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**Implementation Evaluation of the
Business Process Services
Incentive Scheme Programme**

Prepared by Genesis Analytics

Literature Review
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1. INTRODUCTION

Genesis Analytics has been commissioned by the Department of Performance Monitoring and Evaluation (DPME) to conduct an implementation evaluation of the Business Process Services (BPS) incentive scheme programme. This document constitutes the literature review component of this evaluation. This will be included as a chapter of the full evaluation report.

The Genesis team, in collaboration with the capacity development team from DPME completed a full review of all the documents and data sources relevant to the evaluation of the BPS incentive scheme programme. This process involved reviewing all the documentation provided by the Department of Trade and Industry (dti) as well as additional necessary documentation from desktop research.

During the literature review, the team highlighted the relevance of each document and summarised some of the documentation for better understanding. The outcome of this process was an identification of the key themes across the BPS industry both internationally and in the South African context; and the identification of incentive scheme best practice. Annexure 1 outlines the reports which were reviewed; accompanied by a brief description of the main theme of the document.

2. OVERVIEW OF THE KEY FINDINGS

The findings from the literature review can be categorised under the following headings: the global BPO context, the South African BPS context and the theory of incentive schemes. A brief outline of these findings is described below.

2.1. THE GLOBAL BUSINESS PROCESS OUTSOURCING (BPO) CONTEXT

There is a growing trend of companies looking to outsource as a means of not only increasing efficiency but also as a means of improving industry expertise and improved customer service. This trend is evidenced in the significant growth rate of the industry which, over the years, has resulted in a substantially sized industry:

- In 2012, global BPO revenues were estimated to be in excess of US\$ 175 billion, global IT outsourcing revenues were estimated to be US\$ 290 billion, and of these two revenue streams, offshore outsourcing was expected to represent approximately US\$ 85 billion,¹ and
- Despite various figures being quoted for the industry's growth rate, the general estimate lies within the range of 8-12% per annum for the period of 2012-2016².

Typically it is the developed markets, such as the United Kingdom, the United States and Australia, which outsource to lower-cost destinations. These outsourcing destinations are categorised as tier I or tier II countries, where tier I refers to countries with a mature and experienced BPO market, such as India and the Philippines, and tier II countries are those that have less mature BPO markets, such as Mexico, South Africa and Brazil. Despite India's

¹ LSE (November 2012) *Becoming Strategic- South Africa's BPO Service Advantage*

² LSE (November 2012) *Becoming Strategic- South Africa's BPO Service Advantage*

overwhelming dominance as a BPO outsourcing location, there is evidence of a recent trend of large companies moving their outsourcing functions to other outsourcing destinations in search of higher customer satisfaction. As a way of attracting this investment, the majority of BPO outsourcing destinations offer competitive incentives which lower their cost of operations relative to other destinations and thus attract the potential investors. These incentives are structured in a variety of ways including tax holidays, training grants, investment grants and combinations of these.

2.2. THE SOUTH AFRICAN BPS CONTEXT

In September 2005, the South African government identified the Business Process Outsourcing (BPO) sector as a priority sector for job creation and attracting investment. In order to encourage investment in this sector, the government identified the key constraints to the growth of the sector, which included high costs of doing business, lack of required talent, lack of investor support, lack of marketing and a lack of experience. Following this, the dti, Business Trust and Business Process enabling South Africa (BPeSA) partnered together to implement seven work streams to overcome the identified constraints. These work streams fall under the headings of strategic marketing, a talent development programme, industry mobilisation, a quality standards regime, creating an enabling environment, telecommunication costs and the second economy.

The *Creating an enabling environment* work stream was rolled out through the Business Process Outsourcing and Offshoring (BPO&O) incentive scheme, launched in July 2007 for a period of four years. The BPO&O incentive programme had four elements to it: an investment incentive, the Monyetla Work Readiness Programme, a training support grant and additional support for establishing operations in rural areas. After a revision of this incentive scheme by the Everest Group in 2010, a revised incentive scheme, the BPS incentive scheme programme, was implemented in January 2011 which is to run until March 2014. These two incentive schemes were developed as a means of bridging the cost gap of South Africa as compared to other offshore locations; thus making South Africa more competitive.

