An LSE Outsourcing Unit Working Paper Research Series

Paper 12/4: Becoming Strategic -

South Africa’s BPO Service Advantage

November 2012

Part 2 – Case Studies of Success

Authors
Professor Mary Lacity
Professor Leslie Willcocks
Andrew Craig

The Outsourcing Unit
Department of Management
London School of Economics and Political Science
Executive Summary

For clients considering South Africa as a destination for outsourcing, or for erecting a captive centre, ten lessons arise from the combined LSE Outsourcing Unit case studies. The four cases of this Report 2 provide the most-in-depth evidence, so we draw extensively upon them here for illustrative purposes.

First, South Africa complements the global portfolio for many international companies, particularly for those companies that already have bases established in India, the Philippines, and Eastern Europe.

Second, South Africa’s value proposition cannot only be about costs because other locations are cheaper; South Africa’s value proposition is about overall economic value, high quality staff, high cultural compatibility, and favorable time zone.

Third, the notion of a “Model Office” allows international clients to experiment in new locations before making long-term commitments.

Fourth, for best results, clients should find a partner not a vendor; this lesson emerged strongly across all four case studies.

Fifth, invest in enough resources, particularly leadership, when launching a new service centre.

Sixth, partners resolve issues—they don’t assign blame.

Seventh, clients should protect the providers’ commercial interests because service performance is tied to financial performance.

Eighth, whether international firms build or buy services from South Africa, they will have to learn to govern effectively.

Ninth, BPO relationships in South Africa demonstrate strong Corporate Social Responsibility (CSR) by transforming the lives of employees and the broader communities.

Finally, South Africa’s long-term sustainable advantage will not be based solely on labour arbitrage and call centres, but on more value-added services.
BPO Case Studies of Success

1. Overview of the Cases

The viability of South Africa as a destination for global BPO services is best demonstrated through proven stories of performance. For Study 3, we interviewed clients and providers from four successful BPO relationships (see Table 1). The four cases are similar in that the client companies all selected South Africa for customer care services, including voice, email, live chat, text, and other customer offerings. The four clients also echoed similar reasons for selecting South Africa, including economic value, high quality staff, high cultural compatibility, and favourable time zone. The four cases are dissimilar in their sourcing model—there are two outsourcing relationships, one captive centre and one acquisition.

<table>
<thead>
<tr>
<th>Case Study</th>
<th>Client</th>
<th>Provider</th>
<th>Year</th>
<th>Services</th>
<th>Sourcing Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>British Gas</td>
<td>WNS/Fusion</td>
<td>2011</td>
<td>Voice, email</td>
<td>Outsourcing</td>
</tr>
<tr>
<td>2</td>
<td>iiNet</td>
<td>Merchants</td>
<td>2008</td>
<td>Voice, email, social media, compliance</td>
<td>Outsourcing</td>
</tr>
<tr>
<td>3</td>
<td>Amazon.com</td>
<td>Full Circle</td>
<td>2010</td>
<td>Voice, email, live chat</td>
<td>Outsourcing then transition to a captive center</td>
</tr>
<tr>
<td>4</td>
<td>Capita (acquirer)</td>
<td>Full Circle (acquired)</td>
<td>2012</td>
<td></td>
<td>Acquisition</td>
</tr>
</tbody>
</table>

In this Part 2 of our Report on South Africa’s BPO sector, we describe each case in detail. We describe the company background, the client’s reasons for selecting South Africa as a BPO destination, the client’s reasons for selecting their particular BPO provider, the transition phase, and the current performance level. For other clients considering South Africa as a destination for outsourcing or for erecting a captive centre, we conclude Part 2 with ten findings/lessons that arise from the cases.
2. Case 1: British Gas Selects WNS South Africa for Call Centre Services

“WNS South Africa’s customer satisfaction measures are hitting scores equal to our UK call centres.” – General Manager, British Gas Residential

In this first case study, we examine a BPO relationship that is less than a year old, but is performing so well that the scope of the services has expanded twice already. British Gas selected WNS South Africa (formerly Fusion Outsourcing Services)\(^1\) in December 2011 to handle incoming customer calls. We trace British Gas’s offshoring journey and how it arrived at the destination of Cape Town, South Africa. Like all outsourcing arrangements, the positive outcomes of this case result from strong client and provider capabilities, governance, and transparency. We begin with a contextual background on British Gas.

**About British Gas**

British Gas is a subsidiary of Centrica, a £23 billion British multinational utility company. British Gas, with over 20 million customers and 30,000 employees in the UK, is considered one of the Big Six UK Energy companies, along with EDF Energy, E.ON Energy, Npower, Scottish Power and SSE. British Gas was initially a public utility that became privatized under Prime Minister Margaret Thatcher’s leadership, which culminated in the Gas Act of 1986. British Gas’s initial public offering valued the company at £9 billion, the highest equity offering ever at the time.

As a company, British Gas is known for its strong commitment to customers, employees, and communities. Pertaining to customers, their Corporate Social Responsibility mission reads as follows:

“At British Gas, one of our main concerns is affordable energy for all. This means making a positive impact on our customers’ quality of life and diminishing fuel poverty in the communities where we operate, as well as helping all our customers to reduce their energy bills. In difficult economic times, we believe that all UK citizens, irrespective of circumstance, should have access to safe, cleaner and affordable energy\(^1\)”

In addition to affordable energy, British Gas also seeks to provide excellent customer service. They have won a number of customer service awards such as the uSwitch Energy Awards 2011 for which British Gas was named the winner of the ‘Best Online

\(^1\) Following the acquisition by the WNS Group in June 2012, Fusion Outsourcing Services was renamed to WNS South Africa.
Services’ category. Recent customer-friendly online services that have been introduced include being able to change Direct Debit payments, being able to compare a customer’s energy usage with others in his/her local area and being able to submit meter readings online. Pertaining to employees, The Sunday Times has named British Gas as one of the “Top 25 Best Big Companies to Work For” for four consecutive years.

Also relevant to this case, British Gas has a “Responsible Procurement” policy, which reads:

“Every year British Gas spend millions of pounds purchasing goods and services to support the delivery of our business activities, including outsourced services, central heating boilers, electrical parts and metering. In the course of this activity, we are responsible for delivering value to our investors and customers, while observing responsible purchasing practices, which align with our Group Business Principles.”

The Business Case for Outsourcing

British Gas is a seasoned outsourcing client, having outsourced certain processes for over 10 years. Initially, British Gas only outsourced back office processes, for example, a migration of billing systems to SAP. It began outsourcing customer-facing call centers domestically to provide resource flexibility. Customer call volumes are seasonal, and outsourcing stabilized resources without the need to hire and retrench employees to meet seasonal demand. Initially, British Gas’s sourcing strategy was to keep customer-facing processes onshore, but cost pressures forced them to reconsider. The General Manager of BG Residential explained:

“For many years we’ve said that we would not put our voice activity offshore; we would put back office and process activity offshore, but not voice. We’ve been forced into the debate predominantly because of cost, but have been very selective to ensure the customer service offering will not be any different to what we offer onshore.”

Thus, the business case required significant cost savings, but the service levels had to equal onshore levels.

The service imperative would be quite challenging to meet, as British Gas’s call centers have won prestigious awards. For example, British Gas’s Call Centre in Cardiff has been named both 'European Call Centre of the Year' and 'Best Centre to Work for in Europe' for the second year running. The company also won the award for 'Large Contact Centre of the Year (over 100 seats)' in 2010, and was also highly commended for 'Best Centre for Customer Service'. In 2009, British Gas won the 'Best Improvement Strategy' award.
for its clear goals, clear objectives and amazing results. It was also highly commended in the 'Best Use of Technology' for its customer feedback work.\textsuperscript{4} Finding an offshore partner that could live up to these standards would be challenging, indeed.

