

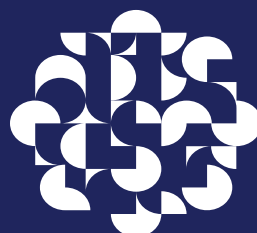
Co-ordination to support inclusive growth in developing countries in the context of globalization:

**The case of the business process outsourcing
sector in South Africa**

By Caitlin Allen Whitehead, Zaakhir Asmal, and Haroon Borat

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Abstract

Globalisation has affected the countries, sectors and communities in many different ways. One sector which has benefited substantially from globalisation is Business Processing Outsourcing (BPO). Using a case study approach, we interviewed five BPO experts to ascertain the opportunities for inclusive growth, job creation, the nature of skills in the sector and factors which have contributed to the continued success of the sector in South Africa. Our findings suggest that outside of major urban centres, opportunities to partake in the sector are limited. In addition, while there are many opportunities for young people for entry-level roles in the sector, there has been a recent shift towards more complex roles, which will require candidates to possess a larger number of skills. Factors which have contributed to the continued success of the sector include a cost advantage, high-quality service and staff, a cultural affinity with other English-speaking countries and a favourable time zone. Despite the overwhelming success of the sector, a number of challenges remain, and it is imperative that stakeholders overcome these challenges so that the sector remains globally competitive.

JEL codes:

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Business process outsourcing sector; labour market; South Africa; globalisation

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1. Introduction

The Business Process Outsourcing (BPO) services sector has seen remarkable growth in South Africa in recent years – this growth has been sustained even with the impact the Covid-19 pandemic has had on worldwide economies. By leveraging its strengths in this sector, South Africa has been able to attract considerable investment from abroad and to generate jobs in this sector even in a period of economic uncertainty. The case study aims to find out whether globalization and plugging into global value chains can be an impetus for inclusive and sustainable economic growth in a developing economy such as South Africa. To do this, we seek to understand what factors have contributed to growth of the sector up to now and whether there is potential for further growth. Specifically, we interviewed a number of representatives from the industry body and its partners with a view of obtaining insights on the following:

- a. What is the potential for inclusive economic growth and job creation in the sector?
- b. What factors have contributed to the success of the sector, and can be expected to contribute to further growth and job creation in the sector?
- c. What is the nature of jobs and job quality, and what are opportunities for further sustainable development of individuals engaged in the sector?

This outlook connects with the idea of a post-Covid world in which remote work and decentralized operations may provide further opportunities for gains in such service sectors' growth. A key finding is that globalization does present opportunities for growth in services in a developing country such as South Africa. However, to capture the maximum gains to support inclusion in such economies, it is imperative that stakeholders take a co-ordinated approach that targets specific outcomes and act in a concerted manner to achieve them.

1.1. The case and its context

The unemployment rate in South Africa is one of the highest globally. As of Quarter 2 of 2022, the official unemployment rate was 33.9%. The expanded unemployment rate, which includes discouraged work-seekers among the unemployed, is even higher at 44.1%. The unemployment rate of individuals between the ages of 15 and 24 is unsustainably high at 61.4%. In addition to these high rates of unemployment, South Africa also faces skills shortages as

growth in the economy has been biased towards sectors in which relatively high levels of skills are required despite a supply of labour which is, overall, relatively low-skilled.

Individuals with education levels lower than a tertiary qualification have the highest unemployment rates. Those with a completed secondary education have an unemployment rate of 35%, whereas those with a level of education below completed secondary school have an unemployment rate of 40.1%. Important policy documents such as the National Development Plan, the Human Resource Development Strategy, the White Paper for Post-School Education and Training, and the National Skills Development Plan all point to the risks that come with a poor supply of skills from the national education system (DHET, 2022). They agree that developing skills is critical for economic growth.

Unemployment is highest for the African and Coloured groups of the population, at 37.8% and 27.4%, respectively. The unemployment rate is also higher for women than for men (33.9% versus 32.6%). African women have the highest rate of unemployment at 37.8%. In Within this context, it is important for the South African government to support the growth of sectors that can generate jobs for the large numbers of South Africans who need employment – and it is important that this job creation is able to absorb the most vulnerable groups who are more likely to be unemployed in the South African population.

As far back as 2006, the BPO sector's potential to create the type of jobs required in the country has been recognized by the country's government. In that year, a cabinet memo was signed off recognising the business process outsourcing (BPO) sector as a key enabler for job creation in South Africa. Since 2008, the country has thus positioned itself as an upcoming offshore destination for BPO (Lacity, Willcocks & Craig, 2014). Key to this has been a co-ordinated effort involving government, the private sector, and social partners in creating an enabling environment for potential investors. It focused on a deeper domain skills advantage coupled with significant cost savings when compared to other outsourcing destinations (Department of Industry, Trade and Competition, 2018).

