as a key economic enabler by many African countries including South Africa. By means of grants and professional training programmes, public-private partnerships along with availability of talent, South Africa has been able to gradually establish itself as a competitive outsourcing destination. The presence of large service providers and buyers also positions itself as one of the next emerging outsourcing destinations; however, the industry still needs better infrastructure support and a BPO specific skilled talent pool etc. to develop from its nascent stage and to be able to attract more jobs.

Impact of outsourcing on the labour market is always questioned

The debate about whether outsourcing creates jobs or causes job losses has been going on for decades; however, the short, as well as long run labour market repercussions of outsourcing seem to contradict these negative perceptions.

From call centres to research and development (R&D), US-based companies are outsourcing the majority of their functions to low-cost countries to achieve efficiencies and remain profitable.

The following factors help India to dominate the outsourcing industry:

- Large English speaking talent pool
- Sustained quality
- Presence of skilled IT expertise
- Domain expertise across functions
- Price-competitiveness
- Improved process efficiencies
- Higher customer satisfaction

The bulk of these outsourced jobs lands in low-cost countries such as India (2.8 million jobs in the industry) and the Philippines (750,000 jobs in the industry). These countries have had immense success in the outsourcing industry and at present, outsourcing forms a major constituent of their GDPs.

Outsourcing has helped these countries develop their social fabric by providing employment to a large unemployed population. The presence of one of the largest pools of English speaking and writing talent has helped India emerge as an outsourcing destination over the last few decades. The availability of this resource pool is attributable to India's historical colonised status. The benefits of outsourcing to low-cost countries include, but are not limited to, cost savings, quality and efficiency improvements, and increased customer satisfaction.

Importantly, outsourcing of non-core businesses frees up

time and resources for a company, allowing it to focus on its core functions like production, sales and business expansion.

South Africa has the potential to become the next BPO/Offshoring destination

Several factors which played a key role in establishing India as an outsourcing destination are already present in Africa, especially South Africa. A population fluent in spoken English (close to 5 million), cultural affinity and a sizeable talent churn from quality universities (160,000 graduates per annum and close to 410,000 personnel capable of working in the BPO sector annually), aided by time zone similarities, are helping South Africa become the next outsourcing frontier.

Outsourcing/Offshoring to South Africa by many European countries provides them with substantial cost savings, to the tune of up to 40-50%. Outsourcing services delivered from South Africa are positioned as a desirable alternative to onshore delivery centres, while also offering revenue-generating services to its clients.

The presence of large outsourcing service providers such as Accenture, IBM, WIPRO, Genpact, Aegis, Webhelp, Deloitte, WNS, etc positions South Africa as the next outsourcing destination for growing F500 and global multinationals. While the growth opportunities for these companies in Africa are big, the realisation that Africa is not one country with uniform regulatory, accounting and reporting policies, has discouraged many potential investments. The opportunity for BPO in Africa is not about shipping big volume transactions from Africa to India, but is about enabling various multinationals to grow successfully within Africa and enable compliance, standardisation and prudent reporting at a global level. Closeness to developed European economies and availability of French, Portuguese, and Dutch speaking talent also works in the country's favour. South Africa's competitiveness has also improved in recent years as a result of development in overall infrastructure, both physical as well as social. Recently South Africa was voted as the best outsourcing destination by the European Outsourcing buyers community.

Professionalising the nascent industry can create more jobs

In order to provide high-end value-based outsourcing services, the country needs to find an alternative talent pool and professionalise outsourcing services to attract further talent in the industry. South Africa's outsourcing industry is still evolving, and professionalisation of the existing services across functions and industries is expected to bring in more jobs and help the country move up the outsourcing value chain. If outsourcing service providers and the government are able to achieve professionalisation, traction in this space will increase and a larger talent pool can develop required skills to become job-ready in the outsourcing market. The following are some of the initiatives organisations are considering to professionalise their services:

- **Rebadging** – One of the options for taking over the non-core business of companies is rebadging, which essentially means taking over all the employees from clients onto the outsourcing service provider's payroll. This strategy ensures zero retrenchment and complete employment safety of the existing employees. Deloitte in consultation with the concerned stakeholders works towards settling for a contract that allows rebadging in its outsourcing engagements.
This is feasible for service providers who are able to transfer a certain percentage of their incoming employees into other consulting assignments or clients. The incoming employees become easier to assign to overseas and offshoring assignments. Rebadging is mainly necessary during domestic outsourcing, not necessary for imported jobs, which is the critical growth opportunity. Most global companies create at least 90% of jobs in the country they offshore to and bring in a few expats who understand the mother company to be the liason with their country of origin.
- **Impact sourcing (IS)** – Some outsourcing providers with social ambitions (benefits for the disadvantaged populations and regions) came together to create a new sub-field within BPO called Impact Sourcing. Under impact sourcing, companies essentially recruit talent from the unemployed pool, train them and make them available to the BPO industry. To find alternatives to the traditional workforce in entry level accounting and IT operations jobs, Deloitte partnered with government organisations such as Finance and Accounting Services Sector Education and Training Authority (FASSET) for sourcing and training a large population of unemployed youth. This type of sourcing is beneficial for all. The previously disadvantaged youth receives their first job opportunities even without prior necessary working experience, while companies find alternatives to the traditional the workforce.