**British Gas Selects South Africa**

Why look to South Africa? India and the Philippines are the most popular destinations for offshore call centres, but British Gas ruled out India and the Philippines because of the potential for negative customer reactions. British Gas considered South Africa because, in addition to cost savings, the accent is neutral, the business culture is similar to the UK, and the time zone is favorable. The General Manager for BG Residential and his team toured South African providers in Johannesburg, Durban and Cape Town. After their visit, the General Manager concluded that South Africa was the preferred destination. He said:

“We felt that we could actually find a partnership in South Africa that would have no detrimental impact to our customers.”

South Africa’s grants also significantly affected British Gas’s location selection. As the General Manager explained:

‘The grants were a key consideration for us along with the high standards of customer service and that is why we chose South Africa’.

**British Gas Selects WNS South Africa**

After vetting South Africa as the destination, British Gas issued an RFP. Many providers responded and British Gas selected three for closer consideration. After provider pitches and rigorous due diligence, British Gas selected WNS South Africa because they had the best mix of commercial advantage, cultural values, and partnership attitude. The General Manager at British Gas said:

“They appeared to be a business that we could work with and we could work with them as a partner, not just as a supplier. When we walked into their office, we could see that they positioned their values quite nicely. They wanted to share what they stood for as Fusion. But likewise, they made sure that the client also got their own space. They had to make sure that they could enable their agents to get very close to our brand and understand what we’re all about.”
So who is WNS South Africa?

WNS South Africa, formerly Fusion Outsourcing Services, is one of South Africa’s leading BPO providers. Having been acquired by WNS (Holdings) Limited in 2012, WNS South Africa has access to a large service offering set, along with enhanced capabilities and expertise. WNS South Africa was established in 2003 and provides a range of outsourcing services including contact centre, customer care and business continuity services to both South African and international clients. WNS South Africa supports all channels of communication, including voice, email, web chat, white mail, fax, and SMS. With operations in Cape Town and Johannesburg, WNS South Africa currently employs approximately 1,700+ people. In June 2012, WNS, a leading India-based provider of global business process solutions, acquired Fusion Outsourcing Services, for approximately £10 million. The Managing Director for the provider believes that British Gas selected WNS South Africa above its competitors because of its established presence in South Africa. He said:

“WNS South Africa won the bid in part because the company had absolute understanding of the local South African market. We’ve been here since 2003 and have gotten to know the local market extremely well. I think British Gas had the confidence that they would be dealing with an established partner.”

Overview of The British Gas-WNS South Africa Contract

In December 2011, Centrica signed a five-year, contract with WNS South Africa for incoming call centre services from Centrica’s residential gas and electricity customers who have credit meters installed at their property. The initial scope of the contract involved the ramp up of 425 Full Time Equivalents (FTEs) over 18 months, with a target of potentially 625 FTEs. In March 2012, the contract was expanded to include 24 FTEs to support email correspondence with a potential to scale to 70 FTEs. In August of 2012, the contract was expanded a third time to include 120 FTEs to support incoming calls from British Gas’s SME business customers.

The contract is priced by hourly rates with metrics that track and reward performance. The contract is governed with a Masters Service Level Agreement and clear, measurable performance metrics. Awarding bonuses for over-achievement is an incentive for the provider to improve. The contract also specified two sets of governance—one for pre-transition and one for post-transition.
Transition and Operations

Prior to going live, WNS South Africa began actively preparing to support British Gas. Beginning in October of 2011, it began job profiling, recruiting, and training agents. It sent a team to visit British Gas’s UK delivery centers to train operations managers. It also assigned an experienced project manager. This pro-active preparation allowed for a speedy and effective transition. According to General Manager for BG Residential, WNS South Africa started taking calls the day after the contract was finalized. The Managing Director for WNS South Africa described the transition phase as follows:

“We used one governance model for the pre go-live phase, which is where we use the formal project planning and implementation governance. The governance board and the entire project team had weekly review meetings, service review meetings, and steering committee meetings. Risk and risk mitigation and go-don’t-go gateways were all in place and followed rigorously on a week-by-week basis, some of it on a day-by-day basis. A team on each side jointly managed this process until go-live. So I think from that perspective, it was well managed. There was a real structured approach.”

Initially, the calls assigned to WNS South Africa were simple, transitional calls that fell out of the automated system for reasons such as typing in a wrong number. As WNS South Africa gained experience and domain expertise, the work assigned became more complex, such as general enquiries that could lead to sales. After three months, British Gas felt confident that WNS South Africa could handle customer emails. After nine months, WNS South Africa was also assigned business customers.

Even after the transition, British Gas closely governs the relationship, believing that it is vital to “inspect what you expect”. The relationship is governed with daily, weekly, monthly, and quarterly reviews. British Gas assigned a full time operations manager to work daily at WNS South Africa’s delivery centre. The General Manager for BG Residential described the manager’s role:

“The manager is not there to run the show; instead he’s our eyes and ears. He’s there for WNS South Africa to be able to use as need be, and to ensure that they are up to speed on any business changes that we’re implementing.”

This onsite liaison is obviously a costly investment for British Gas, but an emerging best practice to protect quality. The General Manager continued explaining:

“I think that continued support from our perspective is very valuable. Now the provider may find it a little inhibiting from an operational perspective, but I think it works for both
of us. It keeps them on their toes and makes sure that the standards are kept to a high level.”

Weekly, the partners discuss performance over the phone between South Africa and the UK. Monthly, there is an operational management review. Quarterly, the General Manager and his team visit the delivery center in South Africa. They carry out a full review of performance in every area, examine recruitment profiles, performance, and metrics, and conduct face-to-face sessions with all of WNS South Africa’s frontline employees. The General Manager explained:

“We visit Cape Town each quarter, and carry out a full review of performances in every area, listen in to make sure that what they tell us is what we’re seeing and so on. As a client, we’re perhaps a bit more passionate than other clients because we do tend to inspect what we expect. We don’t take what they tell us for granted. We get into the detail to make sure that the offering is absolutely where it needs to be.”

As the introductory quote to this case indicates, performance has been excellent. In particular, the client rates ‘very good’ for the provider’s performance against targets and business value gained. The client also rated service quality and the service experience as ‘very good’. This was rated on tangible physical evidence of delivery, reliability (accuracy and dependability), assurance (giving confidence and trust), and empathy (attention to user). The General Manager of BG Residential concluded:

“I think the relationship is excellent. We’re really happy with our experience of how this venture has gone. I think the team have been first class. We’re delighted we chose them. They’ve been a real strong partner and a strong integral part of our business strategy moving forward.”
3. Case Study: From Down Under to Over Yonder: iiNet and Merchants

“Overall, our relationship with Merchants is a ten out of ten. We are that closely aligned. The blood, sweat, and tears that both parties went through to make this successful--a lot of friendships have been created from this as well--the relationship has always been extremely strong.” Mat Conn, General Manager of Customer Service, iiNet

In the second case study, we examine an Australian-based Internet Service Provider (ISP), iiNet, that partnered with Merchants in 2008 to build customer service delivery capabilities in South Africa. iiNet selected South Africa as a destination because it complemented iiNet’s domestic call centers by providing more time zone coverage. They also found South Africa to have reasonable costs, high cultural affinity, and a motivated workforce. iiNet selected Merchants as its outsourcing partner because of Merchants’ flexibility and willingness to recreate iiNet’s entire call centre culture in Cape Town. Today, iiNet’s Cape Town facility has 400 seats and performs as well as iiNet’s domestic call centres.