BPESA (Business Process Enabling South Africa) has been at the centre of continued efforts to promote South Africa as a destination of choice in this regard. BPESA is a not-for-profit company that serves as the national industry association and trade association for Global Business

Services (GBS) that serve the international and domestic markets. BPESA promotes domestic and foreign investment in the South African GBS sector and aims to match supply and demand of skills; bring business and government together; co-ordinate the activities of social partners; lead and drive a transformation agenda; and galvanise a group of people with a common purpose, value, and intentions to grow the sector. A senior member of BPESA stated that “*All roads lead to BPO and GBS (global business services).*”¹ They went on to explain that all industries have a customer base that requires some kind of customer engagement and BPESA aims to make South Africa the choice international provider of such services. In fact, South Africa ranked number one for customer experience in the sector in 2020 and 2021.

It seems that through leveraging its strengths in this sector, South Africa has been able to attract investment from abroad and grow the sector even in a challenging global economic environment. In this case study², we aim to further understand the factors that have contributed to growth of the sector up to now and whether there is potential for further growth in this sector.

The study is limited to the Global Business Services (GBS) component of the BPO sector in South Africa. That is, the focus will be on the BPO activities related to servicing international organisations as opposed to the domestic outsourcing of business services. Unless specified elsewhere, the data used for sector statistics is that provided by BPESA for GBS, in their quarterly GBS Sector Reports.

1.2. How does it fit into our framework of globalisation, demographic change, and technology use?

The sector sits at the intersection of a number of key globalisation, demographic, and technological trends. With respect to globalisation, growth in the sector is driven by international businesses increasingly outsourcing functions, with South Africa aiming to attract

¹ The GBS sector touches many industries and mainly consists of the following: customer experience BPO, centralisation of shared services for large multinationals (e.g., procurement, legal BPO, knowledge BPO, and creative design outsourcing), and digital and information-technology services.

² This paper formed part of a series of case studies for the UNTANGLED interdisciplinary research project (<https://projectuntangled.eu>), that receives funding from the European Union’s Horizon 2020 research and innovation programme. Each case study investigated the interplay of three global megatrends – globalization, digitalization and demographic change – and their impact on employment, skills, job quality and inequality across a number of sectors. These sectors included manufacturing, financial services, and business services.

this increasing demand with a strong value proposition. Demographically, the demand for these services can be met by a large (and growing) young labour force in South Africa that is in need of employment and can be trained to acquire the skills to provide these services. Finally, technological advances make it possible for services required in one part of the globe – such as developed economies such as the United Kingdom – to be provided from elsewhere – such as South Africa. Technology may even make it possible for this type of outsourced services to be provided from anywhere within a country such as South Africa rather than from central premises if the challenges of infrastructure provision can be overcome.

1.3. Key impacts and ways these are being addressed or shaped

According to a senior staff member from BPESA,

“[t]he sector does indeed represent a significant opportunity for South Africa to address the unemployment and growth challenges and [...] we [the GBS sector] are well-positioned to capture an increasing share of this growing export opportunity globally.”

The South African Department of Trade, Industry, and Competition (dtic) has provided a large share of the government support in the sector through an employment incentive scheme and through marketing and the promotion of investment opportunities. Underpinning the growth in job creation in the GBS sector, the incentive scheme has supported approximately 80% of recorded new jobs. In addition, a senior staff member at BPESA stated that *“80% of the new job creation are youth and 64% of those youth recruited are women.”* Between 2010 and the first quarter of 2022, the GBS sector has contributed 109,133 jobs and an annualised contribution of \$1,754 billion to export revenue.

Through our engagements with stakeholders in our interviews it became clear that outcomes in the sector are driven not only by a number of factors which make South Africa an attractive provider of these types of services such as demographics and technological possibilities. Importantly, relationships and understanding between employers, the government and relevant social partners have shaped demand for these services in South Africa, as well as the supply of skills to meet this demand. This collaboration has been concretized in a Masterplan for the sector. The first draft of this framework was signed in November 2021 and speaks to the strategies that will be implemented to achieve a total of 250,000 to 500,000 net jobs in the GBS sector by 2030. This plan was put together by BPESA, in conjunction with the dtic (Department

of Trade, Industry, and Competition) and Harambee, a non-profit organization, to run programmes to provide work-readiness skills to unemployed individuals. These three partners collectively make decisions, design marketing strategies, and work on skills strategies to drive growth in the sector. According to a senior member of BPESA *“this sector has shown the effectiveness of a multi-disciplinary partnership, which should be incorporated into other sectors.”* Additional stakeholders include the Department of Education and Training and the relevant Sector Education and Training Authority. The sector also falls into the purview of multiple trade unions, including those associated with banking and finance, as well as communication and ICTS. Information on the extent of union membership is not easily accessible and would be an interesting topic for further research.