The incentives add to South Africa's competitiveness, however, cost is not South Africa's primary strategic advantage over other destinations. This strategic advantage is referred to as South Africa's value proposition, which includes a skilled English-speaking talent pool, deep domain skills, first-world experience, a robust enabling environment and significant cost savings.

2.3. THE THEORY OF INCENTIVES

There is contentious debate around implementing incentives and whether or not one should interfere with the market economy. Opponents of incentive schemes suggest that markets can function sufficiently without government intervention and that if left alone, an efficient competitive equilibrium will result maximising social welfare. On this premise; if the BPS industry is in a perfectly competitive equilibrium then the incentive reduces price and increases consumption beyond the competitive equilibrium resulting in a departure from competitive equilibrium. The World Bank and other proponents of the Washington Consensus discourage the use of incentive schemes in developing countries, other than if the motive behind the scheme is improving national welfare in the form of an increased technology level, job creation, improved work opportunities and economic growth. From an economic perspective the BPS incentive scheme has the characteristics of an incentive which promotes job creation for previously unemployed South Africans.

There is not a simple, one-size-fits-all solution to introducing and maintaining incentives. When assessing whether or not to introduce, or to continue with, the kind of market intervention that incentive schemes present, there needs to be a full analysis of the costs and benefits that the incentive has on both the industry and the national economy and the consequential effects on both the industry and the broader economy once the incentive ends. If positive spill-over effects are to materialise, firms need to invest in technology, improving learning capacity and maintaining a competitive local business environment to ensure that the externalities can be absorbed for long term sustainability in the industry.

3. CONCLUSION

The literature review enabled the team to understand the research context in greater detail and formed the basis of the analysis framework. Key outcomes of the literature review process include:

- A better understanding of the history and context of South Africa's BPS industry
- Knowledge of the global business process outsourcing industry
- Understanding of the theory around incentives, with particular focus on incentives for outsourcing industries
- Identification of gaps in the documents and data

The development of the main themes and the identification of the gaps in the data form the basis of the analysis framework.

ANNEXURE 1: DOCUMENTATION

Table 1: List of documents, data and information sources reviewed

Title	Author	Year	Description/Relevance
Policy Documents			
Cabinet memorandum Nr 41 of 2006	The dti	2006	Background to the policy behind the BPS sector and incentive scheme
Programme Guidelines: Business Process Services Incentives	The dti	2012	Greater understanding of the BPS incentive scheme, particularly as it is seen from the perspective of a potential investor.
Programme Guidelines: BPO&O Investment Incentive	The dti	2007	Investor guidelines about the BPO&O incentive programme, providing insight into the revisions for the BPS incentive scheme
Programme Guidelines: BPO&O Training Support Grant	The dti	2007	Investor guidelines about the BPO&O incentive programme, providing insight into the revisions for the BPS incentive scheme
Industrial Policy Action Plan (IPAP) 2012/2013-2014/2015	The dti	2010	Identification of the BPS sector as a priority sector and the reasoning behind this.
Evaluations and reviews			
Sector Support Programme for BPO&O in South Africa: A Review of the Government Assistance and Support Programme	Mercorio, G	2009	Initial review of the BPO&O incentive scheme, providing the strengths and weaknesses of the GAS programme
BPO Incentives Review	Everest Global Inc.	2010	Review confirmed Mercorio's findings and subsequently informed the change from the BPO&O incentive scheme to the BPS incentive scheme.
Becoming Strategic- South Africa's BPO Service Advantage: Report One- South Africa's BPO Service Advantage	Willcocks, L., Craig, A., and Lacity, M- London School of Economics and Political Science	2012	Review of the South African BPS sector including country comparisons, investors' experiences of the industry, the strengths and weakness of the sector and key recommendations
Becoming Strategic- South Africa's BPO Service Advantage: Part 2- Case studies of success	Willcocks, L., Craig, A., and Lacity, M- London School of Economics and Political Science	2012	Detailed case studies of BPS companies in South Africa.
Analysis of South Africa as a BPO Delivery Location	NelsonHall	2011	Review of the South African BPS sector for mainly UK investors.
Marketing material and value proposition			
Ready to Compete: South Africa's BPO	Everest Global Inc. and Letsema	2008	Overview of South Africa's strategic BPS position.