About iiNet

iiNet was founded in 1993 in a Perth garage by Michael Malone and Michael O'Reilly. Prompted by their inability to access the internet after graduating from university, the founders and their friends invested in a link to the US at a cost of $25,000 per year. iiNet began as one of the first Australian ISPs to offer TCP/IP internet access, as opposed to the store-and-forward techniques that were then in use at other ISPs. iiNet was the first ISP to offer Point-to-Point Protocol (PPP) access in Australia and was the first ISP to base operations on the Linux operating system. Today, iiNet is Australia's second largest internet service provider with revenues of about a half billion Australian dollars and over 1.3 million customers.

From its inception, iiNet sought to exceed customer satisfaction levels, which are notoriously low in the telecommunications sector. iiNet’s CEO retold the story of contacting an irate customer when iiNet was just starting out:

“All I can say is, ‘I’m sorry for this, we will give you a full refund.’ He said, ‘No, no, no…I’m not leaving you guys. You guys are crap, but you’re less crap than everyone else.’”

Copyright © November 2012 Leslie Willcocks, Andrew Craig and Mary Lacity. All Rights Reserved.
Since then, customer satisfaction has been the CEO’s top priority. To build a culture of high customer service, iiNet’s incentives for all employees in all departments are now based on customer feedback. For customer service representatives, 100% of their bonuses are based on whether the customer is satisfied at the end of a call. The representatives are not evaluated based on how long they stay on a call or even whether they solved the customer’s problem. The CEO said:

“They get measured on, when the customer gets off the phone, did the customer say, ‘Yeah, I was happy with that.’ It’s about alignment, making sure that you and the customer you are talking to both want the same thing.”

As a BPO client company, iiNet never compromises on its strong customer ethos.

iiNet Selects South Africa

By 2007, iiNet’s three call centres in Perth, Sydney, and Auckland were at full capacity. The CEO began to look for another location to set up a fourth call center. Initially, the search focused on the Philippines and India. An iiNet employee who was working in Australia but who was from South Africa suggested that iiNet consider his homeland. iiNet’s CEO said:

“While it was initially met with a bit more amusement than credibility, we decided, ‘Hold on a minute, let’s flush this out because the time zone is very attractive.’”

Cape Town was added to the CEO’s itinerary as he and some other iiNet executives scouted locations in Manila and Bangalore. The CEO said of his first visit to Cape Town:

“I fell in love with the place straight away. It’s a magnificent city and a wonderful one to keep visiting.”

As a telecommunications company, iiNet obviously needed 24 hour customer support, but iiNet places great emphasis on a quality of working life for its staff. Cape Town was an attractive location because it provides additional time zone coverage without making employees work through the night. Cape Town’s time zone is six hours west of Perth, so Auckland to Cape Town covers 10 time zones, meaning iiNet could provide 24 hour call support without having to make any employee work earlier than 6am or later than 8pm. iiNet’s General Manager for Customer Service explained the importance of Cape Town’s time zone coverage:
“Being a teleco, we did require a 24 hour service, however, we did not want to lose that people focus of giving our staff a high quality way of life. Therefore, it was really the search to find a location that delivered the ability to have that follow-the-sun methodology while making sure that our staff had a work-life balance.”

Favourable costs (although, according to iiNet respondents, South Africa is not as cheap for them as India or the Philippines), similarities to Australia in terms of language and culture, and an eager workforce were other reasons iiNet selected South Africa for its next call centre.

iiNet Selects Merchants

While iiNet’s CEO and his team were in Cape Town, they met a number of potential providers. Among all the providers, iiNet’s CEO was most impressed with Merchants:

“We got great local support from the government agencies and from Merchants, who we eventually decided to partner with.”

Merchants had the experience iiNet was looking for because it had a 30 year track record of successfully delivering customer contact centre solutions. Merchants understands telecommunications companies because telecom clients generate 50% to 55% of Merchants’ revenues. Merchants knows all of South Africa well, with offshore contact centre operations in Cape Town, Durban, and Johannesburg. But mostly, iiNet was attached to Merchants’ collaborative approach to outsourcing that focused on customized solutions.

Merchants uses an approach they call DBOT: Design, Build, Operate, Transfer. The DBOT approach is a solution used in the establishment of new contact centres and enables clients to take advantage of Merchants’ experience and expertise in developing both their own centers in Cape Town, Durban, and Johannesburg as well developing new contact centres for clients. iiNet’s General Manager for Customer Service, Mat Conn, explained how Merchants’ approach differs from traditional outsourcing:

“It’s certainly not a traditional outsource relationship we have with Merchants. For all intents and purposes, the site here, the building, the facilities, everything we do from how we recruit to how we train is very much iiNet. Merchants is flexible and were quite happy to work with us to provide everything we needed.”
iiNet’s Transition and Operations

In 2008, iiNet and Merchants signed their first contract for 144 seats. The initial contract duration was 17 months. Merchants was to help iiNet build a call center facility that replicated iiNet’s other call centers in every way, from facilities and technologies to human resource policies. In fitting out the new facility, the partners had to install iiNet’s network at the Cape Town facility because iiNet wanted seamless transitions between the Cape Town facility and its call centres in Australia and New Zealand. Merchants also replicated the physical facilities (such as breakout rooms used by other iiNet centres), including pool tables, soccer games, and videogame Play Stations. As iiNet’s General Manager described it:

“If you walked into this centre and then walk into our centre in Sydney, Melbourne, Auckland, or Perth, it would look and feel exactly the same.”

Merchants even replicated all of iiNet’s HR policies, for which “Cake Wednesday” serves as an example. iiNet’s General Manager for Customer Service explained:

“We work very closely with Merchants to make sure that anything we do in an Australian contact centre is replicated in South Africa. So for instance, in all of our Australian sites, the first Wednesday of every month is Cake Day. So in every contact centre across our network, they’ll be a range of about 25 to 50 cakes where every staff member can go and have a piece of cake on Cake Wednesday. Well, that has to be replicated in Cape Town.”

Merchants succeeded in creating an iiNet facility that emulates iiNet’s culture. Merchants’ General Manager explained:

“We integrate and replicate everything that iiNet does, so the physical facility looks and feels like them, and we make 100% certain that our policies and procedures are identical to theirs.”

iiNet’s General Manager said alignment is so tight that iiNet considers Merchants’ staff to be part of iiNet’s staff:

“Merchants provides the management and staff, but they were considered from day one, all of the staff here, although they’re employed by Merchants, we consider them iiNet staff.”

The transition and start-up phase were very successful, in large part to the investment in resources, leadership, and staff that both partners dedicated to the project. iiNet’s
General Manager for Customer Service concluded the discussion of the transition by stating:

“We really micro-managed on both sides, both Merchants and ourselves. We micro-managed that transition to make sure that there was absolutely no impact to the customer base. I think the amount of effort that was put into this was phenomenal and that’s what made it work.”