Indeed, one of the topics discussed in the Masterplan is the importance of making sure this collective is sustainable, scalable, and that it continuously supports and provides value to its target community. Table 1 below sets out, in broad terms, the key players in the GBS sector and their envisioned contributions to realising the sector’s full potential.

Table 1. Masterplan role players and responsibilities

Government (the dtic)	Industry	Labour	External partners
<ul style="list-style-type: none"> • Develop and implement policy to create an enabling business environment • Provide incentives to improve the cost effectiveness of operating from South Africa and encourage additional economic value, such as employment opportunities for disadvantaged youth • Promote foreign investment and international marketing and provide aftercare to existing investors • Advocate for required skills development for the sector within government • Facilitate enabling infrastructure for GBS expansion 	<ul style="list-style-type: none"> • Identify and strengthen South Africa’s unique value proposition as a GBS delivery location for the key source markets and industry verticals • Attract global operators and companies and buyers to shift delivery operations to South Africa • Track job creation and skills training requirements and plan to scale the skills pipeline • Organise the industry’s position and inputs on policy and enabling environment issues impacting the GBS sector • Contribute to the realisation of the country’s B-BBEE and spatial development objectives 	<ul style="list-style-type: none"> • Advocate for fair working conditions and employment practices within the GBS sector • Promote the finalisation and implementation of a decent work framework for the GBS sector • Support and strengthen training of workers and help promote a stable working environment 	<ul style="list-style-type: none"> • Act as an ecosystem facilitator supporting the coordination of demand-side and supply-side development of the GBS sector • Channel available funding to high-impact interventions to improve the absorption of young South Africans into the sector

Source: *Masterplan for the Global Business Services Sector in South Africa (2021)*

Of the Masterplan’s target of between 250,000 and 500,000 cumulative jobs to be created by 2030, 30% are projected to be complex and highly complex jobs to boost export revenue (annual target of R24 billion by 2030). In addition, priority has been given to improving Black ownership, management control, and linkages with Black-owned enterprises in the local economy. Another focus is to enable job opportunities to be created across a wider number of

geographic areas. Finally, the Masterplan supports inclusive hiring, whereby employment opportunities are matched with South African citizens aged between 18 and 35 years of age and living in a poor household and community with low or no levels of employment.

These objectives are to be achieved through a combination of globalisation, scaling the supply of workers, and developing technology-based infrastructure. For a sector which is by definition part of the global value chain, the aim is to capture a greater share of the demand for GBS services by bringing new offshore work into South Africa and expanding current GBS operations within the country. The intention is to make use of marketing and investment promotion as well as financial and non-financial incentives. To meet this increase in demand, the Masterplan outlines a strategy to increase employment, thereby ensuring the sector's ability to scale delivery of offshore services from South Africa. The key components of this plan are to create a demand-led and sustainable skills pipeline; develop physical technology-based infrastructure to enable hybrid work-from-home (WFH) models; and to grow broadband infrastructure as well as work toward better data policies.

2. Methodology

An in-depth analysis of documentation provided online by the BPO industry body, BPESA, was undertaken. Documents such as reports from the dtic, reports compiled by independent consulting groups, and legislation were used to provide background information about the origins of the BPO sector in South Africa and the factors which have led to its success. In addition, BPESA prepares quarterly sector reports which are rich in data, and we have used these to create a dataset for the period 2010 – 2022Q1. These data provide information on the potential for economic growth and job creation, including information about number of jobs in the sector and the gender, age, and racial breakdown of the workforce. In addition, data on export revenue generated and global source markets serviced provide insight into globalization and the integration of South Africa's BPO sector in global value chains.

Table 2. Interview partners

Respondent	Organisation type	Position/Level
1	Former dtic	Executive
2	BPESA	Executive
3	Harambee	Executive
4	Former BPESA	Executive
5	BPESA	Skills expert

The data and documents provided online by BPESA were used to structure a questionnaire, the focus of which was understanding opportunities for inclusive growth, job creation, the nature of skills in the sector, and factors that have contributed to the continued success of the sector. We interviewed five individuals with involvement with the industry body BPESA, Harambee (one of BPESA's partner organisations), and the South African Department of Trade, Industry and Competition (dtic). These interviews, along with the analysis of documents mentioned above, were used to produce this case study.

3. Case Study Findings: The “Megatrends”

3.1. The South African Global Business Services Sector

Since 2008, South Africa has positioned itself as an upcoming offshore destination for business process outsourcing (BPO) (Lacity, Willcocks & Craig, 2014). According to data from BPESA, costs for providing GBS in South Africa are on average 60 to 70% lower than those in the UK and Australia and are comparable to other GBS providers. This is supplemented by a national Business Processing Outsourcing and Offshoring Incentive offered through the Department of Trade, Industry and Competition (previously the Department of Trade and Industry) whereby prospective investors can earn up to R290,000 (EUR 16,280, at the time of writing) per job created (dtic, 2018).