capabilities in the financial sector	Consulting and Advisory		
Developing Talent: A snapshot of initiatives in South Africa's BPO sector	The dti, Business Trust and BPeSA	2010	Overview of South Africa's skills potential and skills programmes for the BPS sector.
Delivering World-Class Customer Experience: South Africa's proposition for contact centre BPO	The dti, Business Trust and BPeSA	2010	Overview of South Africa as a destination for BPS and the value proposition in its entirety.
Gateway to Africa: South Africa's proposition as a BPO service hub for Africa	The dti, Business Trust and BPeSA	2010	South Africa as a strategic position for investors to penetrate the African market.
Our Incentives: Making a Difference Overview of incentives offered to South Africa's business process offshoring industry	The dti, Business Trust and BPeSA	2010	Overview of South Africa's incentives for the BPS sector.
BPO Strategic Marketing: Programme discussion document	The dti, Business Trust and BPeSA	2010	Overview of South Africa's BPS value proposition and why it is an attractive location for investors.
We Speak Your Language: South Africa's proposition for business process offshoring	The dti, Business Trust and BPeSA	2010	Overview of South Africa's accent and voice qualities.
South Africa at a glance: Overview of geopolitical, environment, demographics and business environment	The dti, Business Trust and BPeSA	2010	A general overview of South Africa as a country.
Developing the BPO sector: Report to stakeholders 2009	The dti, Business Trust and BPeSA	2009	Detailed outline of the South African BPS sector including the BPS strategy, value proposition, marketing, institutional framework and second economy objectives.
Desktop research: The global BPS market			
Business Process Outsourcing: Moving Beyond Borders and Cost	Agile Equity	2010	The global BPS sector and what the trends are in BPS globally.
Achieving High Performance in BPO	Willcocks, L., Simonson, E., Sutherland, C. and Lacity, M-Accenture	2012	Global BPS context, how it developed and what its future is expected to look like.
India BPO Study: Roadmap 2012-Capitalizing on the expanding BPO landscape	Nassom and Everest Global Inc.	2012	Global overview, including India's BPS capabilities, opportunities, and growth imperatives.

Introduction to Everest Group's Survey on Global Locations	Everest Global Inc.	2011	Overview of where South Africa ranks as an outsourcing location for investors when considering expanding operations.
Offshore Locations: Buyers' Perceptions and Plans for 2011-2012	Everest Global Inc.	2010	Outline of investors current footprint, expansion plans and risk perceptions and how this affects the South African BPS sector.
U.K. BPO Market Forecast: 2011-2015	NelsonHall	2011	Overview of the UK BPS market, which is essential as they are South Africa's biggest source market.
Working documents from the dti			
Company evaluation reports	The dti	N/A	Summary of companies on the incentive scheme, their location, projected number of jobs, projected investment and incentive allocation
BPS client information sheet	The dti	N/A	List of companies on the incentive scheme, names of relevant company stakeholders and contact information
Blank application and claims forms	The dti	N/A	Useful for understanding ease of use of the application and claiming process
BPS status report	The dti	N/A	List of companies on the incentive scheme, the number of jobs and projected and created per project, and the projected FDI per project
Desktop research: The theory of incentives			
The Economics of Subsidies	Erickcek, G., Lannane, D., McCrea, N., Salem, P.	2006	Theoretical background to incentives and the effects they can have.
New Voices in Public Policy: The Washington Consensus	Symoniak, J.	2011	Theoretical background to incentives and the effects they can have.
Introduction to Market Failure or Success: The New Debate	Cowen, T., and Crampton, E.	2002	Theoretical background to incentives and the effects they can have.
Distributive Politics and Economic Growth	Alesina, A and Rodrik, D.	1994	Theoretical background to incentives and the effects they can have.