The initial contract between iiNet and Merchants was extended twice. Today, iiNet has over 2,000 people working in call centres in Perth, Sydney, Melbourne, Adelaide, Canberra, Auckland, and Cape Town. The staff in Cape Town has grown from 144 people to over 400, and services have expanded to include not only voice, but email, social media, and regulatory compliance. The staff in the Cape Town facility performs as well as all the call centers. According to iiNet’s General Manager for Customer Service:

“Our number one measure is customer experience and the fact that Cape Town performs on par with every other contact centre in my network, shows that they understand and deliver on those requirements.”
4. Two Case Studies: Launch Pads and Landing Strips: Full Circle Navigates Two Newcomers to South Africa’s BPO Industry

“Full Circle has been a great partner during the first phase of setting up Amazon’s customer service centre in South Africa. They delivered a turnkey solution by hosting us in their Model Office, while remaining flexible, professional, and hands-on in their approach to working with us. We have felt fully supported by all members of the Full Circle team...” Scott D. Sommers Sr., Senior Site Leader, Amazon

The South African-based BPO service provider, Full Circle, helps international businesses like Amazon and Capita build service delivery capabilities in South Africa. Full Circle serves as a “landing strip” for international businesses through its “Model Office”. The Model Office is a facility that allows clients to experience customer service delivery from South Africa for a trial period prior to making any long-term investment or commitment with regard to location or specific operating model. For this “Model Office” concept, Full Circle won two industry awards for innovation from the BPeSA. For those clients wanting to move beyond the Model Office, Full Circle serves as a “launch pad” by helping clients transition work to a client’s own captive centre or even to other service providers. In this case, we highlight Amazon as one such client that landed call centre services in South Africa via Full Circle’s Model Office and then launched its own captive center with Full Circle’s help. In July 2012, Capita, one of the UK’s leading BPO firms, acquired Full Circle because it wanted to establish a presence in South Africa to complement its global service delivery portfolio. At that date, Franco Cotumaccio became CEO of Capita South Africa/Full Circle. We detail why Capita chose South Africa and Full Circle in this case.

About Full Circle

Full Circle was founded in Cape Town by Franco Cotumaccio in 2005. But the germination for Full Circle began back in the 1990s when Cotumaccio went to England to start up Budget Group UK. He had overall accountability for creating three of Budget's contact centres in the UK, including accountability for design, fit out, and refurbishment projects. In 2003 and 2004, he had overall responsibility for creating Budget's Cape Town contact centre (known locally as Fusion Outsourcing Services—see previous British Gas-WSN/Fusion case study), which operated as part of Budget UK's contact centre business, servicing UK customers. Cotumaccio notes that:
“I was part of a big insurance group in the UK who ended up becoming the first international BPO in South Africa in 2004.”

Having fully understood the unique value proposition offered by his homeland, Cotumaccio set up Full Circle South Africa to help UK blue-chip clients establish offshore contact centre operations, both captive and outsourced, in South Africa. His first project was assisting Carphone Warehouse to offshore to Cape Town. Cotumaccio elucidated:

“What we’ve done over the last five plus years is to help international businesses to set up their call centres in South Africa. We’ve helped to create more than two thousand jobs over that period of time through the companies that we’ve worked with.”

Full Circle’s deep understanding of servicing UK clients from South Africa was a major reason Amazon became a Full Circle client and why Capita sought to acquire it.

Full Circle Helps Amazon Launch Front-end Customer Services

As the world’s largest online retailer, Amazon earned $48 billion in revenue in 2011 and employed 69,000 people. Amazon’s evolving business model relies heavily on its innovative IT systems. While much of its software is developed at headquarters in Seattle, Washington, Amazon also has software development centres across the globe. Amazon first entered South Africa in 2005 by setting up a software development centre in Cape Town, focused on Amazon’s Elastic Cloud Computing offering with approximately 6 employees. The success of that development centre gave Amazon the confidence to consider moving front-end customer services to South Africa. The Senior Site Leader said that South Africa was an attractive location for call centres for a few reasons.

First, as a retailer, Amazon’s busiest season is Christmas, and having customer support in the Southern Hemisphere ensures that employees can get to work easily because it’s summertime. Amazon’s other customer contact centres are predominantly located in the northern hemisphere and sometimes have to manage through severe winter weather when employees may have difficulty getting to the office. Next, time zone affinity was a location factor. The Senior Site Leader said:

“The other factor with location is time zone affinity. South Africa is aligned with European time zones. That makes it easy for us to provide service during their same hours of the day. Then it also enables us to have an site to provide overnight support for our North American businesses.”
Finally, Amazon deemed that South Africa has a language diversity that is difficult to find in other locations. Although English and German comprise the bulk of the languages Amazon employees need, Amazon also needs some French, Spanish, Italian, and Japanese language capabilities. The Senior Site Leader said, “There’s very few places in the world that you can go and have that much language diversity in one particular site.”

Thus, Amazon had compelling reasons for establishing call center capabilities in South Africa, but it did not have the resources or time to build a 1,000 plus seat captive centre from scratch in their first year of call centre operation. Amazon.com engaged Full Circle in 2010 to assist in, effectively, what can be called a "build operate transfer" model. First, Amazon used Full Circle’s Model Office. The CEO of Full Circle explained:

“Amazon wanted to set themselves up in Cape Town and wanted to do it as quickly as they possibly could...We offered them the Model Office as an option which meant that they could literally be up and running within two months, with the connectivity and the staff trained, out of Cape Town...So we literally helped them with the entire transition into our Model Office where they grew to approximately 220 seats. And they stayed with us for 18 months and whilst they were in the Model Office, they were providing customer service to the United States and also to Germany.”

Amazon’s Senior Site Leader praised Full Circle for their responsiveness:

“Whenever we encountered a hurdle, all I had to do was look to Franco’s team at Full Circle and they had a solution that they could offer. They educated us all along the way. I think partnering with some group like Full Circle on an entrance into the market is key because there’s so many things that you don’t know, whether it’s labour laws or compensation models, or any other country specific differences.”

Amazon also used the Model Office to experiment with other services and to “sell” the location of South Africa to other parts of Amazon, including the UK.

While Amazon was providing customer services from the Model Office, Full Circle introduced Amazon to all the South African suppliers that would become its long-term partners, including recruitment partners, connectivity partners, and IT partners. Full Circle’s CEO recalled:

“During that time that they were with us, we helped them to plan their next phase which was then finding a building which they took in almost totality, so that it gave them up to 1500 seat capacity. And over the six or eight months prior to them leaving Full Circle,
they started to fit out that particular building and eventually transitioned from Full Circle’s building into their own.”

Of course, the establishment of a captive centre is never easy and Amazon had to overcome a number of challenges in South Africa. Amazon had trouble finding enough staff with both verbal and written fluency in German. When staff shortages were severe, Amazon partnered with foreign embassies and consulates in Cape Town in order to access the supply of workers with the requisite capabilities. As an early entrant into South Africa, Amazon had difficulties obtaining immigration documents and hired an immigration specialist to manage that process. (Presently, the South African Home Affairs department has improved the immigration process.) Although research participants have cited South Africa’s infrastructure as a country advantage, Amazon experienced difficulties with establishing a broadband network because most internet service providers in South Africa had never installed the size of pipe required by Amazon (able to handle speeds of 100 megabits per second). Amazon overcame these obstacles and today, Amazon’s captive center for customer services has about 1100 employees. The centre provides a range of phone, email and live chat services, including inbound customer service for the US, UK and German retail businesses, “how to” assistance and more technical support for Amazon’s Kindle e-reader, and support for the Amazon’s US digital businesses, including Amazon Instant Video, the MP3 store, Cloud Drive and Cloud Player.

Capita Selects South Africa and Full Circle

In large part, Full Circle’s success stories with blue-chip clients like Amazon, Shell, Budget Group UK, Carphone Warehouse, and Bloomberg, prompted UK-based Capita to eye Full Circle for potential acquisition. Before telling that part of the story, we provide some contextual background on Capita.

Capita was conceived of in 1984 by two UK accountants and launched as a business in 1987 with 33 people. In 1991, Capita became a public company on the London Stock Exchange and had annual revenues of £25 million and employed 320 people. By 2011, Capita nearly reached £3 billion in turnover and employed 46,500. Capita has been growing rapidly through acquisitions; In 2011 alone, it acquired 21 acquisitions at a cost of £341 million. Capita believes its growth potential remains very strong, citing estimates by industry analysts at IDC that the total UK potential BPO market will be valued at £117 billion per annum, with only 7% outsourced so far. Today, Capita is the UK’s leading BPO and professional services company, delivering back office administration and front office customer contact services to private and public sector
organizations based in the UK and Ireland. In 2012, Capita sought to expand its global presence to include South Africa.