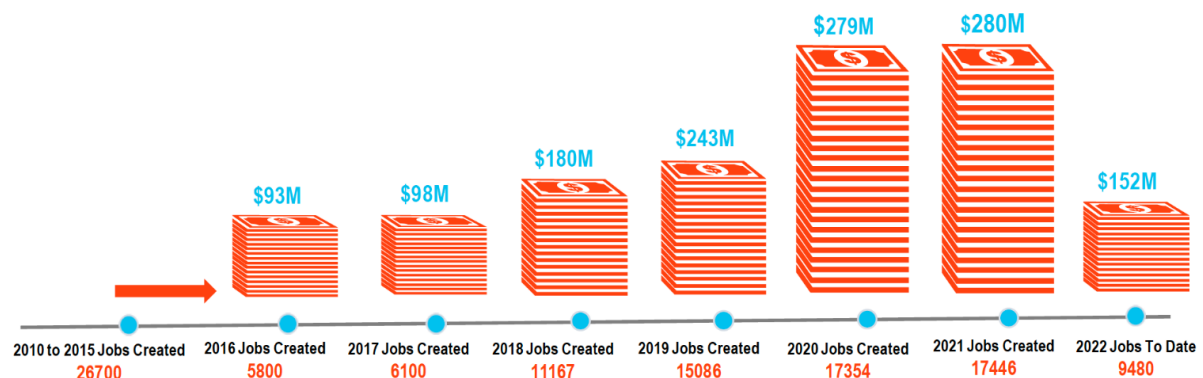
However, Lacity et al. (2014) find that for client companies based in the UK, the US and Australia, the value of South Africa as a provider of GBS goes beyond affordability. Its high-quality service and staff, cultural affinity, and a favourable time zone enhance South Africa's attractiveness as a service provider. BPESA (BPESA & Everest Group, 2019) has put forward a value proposition

for South Africa that includes factors such as the country’s strong foundation in contact centres; the availability of a large, young, and trainable talent pool many of which have a strong grasp of technology; strong government support to boost infrastructure and skill development; and the fact that the country has one of the best ICT infrastructures in Africa.

Accounting for 73% of total employment, contact centres still are the core function of the GBS industry (BPESA & Everest Group, 2019). Looking at the net new hires in the second quarter of 2022, 81% were frontline, voice-based contact centre agents. The digital transformation of contact centres as well as the rise in automation in the sector contributed partly to the capture of a larger share of the GBS market using non-voice services (BPESA & Everest Group, 2019). For example, the use of chatbots is on the rise. However, despite such technological advancements in call centres, the sector has demonstrated a growing capacity to create jobs.

Between 2010 and June 2022, the GBS sector has contributed 109,133 jobs and an annualised contribution of \$1,754 billion to export revenue. This is summarised in Figure 1 which shows the growth in employment in the GBS sector since 2010 in terms of both employment and export revenue. Growth in export revenue continued to grow even in 2020 within the COVID-19 pandemic. In 2021, 17,446 jobs were created, with a contribution to export revenue of \$280 million. The most recent data reveals that 9,480 jobs were created in the first half of 2022 with a \$152 million contribution to export revenue.

Figure 1. Export revenue and employment contribution, 2010 to 2022



Source: *Global Business Services Sector Job Creation Report (2022)*.

The GBS sector’s talent pool extends throughout the country – it is however concentrated in and around the large cities of Cape Town, Durban, and Johannesburg. For the potential of the

sector to create inclusive jobs to be achieved fully, efforts will need to target employment opportunities throughout the rest of the country. Adequate infrastructure however remains a major challenge in this regard.

3.2. Globalisation

The GBS sector, with support from the country's Department of Trade, Industry and Competition (dtic), has successfully positioned the country as a credible provider of outsourced global business services to meet global demand for such services. Interviewees indicated to us that BPESA's close work with government is recognised internationally and encourages international investment by reassuring investors of a relationship with government which seeks to enable the sector and not inhibit it.

In terms of net new jobs, the largest source of clients in recent years has been the UK (54% between March 2019 and June 2022). A decline in this share is observed over the period; however, in absolute terms the value of services provided to the UK is growing. In particular, support services to the British utilities and retail sectors are growing fast. The US is a relatively new, but rapidly growing, entrant. The US comprised just 1% of South Africa's GBS market in 2018. In 2019, this share increased substantially to 17%, and in 2020 it increased further to 27%. While data is unreliable for 2021, the US comprised 34% of source markets served in the second quarter of 2022. Australia is another key market serviced (10% in 2019, 4% in 2020, and 3% in 2022 quarter 2).