The government has taken a number of initiatives to establish the industry

The South African government has already taken a number of initiatives to promote the BPO and Offshoring industry in the country. The initial Business Process Services (BPS) incentive scheme which was implemented in 2011 resulted in close to 9 000 jobs. This scheme has now been replaced by a revised version of the same scheme which is effective from 1 October 2014 through to 31 March 2019. The main objective of this incentive scheme is to create greater youth employment and increased contribution to the country's export revenue from offshoring services. The latest incentive scheme also provides for high ended jobs, which are of higher value (imported revenue), although it might be lesser jobs than call centres or transactional jobs. Additionally, the government has launched a number of financial schemes to train the available talent pool for the BPO industry. The Monyetia Work Readiness Programme and Sector Education and Training Programs are two examples. BPeSA, the BPO industry association in South Africa, will also be launching a skill based learning initiative to educate and evaluate talent for the industry. The Rockefeller Foundation will also provide work readiness support for the industry.

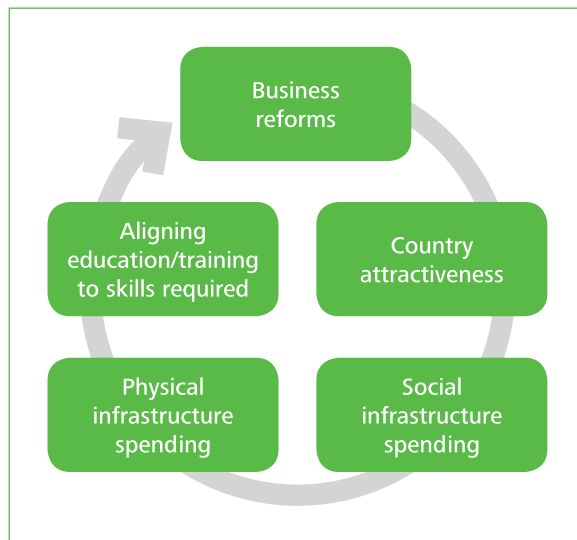
The South African government has taken a number of steps to promote Impact Sourcing. It made its initial move towards IS in 2008, by starting a program to invest in training the unemployed high school graduates for the BPO industry and also made efforts to incentivise top BPO providers to start operations in the country.

As part of the pilot program, public bodies (such as the South African Post Office) and private consulting, BPO or staffing companies (such as Deloitte) came together to train more than 1 100 high school graduates from low-employment areas, and 77% of these graduates found jobs afterwards in the BPO sector. In due course, the South African investment has created more than 20 000 jobs which serve both domestic and international clients.

Job creation framework

The described job creation framework focuses on five factors that are most critical for creating jobs within the country, either by domestic or foreign companies.

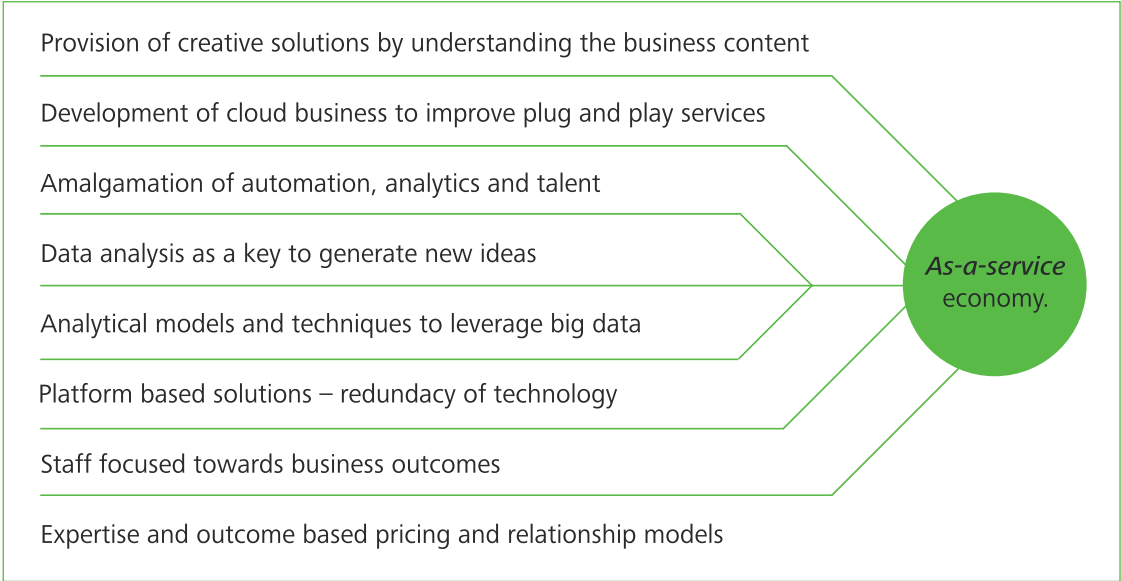
South Africa is effecting business reforms and ranks better than its nearest competitors in terms of ease of doing business (rank 43), starting a business (rank 61), getting credit (rank 52), and protecting investors (rank 17, only behind India) according to the World Bank's 2015 Doing