Capita already had delivery centres in the UK, Ireland, Poland, the Channel Islands, Dubai, and India. Why did Capita look to acquire a firm in South Africa? According to Mike Barnard, Capita’s Director of Customer Management and International, Capita selected South Africa for four reasons: client demand, sound infrastructure, compatible culture, and economic value.

Firstly, Capita’s clients were demanding offshore location alternatives. He said:

“We start with the client because they’re probably the most important part in this decision to select South Africa. Offshoring is well established as being on their agenda but clients want choice and flexibility. We’re at a phase of the offshore option where clients’ appetite for risk has reduced because people are concerned that if you lose a customer through a poor service experience, it’s pretty hard to get them back. So going into an offshoring conversation with a client, we need to offer them choices.”

Capita found that South Africa offered a value proposition that was different from other offshore locations. He continued:

“Now, why South Africa? South Africa is really a response to clients for whom low-cost voice services out of India are not acceptable. For these clients, South Africa is perceived as being more ‘acceptable’ in delivering low-cost voice capability.”

Capita assessed that South Africa also had the time zone advantage compared to other alternative offshore destinations like the Philippines:

“Let’s talk about the Philippines because they’re probably the obvious alternative; the thing about the Philippines from my perspective is it’s US-focused and it doesn’t sit easily within our global operation largely because of the time zone issue.”

Secondly, Capita selected South Africa because of good infrastructure. The Director of Customer Management and International noted that South Africa’s exemplary hosting of the World Cup increased people’s confidence in the infrastructure. The CEO of Full Circle added:

“The infrastructure has improved over the past five years; Although you don’t always see it listed as First World, I’ll describe the infrastructure as predominantly First World. You have the connectivity and redundancy because of all the new lines into South Africa
from a bandwidth and connectivity perspective. You don’t have issues about latency and this is from the experience of setting up a number of companies who operate out here very effectively based on the robustness of the infrastructure.”

Thirdly, Capita selected South Africa because UK business executives are comfortable with South Africa’s culture. Capita’s Director of Customer Management and International mentioned that many clients have either interacted with the large ex-pat South African community in the UK or have been to South Africa and, in particular, the Western Cape. He said, “They’ve experienced a hotel, a restaurant, a nightclub, going to a sports event, and they see the service ethos.” The South African culture is a bit more open than British culture, but that too has been an attractive feature. He continued:

“There is something about South African language and the way they use it and the apparent openness that is enticing and enables people to build rapport very easily including on the phone. They say things like, ‘You must come to dinner’ which if I said it as an English person, everybody would think, ‘Are you mad?’ But it somehow works in the context of the South African culture and I think that is pretty compelling and helps sustain the service proposition.”

Franco Cotumaccio, by this time CEO of Capita South Africa/Full Circle, added:

“South Africans are able to establish a rapport quite quickly with the customer; They want to ensure that your need is met. So I can’t think of another word for it but it’s a connection with the customer. So that rapport is something that comes naturally and you don’t have to train it. And that is part of the South African value proposition.”

Finally, the economics in South Africa are attractive because of the government incentive programme, which according to Capita’s Director:

“makes it not equivalent to India but close and therefore positions South Africa as able to compete with the India voice proposition.”

Franco Cotumaccio concurred:

“Cost will always come into it...South Africa will give you cost savings, but it’s not going to be equivalent to the kind of savings you would experience in potentially somewhere like India.”

Thus, Capita selected South Africa as its next destination. But should they build a captive center or acquire a company? Capita decided to acquire Full Circle because it
had experience both in the UK where most of Capita’s clients are located and in South Africa. Capita’s Director explained the acquisition strategy:

“We can operate as a outsourcer in South Africa ourselves, but we shouldn’t kid ourselves that setting it up is straightforward. So effectively what we’ve done, we’ve acquired an accelerated start-up capability. We’ve bought a company called Full Circle with a management team with the experience both in the UK and South Africa of running outsourced contact centre operations. So for us, the most sensible route to enter the market from a delivery perspective was to acquire rather than build the capability.”
5. South Africa BPO: Lessons for Clients from the LSE Outsourcing Unit

For clients considering South Africa as a destination for outsourcing, or for erecting a captive centre, ten lessons arise from the combined LSE Outsourcing Unit studies. The four cases provide the most-in-depth evidence, so we draw extensively upon them here for illustrative purposes.

First, South Africa complements the global portfolio for many international companies, particularly for those companies that already have bases established in India, the Philippines, and Eastern Europe. Second, South Africa’s value proposition cannot only be about costs because other locations are cheaper; South Africa’s value proposition is about overall economic value, high quality staff, high cultural compatibility, and favorable time zone. Third, the notion of a “Model Office” allows international clients to experiment in new locations before making long-term commitments. Fourth, for best results, clients should find a partner not a vendor; this lesson emerged strongly across all four case studies. Fifth, invest in enough resources, particularly leadership, when launching a new service center. Sixth, partners resolve issues—they don’t assign blame. Seventh, clients should protect the providers’ commercial interests because service performance is tied to financial performance. Eighth, whether international firms build or buy services from South Africa, they will have to learn to govern effectively. Ninth, BPO relationships in South Africa demonstrate strong Corporate Social Responsibility (CSR) by transforming the lives of employees and the broader communities. Finally, South Africa’s long-term sustainable advantage will not be based solely on labour arbitrage and call centres, but on more value-added services.

<table>
<thead>
<tr>
<th>Lesson</th>
<th>British Gas</th>
<th>iiNet</th>
<th>Amazon</th>
<th>Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. South Africa complements the global delivery portfolio for many international companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. South Africa’s value proposition cannot only be about costs</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>3. Minimize risk with the “Model Office”</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. For best results, find a partner not a vendor</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>5. Invest in enough resources, particularly leadership, during the transition</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>6. Resolve issues, don’t assign blame</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Protect the providers’ commercial interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Governance: when to lead, when to follow</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>9. BPO relationships transform lives and communities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. South Africa’s long-term sustainable advantage will be based on value-added services beyond voice.</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1. South Africa complements the global delivery portfolio for many international companies. BPO providers increasingly need to offer a global portfolio of service delivery centres to meet the diverse needs of clients. Each country offers its own advantages. For companies like iiNet and Capita, South Africa was a welcome addition to their service centre locations.

For iiNet, South Africa complemented its other call centre locations in Perth, Sydney, and Auckland. Cape Town’s time zone would mean that iiNet could provide 24 hour customer support without having to make employees work the “grave yard” shift. iiNet’s General Manager for Customer Service explained:

“We start the day in Auckland, New Zealand, and then Sydney, followed by Melbourne at the same time and then Perth later and then obviously Cape Town really close the day...So the decision was made that we needed 24-hour coverage, however, we did not want to lose that people focus of giving our staff a high quality way of life.”

Capita selected South Africa as its next destination beyond the UK, Ireland, Poland, and India because it complemented its global delivery platform. Most of Capita’s delivery centres are based in the UK because of the advantages of close proximity to clients, deep domain understanding, high cultural compatibility, reduced business risks, and rapid responsiveness. But the UK centres have the highest relative costs. Some clients want lower costs and thus need offshore destination options. For Capita, the nearshoring centres in Northern Ireland are attractive to UK clients, particularly for clients that have never offshored services before. Capita’s Polish delivery centre in Krakow is further away from Northern Ireland, but has its advantages including lower wages, it is still within the European Union, it can scale multi-lingual capabilities, and it has high mobility of the workforce (e.g., fewer visa issues). Capita’s Director of Customer Management and International also explained “the feel” of Poland as follows:

“We’re based in Krakow for a whole set of reasons. It looks and feels like home or in the case of Krakow, it actually feels like an Italian piazza; It feels like another part of Europe.”