According to data from BPESA, costs for providing GBS in South Africa are on average 60 to 70% lower than those in the UK and Australia and are comparable to other GBS providers. However, the dtic emphasise the value proposition to potential investors rather than simply cost advantages. For the UK and Australian client companies, the value of South Africa as a provider of GBS goes beyond affordability and includes its high-quality service and staff, cultural affinity, and, in the case of the UK, a favourable time zone. In addition, providers have niche domain skills and knowledge for high-demand vertical industries in international offshore markets such as the UK and the United States e.g., insurance, financial services, healthcare, and legal services. To achieve further growth, BPESA is aiming at creating 24-hour service in South Africa to serve firms in the US. In addition, South Africa's GBS sector is well positioned to take advantage of

the UK GBS market as remote working opportunities become prioritized there and may lead to further relocations of business functions.

According to feedback received from our interviews, South Africa also plays an important role in collaborating with GBS sectors in other African countries to support growth in the sector across the continent. This includes countries coming into South Africa to do business and South African companies looking to do business outside of the country. There was a five-fold increase in the share of GBS being supplied to the African continent, from 2% in 2019 to 10% in 2020, holding steady in the first half of 2022.

A further trend in globalization can be seen in how the GBS sector in South Africa has contributed to global standards for the sector. Around 2007, the South African BPO community and relevant stakeholders engaged to establish standards for call centres along with the South African Bureau of Standards. The SANS 990 1 – 3 standards were released to be adopted by the sector in 2008 with an aim of increasing quality and service delivery for BPO service providers and contact centres. These standards were later presented to international delegates at an event in Indonesia and fed into the ISO 18295-1 (relating to the contact centre) and ISO 18295-2 (relating to the client) Global ISO Contact Centre Service Standards which are now implemented globally.

3.3. Demographic change

A large young labour force in the country represents a pool of talent that can be tapped to meet growing demand for GBS. A practice identified as “inclusive hiring” by interviewees is in place in the sector. Candidates aged between 18 and 35 years of age, who are South African citizens, and live in a poor household and community with low or no levels of employment – who are therefore often excluded from the formal economy – are targeted for employment in the sector. Approximately 87% (15,020) of new hires in 2020 were young people (aged 18 to 35 years) while the share of inclusive hiring positions increased from 14% (2,390) in 2020 to 22% (1,123) in the second quarter of 2022.

With respect to gender, female workers comprise approximately two-thirds of frontline, voice-based agents and non-voice, specialist workers in 2020 with the remainder (36%) being male. The percentage split was maintained in the overall jobs recorded between 2018 to 2022Q2.

The distribution of the GBS sector's workforce by race remained relatively consistent between 2018 and 2022Q2 with African workers accounting for just over half of all employees, followed by Coloured (25%), Indian (13%), and White (3%) employees.

The Masterplan sets out the following objective: 80% of jobs created need to be inclusive hires in order to access the Business Processing Outsourcing and Offshoring Incentive discussed previously. While traditional hiring practices have put up barriers in the form of qualification or work experience requirements, young people are an asset to the GBS sector as they are often familiar with digital technologies. In addition, they are found to have other favourable qualities such as enthusiasm, problem-solving skills, empathy, and a keenness to help others. The Masterplan also sets out a target of 30% of jobs created being occupied by individuals that have never had a job before.

However, while the sector is well suited to provide employment to young people, there are some real challenges. Many new entrants are lacking in confidence and are not properly prepared for the role. BPESA has teamed up with the dtic as well as Harambee, a non-profit organization, to run programmes to provide unemployed individuals with work-readiness skills that are also transferable across industries. While these workers may be ready for work, they still require training to work; therefore, they need to go through a work integrated training programme. The length and complexity of these training programmes is based on the specific campaigns that they will be working on.

3.4. Technology use

Technological change is expected to drive major changes in the sector in the future. Roles in the sector are expected to become increasingly more complex in line with such changes. While traditionally, roles available in the sector were not too demanding in terms of skills requirements, across the industry there is a monumental task to re- and up-skill employees as technology becomes increasingly important in offshore delivery. According to a survey by the National Electronic Media Institute of South Africa (NEMISA), overall, managers, employees, and HR managers have a good to excellent understanding of digital technology and technological readiness to adopt 4IR technologies is in place (Twinomurinzi, Msweli & Phukubje, 2020). BPESA is in the process of implementing its second five-year skills strategy in partnership

with national, provincial, and local government as well as firms operating in the industry and educational stakeholders to develop the required future skills. According to a senior member of BPESA's Skills Project Management office, entry level roles are

“starting to shift towards what we call omni-channel delivery and that would be in addition to voice chatting to a customer over the phone or via a headset, they would also have to engage with web chats and possibly even emailing.”

This has implications for the type of training offered – ‘brick and mortar’ training just won't cut it if South Africa wants to entrench itself as a leader of GBS. The big difference now is the emphasis on building ‘digital skills’ in the workforce.

With regard to infrastructure and technology use, plans are in place to address the physical barriers to entry that pose a threat to the growth of the South African GBS sector. These include developing broadband infrastructure in the country's non-metro cities³ and towns where there is already a small presence of GBS sector activity with a small amount of support in the enabling environment such as skills and infrastructure. In these cities attention should be paid to potential hybrid work-from-home arrangements and other ways to decrease the cost of working for new entrants.