Business Report. The country is also investing to improve its social and physical infrastructure. In the 2014 budget, several incentives and grants were awarded to develop energy, telecom, transportation, and overall infrastructure. BPeSA and the South African government have initiated several programmes to upgrade the available workforce with BPO-specific skill sets. The emergence of the '*as-a-service*' economy where services are primarily delivered through the internet/cloud has the potential to further shape the South African BPO/Outsourcing industry in terms of job and revenue creation.

Outsourcing vs *as-a-service*: Domain investment should be prioritised over marketing and adjustment in existing services

As-a-service offerings refer to the services that are owned, delivered and managed remotely by one or more suppliers. The emergence of nimble, outcome focused solutions for sourcing is also referred to as '*as-a-service*' economy. The components of *as-a-service* economy include software as a service (SaaS), infrastructure as a service (IaaS) and platform as a service (PaaS). When combined together the use of these three is occasionally referred to as the SPI model (SaaS, PaaS, and IaaS). Others include storage as a service (SaaS), communications as a service (CaaS), network as a service (NaaS) and monitoring as a service (MaaS). The intermediaries (resellers) in this economy are expected to play a vital role as they are in direct contact with the end client.



This developing economy has the potential to have greater agility and plug-and-play services for the BPO/Outsourcing industry. The enabling technologies (digitisation, automation, social media, etc.) and operating models and platforms (BPaaS, SaaS, IaaS, crowdsourcing, etc.) have the capability to transform the way buyers receive services and suppliers provide services. By bundling their services in the market with the 'as-a-service' offerings, buyers and suppliers of business processes need to reduce complexity (or even eliminate the same), improve processes and remove manual interventions. Business clouds and automation hold the key for this developing economy, hence domain investments in technology and platforms are of greater importance than marketing and adjustment of the existing service portfolio.

Professionalising the South African outsourcing industry will create more job opportunities

South African delivery centres have been providing quality services for a number of industries, especially Banking, Financial Services and Insurance (BFSI) and Telecommunications. Large Multinational Corporations (MNCs) such as Shell, Barclays and Edcon have already set up their delivery centres in South Africa, creating new jobs in the country. The South African/Western Cape BPO and offshoring industry accounted for 41 000 jobs in 2014 and added R9 billion to the provincial GDP. 3 400 jobs were created through offshore investments, while 11 700 jobs were created by foreign direct investments.

Industry associations and the government are taking strategic initiatives to shape the country's evolving BPO industry. Impact sourcing and global certification of employees are two of the many examples of how service providers can professionalise outsourcing services to move the industry to the next level. The rise of the 'as-a-service' economy may also prove to be a positive for the developing South African outsourcing industry as companies will be free from setting up physical centres and can cater to foreign clients through the internet/cloud and invest in the technological investments required for the 'as-a-service' economy.

If South African providers can train an abundant pool of unemployed graduates and align them with the well trained professionals, such as Chartered Accountants, Actuaries, Lawyers, etc who are already globally recognised as the best in the global market and adopt the readily available cloud-based automation solutions, South Africa would be a great winner. While our broadband infrastructure has been continuing to improve and reduce its costs, there is still more that is expected from Telecommunication companies in order to make South Africa even more competitive in BPO. South African entrepreneurs need to capitalise on the existing government incentives to attract more foreign BPO jobs and create further 100 000 jobs. If we can achieve that, Outsourcing will be good for South Africa.

McKinsey recently wrote that "Services (sector) constitute 70 percent of GDP globally, and 62 percent in South Africa. Between 2004 and 2014, they contributed four-fifths of South Africa's GDP growth and nearly nine tenths of new job creation, adding 500 billion rand (\$43 billion) to the country's GDP and 2.7 million people to its employed workforce. Yet despite a thriving domestic services sector, South Africa's share of exports of services remains small, even within its region. The three largest opportunities for service exports to the region are in services to the construction sector, financial services, and business services; business process outsourcing represents an important opportunity for service exports to global markets." (McKinsey Global Institute, South Africa's Big 5: Bold Priorities for Inclusive Growth, Sept 2015).

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