India obviously has the best cost advantage relative to other locations. In addition, Capita’s Director praised India’s ability to deliver KPIs:

“India works for the back office elements...[India’s] education focuses on routine and detail and discipline. What I’ve observed in India, for example, is there is a natural tendency to become good workflow managers, i.e., to push work through the system and deliver KPIs.”
Capita added Cape Town, South Africa to its global delivery platform because it offered a unique mix of cost advantage, front office capabilities, accent neutrality, high cultural compatibility, and favourable time zone. Capita’s Director explained the types of UK clients selecting the South African delivery centre:

“The clients that we’re bringing down [to South Africa] are typically front-office customer services, collections, a bit of outbound telesales in the telecoms and technology space. We’ve also got interest from within Capita across a range of businesses to do with front office; across different sectors, financial services, technology, telecoms, and utilities.”

2. South Africa’s value proposition cannot only be about costs. Clients and providers from all the case studies admit that South Africa is not the cheapest location. If cost is the major criterion, India and the Philippines will still be the low cost destinations. Instead, South Africa’s value proposition is about overall economic value, high quality staff, high cultural compatibility, and favorable time zone. To illustrate this lesson, we draw upon iiNet’s story.

In selecting any destination for a new call center, iiNet’s main concern is customer service excellence. iiNet selected South Africa and Merchants because of the overall value, not because they were the cheapest option. According to iiNet’s General Manager:

“South Africa is certainly not the cheapest outsourced destination” and “Merchants may not be the cheapest outsourcer, by any stretch of the imagination, but we were happy with the business case as long as we didn’t substitute what we had to do [for customer service].” – Mat Conn iiNet.

In fact, iiNet walked away from a lower cost destination because senior management did not think they could get the same level of quality as they do in Australia, New Zealand, and Cape Town. Merchants’ General Manager also commented on iiNet’s focus on customer service:

“Every decision that iiNet makes is based on: ‘What impact it’s going to have on the customer?’ and ‘What impact is it going to have on the staff?’ ”

Merchants’ General Manager offered this piece of advice:

“Some customers come to South Africa looking to build a price model that compares with the Philippines. Companies have to come to South Africa knowing that they can’t treat it
simply as a low cost destination. They’ve got to treat it as a quality offshore destination otherwise they will never ever get the best out of it. I think the key to South Africa is the better you treat the people, the better your service will be and the more you’ll save money in the long run because your customers will be absolutely delighted. And they’ll stay with you.”

3. Minimize risk with the “Model Office”. We found Full Circle’s Model Office to be quite visionary. In many ways, the idea of temporary facilities to serve as “landing strips” acts against the best interest of Full Circle. Isn’t customer retention the major objective of any service business? Capita South Africa/Full Circle has the broader aim of building South Africa’s BPO business and the confidence that there will be many new customers to replace current clients who outgrow the Model Office. The CEO described his approach to clients considering South Africa as a destination:

“This some clients aren’t sure [about South Africa]-- they’re looking at options to cut costs usually and/or to grow organically and they can’t do it in their home territory alone, but they’re not quite sure about South Africa. They’ve heard about South Africa, but it’s still an unknown quantity. So we’ll sit down with them, understand what it is that they are looking to achieve, and then work out a programme which allows us to convince them that South Africa is an ideal offshore destination. And rather than making any long-term commitments, they could try it out in the Model Office without any long-term leases and/or any other type of contracts that you normally have associated with an offshore and/or an outsourcing arrangement. Even their staff, they don’t have to employ their own staff in that initial period while they’re trying it out because we can employ the staff and/or a recruitment partner can employ the staff until they’ve made a decision to green light the project as, ‘Yes, we’re going to South Africa.’”

4. For best results, find a partner not a vendor. In the high-performing BPO relationships that we previously studied, the clients hold an attitude we call the “Partnership View” in which a client regards the provider as a strategic partner rather than as an opportunistic vendor. We corroborate this finding across the South African BPO relationships because clients and providers all described their BPO relationships as “partnerships”. What clients, like British Gas, Amazon, and iiNet, mean by “partnership” is that the partners are flexible, open, honest, and transparent with each other. This is a very different attitude compared to traditional outsourcing.

For example, the General Manager for British Gas Residential said:

“I think we’re very honest. We’re a very inclusive organisation in the way we run things as well. I think we try to make sure they’re involved in all of the things that we are
planning to do.” The Managing Director for WNS South Africa concurred: “I really think it’s a true partnership. It’s not a question of you’re the supplier, you sort it out, we’re dumping everything on you, make it happen. It’s a shared approach and it’s sharing knowledge both ways, but also making available additional resources. I think sometimes it’s important to bend, exceed or to step over the scope a little bit to make sure the partnership functions very well.”

Research participants from iiNet and Merchants spoke several times about how their relationship differs from traditional outsourcing. iiNet’s General Manager for Customer Service said:

“I’ve had outsource partners in India, the Philippines, and other areas and it’s just, ‘you give it to us, we do it.’ [With Merchants], it is so far from a traditional outsource arrangement… it’s about how do we get that partnership going…If I look at Merchants, I certainly think flexibility is very high up there from a behavioral trait they have. They were willing to work with us. They were willing to do what we needed done. They certainly had a focus on achieving what we wanted regardless of what their previous client relationships were like.”

5. Invest in enough resources, particularly leadership, during transition. In previous offshore outsourcing relationships we’ve studied, many clients failed to invest in enough resources during the transition because they did not want to erode the financial business case. Service excellence, however, cannot happen without investing in resources like onsite managers and investments in knowledge transfer (e.g., shadowing, mentoring, and training). Across all the cases, clients mentioned the value of investing in enough resources, particularly leadership, during transition. For example, British Gas assigned a full time operations manager to work daily at Fusion’s delivery centre. This onsite liaison is obviously a costly investment for British Gas, but it is a best practice to protect quality. The iiNet case also illustrates the lesson of investing in enough leaders when launching a new business. iiNet’s General Manager for Customer Service explained:

“So we obviously had a large IT team that we have over in Australia. We had a large support team—training, human resources and management—come over and actually spend you know, months here and basically through that transition... It certainly wasn’t a case of we put down our business requirements on a piece of paper, gave it to them and expected them to do it. What we actually did was send people over, we are going to provide a massive level of support; the fact that we were so involved and were so vested in the outcome of this venture from day one, meant it became a success.”
The Amazon case suggests that even more leaders are needed on the ground during launch. According to Amazon.com participants, many companies prescribe rigid management to employee ratios, like having one manager for every 20 employees. But during a start-up, these ratios might need to be doubled or even tripled. The learning curve is always steeper than anticipated. Amazon’s Senior Site Leader advised:

“I’d say not to under-invest in your leadership and in your support groups at the beginning which is what people will tend to do to cut cost and think, ’Oh we’re just a few employees. We don’t need that many people in HR from start up. We can add those later on.’ When you’re in a new country and need to adapt company policies to a new country’s labour laws, you must understand the new environment and how it will function in your new operations.”

6. Resolve issues, don’t assign blame. We define an issue as any circumstance which interrupts performance and can include service lapses, project delays, or difficult people. All services—whether insourced or outsourced—will have issues. In good outsourcing relationships, partners are transparent about service issues and seek to resolve them together. British Gas and WNS/Fusion illustrate this lesson well. On this account, sample service issues included a problematic IS infrastructure, higher than expected attrition rate, and middle managers who were too “hands off”. British Gas is accustomed to middle managers who listen to calls daily and coach frontline employees, but in South Africa, middle managers are accustomed to delegating work to the teams. The partners are very honest and open with each other to resolve service issues. The General Manager for BG Residential explained:

“We are very direct with our feedback.” The Managing Director for WNS South Africa concurred, “The client’s willingness and almost insistence on feedback on how they can improve their customers’ experience on their side immediately creates a culture of improvement culture and a focus on how we do can different things differently.”