3.5. Interrelated changes

The objectives laid out in the sector's Masterplan are envisioned to be achieved through a combination of attracting demand from increased globalisation, scaling the supply of workers with the required skills, and developing technology-based infrastructure. For a sector which is by definition part of the global value chain, the aim is to capture a greater share of the demand for GBS services by bringing new offshore work into South Africa and expanding current GBS operations within the country.

The Masterplan creates a framework within which to leverage both globalisation and demographic change in the GBS sector. There has been a push to stimulate global demand for South Africa's GBS on the basis of the country's attractive value proposition and cost effectiveness. On the supply side, the intentional focus on hiring young people and those from marginalised communities builds on the country's demographic assets and on the challenges

³ South Africa's major metropolitan areas are situated around the cities of Durban, Johannesburg, and Cape Town.

presented by a young, diverse and unequal, and severely underemployed population. For the young in particular, this has necessitated work-readiness training as well as campaign-specific training. The requisite skills are ever-changing in response to a growing global demand for more digital-skill intensive roles. The Masterplan also makes it clear that infrastructure and technology must be leveraged to achieve the Plan's goals.

On the demand side, the Plan aims to market South Africa as a high-quality provider of GBS and attract operators and companies to set up GBS delivery operations in the country. In this regard, the Plan notes that the next phase of furthering the sector's growth will require a

“more targeted approach to investment facilitation and marketing that addresses the particular challenges and capabilities required by buyers and global operators in the country's major source markets and vertical industries”.

On the supply side, the Plan focuses primarily on the creation of new jobs. In addition, it sets out skill interventions that create and sustain more entry-level talent, managerial skills, and also aims to reduce attrition in the sector. In so doing, the sector becomes more attractive. The industry is well-supported by South Africa's niche domain skills such as insurance, financial services, healthcare, and legal services.

Spatial inequality in major urban centres and lack of connectivity and access to economic opportunities throughout much of the rest of the country are major barriers that may limit the entry of individuals to work in the sector. It is thus important to ensure not only that demand is stimulated for GBS, but also that individuals obtain the required skills, and further still that individuals are supported to access work in the sector. However, the Masterplan does not specifically address challenges faced by individuals in accessing work such as transport costs and the safety of public transport.

Infrastructure and technology are particularly important to supporting access to work in the sector. Such support may either take the form of ensuring that individuals in marginalized communities are able to physically reach workplaces or providing individuals with the technological tools that they require to do such work remotely.

4. Impacts

4.1. Employment & Job quality

Through stimulating the demand for outsourced services and aligning the local supply of labour and skills with this demand, the GBS industry has been a vehicle for job creation in recent years, creating 70,533 jobs between January 2018 and June 2022. Currently, there are in between 25 to 10,000 employees per contact centre, with a typical size of 250 to 3,000 employees per centre. BPESA is aware of 50 employers engaging in GBS in South Africa, many of which are start-ups. Three-quarters of employment in the industry is found in contact centres (BPESA & Everest Group, 2019).

The Department of Trade, Industry, and Competition (dtic) has provided a large share of the government support in the sector through an employment incentive scheme. Firms are eligible for this incentive if they meet certain criteria such as being a registered South African firm, with at least a three-year fixed-term contract for offshore activities and involvement in either starting or expanding an existing operation. The legislation also outlines a minimum wage structure. There is a framework governing the size of the incentive based on factors such as the number of young people employed and the complexity of the jobs created. Underpinning the growth in job creation in the GBS sector, the incentive scheme has supported approximately 80% of recorded new jobs.

In 2018, 11,167 new jobs were logged as well as a \$180 million contribution to export revenue. The following year, this contribution to export revenue increased by 35% (\$243 million) accompanied by the creation of an additional 15,086 jobs. Export revenue continued to grow in 2020, but at a decreased rate of 15% year-on-year which may be due, in part, to the contraction of the global economy in the face of the COVID-19 pandemic. Despite these challenges, the GBS sector still contributed 17,354 new jobs to the economy. A key enabler of this employment growth was South Africa's easing of lockdown regulations in order to enable call centres to operate to support global and local business services.

While concerns have been raised about the nature of jobs in the sector and whether these can be seen as jobs that can lead to careers⁴, interviewees indicated to us that the sector provides many avenues to advance the careers of its workers such as promotion to managerial positions or specialising in specific types of GBS such as finance, accounting, legal, or transformation. In addition, opportunities exist in the fields of data science, software development, testing, and architecture. They also emphasised the transferability of the skills individuals obtained in the GBS sector. The skills acquired there can open up avenues for other employment in services outside of the sector. There are also opportunities for individuals to get involved as entrepreneurs in the sector as either BPO service providers or running companies that provide other services to the sector (such as training, security, and catering).

A great challenge faced by the sector is high rates of attrition at approximately 20% per annum. In start-up BPO companies it can be as high as 100%. According to some of our interviewees, the factors impacting rates of attrition in the sector include the working hours and shift schedules, with higher attrition in companies where workers are expected to work at night. In particular, one interviewee stated that *“the pathway into work affects attrition as well.”* They explained that a staggering 95% of those employees that had gone through work-readiness training were retained in the first year. Having said that, contact centres are reported to offer safe and healthy working environments, however, there are no set standards that define the working environment (Anwar & Graham, 2022). In South Africa there is a minimum wage, with call centres being required to follow this protocol. It is commonplace to have contract workers in call centres, but there is potential for these workers to move into permanent positions.

To be successful in finding and retaining young workers it is important to look for those young people with the potential and inform them of the potential career pathways available through entering into the GBS sector. One interviewer commented that organisations need to understand that unemployed youth have talent, but may need to be treated differently to other workers at the initial stages. The next section explores some of the interventions that have been taking place to close the gap between the skill set of new entrants and the skills required to advance in the sector or beyond.

⁴ See for example, <https://theconversation.com/most-call-centre-jobs-are-a-dead-end-for-south-africas-youth-117516>.

4.2. Skills

The GBS sector provides many opportunities to absorb the young labour force who are inexperienced and without many skills, as most opportunities in the sector only require a grade 12 certificate for new entrants. The varied nature of the services provided by the South African GBS sector has resulted in skills in the sector that are among the most highly transferable across industries in South Africa. Within the BPO industry employees have the opportunity to upskill and become team leaders and managers, among other functions. For those workers wishing to leave the industry, skills in customer service, customer engagement and project management may set them up for success in many other sectors including tourism, hospitality, and management consulting.

As the sector grows, the development of skills to meet a growing demand for GBS is becoming increasingly important. This entails a shift toward more complex and highly complex roles in the sector. A senior staff member at BPESA stated that

“when the master plan speaks about demand, we also speak about how do we shift from the contact centre type of work to the more complex and highly complex roles. And how do we position ourselves for that?”

BPESA developed a 120-page concept note which describes how South Africa can remain competitive in GBS. The paper emphasizes that digital skills are important – not just technical skills, such as cloud, cyber, VR (virtual reality), but also the professional skills complementing and enabling technology-based operations.

In terms of skill supply, a focus on future skills training is of high importance. An initiative called the Future Skills Platform looks at upskilling, reskilling, and future skilling talents – not just for unemployed youth entering the GBS sector, but also for incumbent staff. In the GBS sector there is a need for not just entry-level positions, but also for capable team leaders, middle management, and executive roles. For this reason, BPESA is looking to professionalise the sector and are busy developing a GBS qualification with the University of Cape Town’s Business School.

4.3. Inequality

By targeting inclusive growth, the sector can contribute towards reducing inequality and poverty in the country. However, for the potential of the sector to be realized, it is imperative that all stakeholders recognize this as a key outcome for success in the sector, alongside its overall growth.

The introduction of the Business Processing Outsourcing and Offshoring Incentive and inclusive hiring practices discussed previously have had a measurable impact on the number of young people employed in the GBS sector. The concerted effort to hire individuals from previously disadvantaged backgrounds has contributed to the fact that since 2015, 80% of the new jobs created are for young workers and 64% of those youth recruited are women. The Masterplan outlines a target of 30% of jobs to be occupied by new labour market entrants by 2030. By increasing the share of new labour market entrants there is potential to address unemployment challenges faced in South Africa.

In addition, the Masterplan outlines cross-cutting actions needed to make the sector resilient, impactful, and also a contributor to South Africa's Broad-based Black Economic Empowerment (B-BBEE) and special development targets. Specifically, the Masterplan pays attention to the transformation of the sector in terms of increasing Black company ownership, management roles, and connections with local Black-owned enterprises supplying services to GBS companies. In addition, the plan focuses on promoting decent working conditions, skills training, and impact sourcing and location.

The regional distribution of GBS jobs is another issue of inequality in labour market access. As of 2020, the most recent year of reliable geographic data, most workers in the GBS sector resided in either the Western Cape (53%) or KwaZulu-Natal (28%). According to input from BPESA, the Western Cape is the most established player in the BPO sector, while KwaZulu-Natal has the fastest growing BPO sector. Gauteng was home to 18% of workers, while the majority of the remaining workers were located in the Eastern Cape. Currently, the potential of shifting call centre operations outside the metropolitan areas to the country's poorest regions is limited by a lack of infrastructure, such as network access. The Masterplan explores various approaches to overcoming this challenge, primarily making use of its existing Special Economic

Zone⁵ structure to create digital hubs in these areas. It also discusses infrastructure upgrades in some Tier 2 and Tier 3 areas located outside of the major urban areas. However, this will require considerable infrastructure development to ensure internet access in some of the more remote areas in the country.