In our BPO research, we found that partnerships strengthen over time as partners collaborate to resolve service issues.

7. Protect the provider’s commercial interests. From our previous ITO and BPO research, we found that in high-performing relationships, each partner cares about the other party’s commercial interests. This is not altruism; it is actually in the client’s best interest to care about and protect the provider’s commercial interests and vice versa because service performance is directly tied to financial performance. In our prior ITO research, for example, we investigated what happened to outsourcing performance when providers failed to meet their margins. In 15 cases of missed provider margins, 12 clients
Mature outsourcing clients understand this lesson well. For example, the General Manager for British Gas said it’s very important for clients to make sure that providers can make a fair return. During the economic recession, procurement specialists can squeeze quite a bit from providers, but service will suffer if providers don’t have “wiggle room”. The General Manager said:

“There’s some interesting ways that you can cut your contracts and your commercials but I do think you have to do it with partnership in mind. If you’re just doing it to save money, then the reality is it’s a short-term solution, not a long term investment.”

8. Governance: when to lead, when to follow. After clients commit to South Africa by either building or buying a service centre, the home office faces a significant governance quandary: Should the home office impose all, some, or none of its own rules, processes, and values on the local service centre? The four clients in this research represent the span of governance options, with iiNet imposing all corporate policies and with Amazon imposing very few. Capita mostly delegates, but does insist on certain global standards for customer routines. British Gas rigorously defines measures and then verifies performance with inspections.

For iiNet, the answer is largely to replicate all of their policies on Merchants in South Africa because they want a consistent customer service experience. iiNet’s General Manager for Customer Service explained:

“I’ve worked in a number of different companies and iiNet stands out because they do not substitute their culture no matter what the benefit is. At the end of the day, we make decisions based on our culture. Whereas a lot of companies will be happy to balance that somewhat to get either a financial gain or some other kind of efficiency, in iiNet, it has to suit our culture or it’s just not on the table.”

For Amazon, the answer is largely to trust the South Africans to do their job. According to a case study by Peter Ryan, Practice Leader for Ovum’s service team:

“The Amazon style of dealing with customers is less rigid than at many other companies (for example, there are no scripts for customer service representatives) and Sommers (Amazon’s Senior Site Leader) said that the company’s South African staff tend to fit well into this ethos as they are generally easy to talk to; Amazon aims to empower its employees by trusting their judgment and giving them all the tools necessary to resolve
the customer’s issues themselves. Sommers believes that employee empowerment is one of the major reasons why the Cape Town facility has little absenteeism, with low attrition.”

Since Capita acquired Full Circle, the overall spirit has been to trust the senior leaders from Full Circle:

“I can’t pontificate about what to do in South Africa. It’s not my role,” said one Capita Director. He continued, “We’ve got the humility to recognize that it’s different in South Africa than in the UK.”

For example, Capita recognized that human resources management in South Africa would be different—best to leave HR to Full Circle. Capita made the same decision when faced with whose IT solution should be used—Capita’s for consistency or Full Circle’s for continuity? According to Capita’s Director of Customer Management and International, Full Circle’s IT solution was used. He said:

“About the IT solution they’re going to use to connect to the Capita--now we could do the classic things some firms do and impose a solution from Group. But we’re absolutely not going to do that. I think it’s hugely important for them to feel like they are genuinely accountable for the outcomes that they control. There are some symbolic moments where the entrepreneurial team [at Full Circle], make the decision and Capita, the Group, listened. I think that’s important for reinforcing the confidence and helping to make them successful.”

However, Capita does take the lead on some issues. For example, Capita sent a number of operational managers from the UK to South Africa to help the team establish client routines and to further develop middle management capabilities in the South African Delivery Centre.

British Gas Residential’s Managing Director advises that clients should have absolute clarity about what they expect from the service, develop clear metrics to track those expectations, and then be actively involved in inspecting those services. The last part of that statement—the inspections—is somewhat unique from the lessons emerging from our other cases. Most clients believe that if expectations are clear and metrics are clear, then frequent, hands-on inspections are not needed. British Gas is highly focused on customer service so that in all their call centers, the most senior executives listen to call centre calls. The General Manager recognizes that he and his team are intrusive:
“They are professionals in their own environment and they understand the market. I presume they would want us to give them a little bit more rope to do things their way rather than always our way.”

But this is part of British Gas’s customer-service culture, and undoubtedly accounts for the customer service awards they have received.

From our own ITO and BPO research, we found other clients performing occasional spot checks in other BPO relationships. However, as relationships stabilized and as operational excellence became the de facto standard, many clients eased up or even ceased random inspections. For example, on one BPO deal we studied, there were about 100 service areas measured and reported upon each month. Initially, the client randomly checked some key services to verify the provider’s claims, but now the client feels confident it can rely just on the provider’s service level reports.

9. Corporate Social Responsibility: BPO relationships transform lives and communities. The clients and providers who participated in this research also described how their business relationships transform the lives of their employees. For example, British Gas encourages employees to help their communities. In South Africa, British Gas and Fusion care not only about their employees, but also about the communities in which they operate. Helping Hands is one of Fusion’s preferred charities, based in the Carterville township of Wellington. It supports children that have been affected by HIV/AIDS or fetal alcohol syndrome. Fusion found in this charity a support structure to equip the affected children with the necessary life skills to eventually take responsibility for their own well-being.

iiNet serves as another example of CSR. iiNet’s General Manager for Customer Service said:

“For us in Cape Town, you know, we do a number of things like supporting local charities, local initiatives, and things like that. That also highlights how much we care.”

iiNet’s General Manager for Customer Service also discussed the BPO industry’s effect on South African employees. He said:

“When we started this business in Cape Town, it was very clear to us that we were actually changing people’s lives. So, for instance, a lot of our staff before they came into training and before they came into iiNet, had never used the internet before, yet they’re servicing customers at an ISP. So the ability to actually give them that opportunity, as I said, changed their lives--the people here are so passionate about iiNet that they actually
want to be here. So you know, anyone coming to South Africa, they will most certainly get a very passionate employee base that will deliver on their company goals and culture.”

10. South Africa’s long-term sustainable advantage will be based on value-added services beyond voice. Although many participants in this research project consider South Africa’s current sweet spot as front-office, voice services, most participants believe that ultimately, no economy can be built just around call centers. International firms who outsource or erect captive call centers may easily pull out if economic conditions change. The initial appeal of labour arbitrage evaporates quickly, and therefore sustainable advantage must be based on more value. One participant said:

“I actually think offshore centres live and die by transformations. Where the problem normally rises—and I suspect this is what you’ll find with South Africa—is that the commercial proposition needs to be stronger because what happens is the wage arbitrage is delivered on day one and it’s gone. Effectively, it’s budgeted for. So you’re not really a hero in year two. There’s a bit of run benefit, but then it’s just forgotten. So this is the challenge for any established centres: How do they deliver efficiency and increase effectiveness within their operation? So you know, I do think transformation of the product, “How do you make processes work better for the client?” is a part of the proposition that we have to offer during the offshoring cycle.”

One client believes that providers are well-positioned to bring ideas on further efficiencies and innovations. The client noted that its provider actually had an opportunity, through a dedicated team of three to five people, to take a view across the estate and add more value on top of the contract.” This is a valuable insight for all providers.