Building up broadband infrastructure and distributing work spatially would also lower the barriers created by high travel costs for workers and potential safety issues for employees working night shifts due to time zone differences. Spatial divisions in South Africa that persist as a legacy of Apartheid planning often mean that those most in need of employment are situated far away from the economic hubs where opportunities remain concentrated. A senior member of BPESA stated that they want to *“get opportunities for communities to be online so that they can take the jobs closer to the people.”*

5. Conclusions

The Business Process Outsourcing (BPO) services sector has seen remarkable growth in South Africa in recent years and this growth is expected to continue in the future. The country is attractive for various reasons including a cost advantage, high-quality service and staff, cultural affinity with other English-speaking countries, and a favourable time zone. However, positive outcomes in the sector are however not only driven by these factors. Importantly, relationships and understanding between employers, the government and relevant social partners and NGOs have shaped demand for these services in South Africa, as well as the supply of skills to meet this demand. This collaboration has been concretized in a Masterplan for the sector which sets out a plan for stakeholders to stimulate demand for GBS, develop skills that are needed to meet this demand, improve job quality, and leverage the use of key infrastructure and technology to achieve growth in the sector.

Spatial inequality in major urban centres and lack of connectivity and access to economic opportunities throughout much of the rest of the country are however major barriers. These factors may limit the access of individuals to work in the sector in the face of growing demand for these services. It is thus important to ensure not only that demand is stimulated for GBS,

⁵ A Special Economic Zone is a geographically designated area set aside for targeted economic activities, which are then supported via special arrangements and support systems to encourage industrial development.

but also that potential employees obtain the skills to meet this demand, and further, that transport and digital infrastructures support them in accessing work in the sector.

While some raise concerns about the nature of jobs in the sector and whether these can be seen as jobs that can lead to careers, interviewees indicated to us that the sector provides many avenues to advance the careers of its workers within and beyond the sector.

By targeting inclusive growth, the sector can contribute towards reducing inequality in the country. However, for the potential of the sector in this regard to be realized, it is imperative that all stakeholders recognize this as a key outcome for success in the sector, alongside its overall growth, and that equal opportunities are sustained throughout careers in the sector.

An important component of achieving a sector that is inclusive and able to grow sustainably well into the future will be to expand the operations of the sector outside the country's main urban areas. In this regard, the Masterplan discusses infrastructure upgrades. However, beyond this, creating an ecosystem for the GBS sector to thrive outside of the core urban areas may present considerable challenges which may be beyond the scope of the current Plans. It will be important to engage with provincial and local governments and bring them on board as collaborative partners as well (in addition to the current partners with clearly defined roles in the Masterplan) with a clear mandate and plans of action to enable inclusive and sustainable growth of the sector beyond the areas in which they are currently concentrated.

The overall view on the potential of the sector to support inclusive growth is that globalization does present opportunities for growth in services in a developing country such as South Africa. A number of gaps remain in the sector's current strategy to support job creation, access to work and career progression in the sector for South Africans. These include:

- Taking account of spatial inequality in the country to ensure that opportunities are accessible not only within certain pockets of the country and ensuring that individuals are able to access safe and reliable transport to places of work whenever it is required, locating job opportunities closer to where those in need of employment live, or improving the ability of individuals to work remotely through access to infrastructure and relevant support.

Consideration of a trade-off between attracting new talent for new jobs and developing skills and retaining staff within the current workforce. The sector's strategy currently seems more focused on generating jobs than on worker retention and job quality. This is understandable given South Africa's unemployment crisis but may leave gaps in terms of supporting career prospects and progression within the sector.

- The current lack of emphasis on job quality in the sector's plan and its emphasis on job creation and opportunity creation in GBS supply chains may result in poor working conditions and job quality. For the sector to attract the best talent and serve as a link to the broader labour market for many South Africans who remain locked out of economic opportunities, the jobs the sector generates must be able to support career progression and support. Sustainable careers and accumulation of experience in the sector will also enable the sector's further specialisation and acquisition of functions that add higher value (cf. Kowalik et al. in this volume).
- A lack of nuanced understanding of the individuals working in the sector and the challenges they face in accessing work and progressing in the sector. In particular, while women account for a considerable proportion of jobs in the sector, the current plans do not consider whether they are concentrated in specific functions and whether they would need a concerted effort to support women in accessing work and progressing across the spectrum of skills and functions required in the sector (which range from call centre jobs to an increasing need for more high-level technical skills).

To address these gaps and achieve the sector's job creation goals in a manner that is sustainable and supports equitable inclusion in the economy, it is imperative that stakeholders extend their co-ordinated approach to job quality and the wider ecosystem of infrastructure, education and training provision, to be able to take new technologies on board and remain competitive and innovative on sustainable terms.

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