Many participants mentioned that South Africa is primed to deliver more value-added business services in areas like actuarial and legal services. The CEO of Capita South Africa/Full Circle is confident that South Africa will build more outsourcing capabilities:

“[Companies] may come out here and start doing customer services, but they’re very quickly realizing, ‘Hold on a second, we could do a lot more out here. These people are very capable and whilst we thought we might only be doing middle office or less technical or taxing stuff, we could actually do something more and something different.’”

Our final thought is from a senior executive based in South Africa:

“I have passion for South Africa as an offshore destination. Having offshored as a business originally from the UK, in looking at other countries, we chose South Africa,
and then we operated out here in South Africa and also helped other businesses to come to South Africa. I really feel passionately about the South African value proposition and that if you do it properly, you can have some staggering successes.”
About The Authors

**Dr. Mary Lacity** is Curators’ Professor of Information Systems and an International Business Fellow at the University of Missouri-St. Louis. She is also a Certified Outsourcing Professional®, Co-Chair of the IAOP Midwest Chapter, Industry Advisor for the Outsourcing Angels, Associate Researcher at The Outsourcing Unit, London School of Economics, Co-editor of the Palgrave Series: Work, Technology, and Globalization, and on the Editorial Boards for *Journal of Information Technology, MIS Quarterly Executive, Journal of Strategic Information Systems*, and *Strategic Outsourcing: An International Journal*. Her research focuses on global outsourcing of business and IT services. She has conducted case studies and surveys of hundreds of organizations on their outsourcing and management practices. She has given executive seminars world-wide and has served as an expert witness for the US Congress. She was the recipient of the 2008 Gateway to Innovation Award sponsored by the IT Coalition, Society for Information Management, and St. Louis RCGA and the 2000 World Outsourcing Achievement Award sponsored by PricewaterhouseCoopers and Michael Corbett and Associates. She has published 15 books, most recently *Advanced Outsourcing Practice: Rethinking ITO, BPO, and Cloud Services* (Palgrave, 2012; co-author Leslie Willcocks). Her publications have appeared in the *Harvard Business Review, Sloan Management Review, MIS Quarterly, IEEE Computer, Communications of the ACM*, and many other academic and practitioner outlets. She was Program Co-chair for ICIS 2010. Before earning her Ph.D. at the University of Houston, she worked as a consultant for Technology Partners International and as a systems analyst for Exxon Company, US.

**Dr. Leslie P. Willcocks** has an international reputation for his work on global management, outsourcing, e-business, information management, IT evaluation, strategic IT and organizational change. He is Professor in Technology Work and Globalization at the Department of Management at London School of Economics and Political Science. He also heads the LSE’s Outsourcing Unit research centre. He has been for the last 22 years Editor-in-Chief of the Journal of Information Technology. He is co-author of 35 books including most recently *Advanced Outsourcing (2012)* and has published over 200 refereed papers in journals such as *Harvard Business Review, Sloan Management Review, California Management Review, MIS Quarterly and MISQ Executive*. He has delivered company executive programmes worldwide, is a regular keynote speaker at international practitioner and academic conferences, and has been retained as adviser and expert witness by major corporations and government institutions. Forthcoming books include *Global Outsourcing Discourse: Exploring Modes of IT Governance* (Palgrave, 2013). His research into the management of cloud business services appears as *Cloud and...*
Andrew Craig is visiting Senior Research Fellow at the London School of Economics and Political Science UK where he helped set up and now works in the Outsourcing Unit. He heads the IT leadership and governance stream of Carig Ltd and is also a director of Board Coaching Ltd. He has coached executives, teams and boards in the Defence Procurement Agency, the UK Border Agency, the leisure industry, Balfour Beatty, HSBC and finance and fund management companies. He is co-author of The Outsourcing Enterprise: From Cost Management to Collaborative Innovation (Palgrave, 2011). In his professional British Army career, as Brigadier, he directed the recruiting operation- an annual requirement of 16,000 people- and was responsible for Human Resource planning for a workforce of 120,000. He commanded engineering operations worldwide, including the first Gulf War and Bosnia, and led the UK’s planned military response to nuclear, biological and chemical terrorism. He was awarded an OBE in 1992.

The Outsourcing Unit, LSE provides world class research, education and advice on all aspects of outsourcing to make it less risky and demonstrably more cost-effective.

http://outsourcingunit.org/index.html
Appendix 1 - Research Base and Methodology

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

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

2. Further detailed interview research with 14 client organizations (9) and suppliers (5) operating in South Africa, 2 potential clients, and 5 market analysts. The interviews covered ten of the major captive/outsourcing arrangements in South Africa and involved five of the major service providers. All respondents were experienced in global sourcing and expert in business and IT service location attractiveness. Interviews were typically 60-75 minutes in length with the tape transcriptions verified by respondents. Client organizations were from utilities, telecommunications, financial services, legal, retail and airline sectors. Additionally we devised and administered a survey instrument to measuring service performance. This invited respondents to measure the ten arrangements on Performance – quantity versus target, Business value – does it make business sense and Service quality. Service quality covered:
   - Tangible physical evidence of delivery,
   - Reliability – accuracy and dependability
   - Responsiveness – right timing and speed
   - Assurance – giving confidence and trust
   - Empathy - attention to user
Scoring was on a scale 1-10 with 1-3 being inadequate, 4-6 meets minimum satisfaction threshold, 7-9 good to very good, and 10 exemplary.

3. Total research was through a mix of interview, questionnaire, desk research and client and supplier interviews in Europe, Asia Pacific, and Africa across the July-October 2012 period.
4. The study draws directly on three recent LSE Outsourcing Unit streams of research and findings. The first is a study of High Performance BPO conducted by Mary Lacity and Leslie Willcocks throughout 2011-2, sponsored by Accenture. This looked at over 20 global BPO arrangements and drew also on a 230 plus respondent Everest survey. The reports can be found at www.outsourcingunit.org. The study developed the eight factor benchmark for high performance BPO used in the present report. The second study into cloud computing by Leslie Willcocks, Will Venters and Edgar Whitley was published as *Cloud and The Future of Business* LSE/Accenture, London. The third study of location attractiveness in BRIC and non-BRIC countries was published in Oshri, I., Kotlarsky, J. and Willcocks, L. (2011) *The Handbook of Global Outsourcing and Offshoring*. Palgrave, London. Its 20 factor Location Attractiveness instrument is used in the present study.

End Notes

1 http://www.britishgas.co.uk/about-us/corporate-responsibility/affordable-energy-for-all.html
2 http://www.britishgas.co.uk/about-us/about-British-Gas/awards.html
3 http://www.britishgas.co.uk/about-us/corporate-responsibility/leading-by-example.html
4 http://www.britishgas.co.uk/about-us/about-British-Gas/awards.html.
5 You-tube video, Interview with Mike Malone, http://www.youtube.com/watch?v=S6R7kKOt-tg
6 http://en.wikipedia.org/wiki/IiNet
7 You-tube video, Interview with Mike Malone, http://www.youtube.com/watch?v=S6R7kKOt-tg
8 You-tube video, Interview with Mike Malone, http://www.youtube.com/watch?v=6Kh8n4lRlHPQ
11 The business entity in South Africa is Amazon Development Centre South Africa. Note that US-based Amazon.com which is a US company, does not have a presence in South Africa.
12 http://www.fullcirclesa.com/about_clients.php
13 See http://www.fullcirclesa.com/docs/brochure.pdf
14 http://www.fullcirclesa.com/about_people.php
15 http://www.fullcirclesa.com/about_clients.php
16 Ovum Group (2012), “Amazon Case Study”
17 Ovum Group (2012), “Amazon Case Study”
22 Ovum Group (2012), “Amazon Case Study”
23 http://www.britishgas.co.uk/about-us/about-British-Gas/awards.html
24 Presentation “British Gas Credit Energy in partnership with WNS Fusion in South Africa”