

**A STRUCTURAL MODEL FOR SUSTAINABLE GROWTH OF THE SOUTH  
AFRICAN BUSINESS PROCESS OUTSOURCING SECTOR**

Thesis submitted in fulfilment of the requirements for the degree  
Doctorate in Philosophy: Operations Management

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## PREAMBLE

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## ACKNOWLEDGEMENT

I would like to thank all the people who have directly or indirectly contributed to the completion of this thesis. Since the list is quite inexhaustible, I would like to single out the following people (not in any order):

- My wife, Bomikazi Nomlala – Chinhamo for ensuring that I get all the necessary emotional and material support during the research
- Mbuya Chinhamo and Mama Nomlala for inspiration
- Pastor Becket for spiritual food in due season during the research
- My promoters, Dr Karl van der Merwe, Professor Bingwen Yan, and Dr Anne Lourens for the guidance of this study
- Darlington Mutakwa and Taurai Rupere for technical expertise
- My employer, BPESA Western Cape, for partial funding of the study
- My brother in-law, Dr Bomi Nomlala and Professor Godswill Makombe for the unwavering support
- My children, Mufarwashe Chinhamo and Mutsawashe Chinhamo for support
- My siblings, Crispen Chinamu, Augustine Chinhamo, Christopher Chinamo, Samson Chinamu and Vongai Chinhamo for encouragement and prayers
- My research partner, Dr Godwin Pedzisai Dzvapatsva, for encouragement
- My precious brother, Stanley Fore, for all the prayers and advice

## **ABSTRACT**

*The total size of the South African Business Process Outsourcing sector is not growing as quickly as other global BPO locations like the Philippines and India. The sector has been identified by the South African government as a key sector for economic growth and for reducing unemployment. Reviewed frameworks are not exhaustive in providing a framework that is suitable for countries with an apartheid history like South Africa, so, the main aim of this study has been, therefore, to develop a structural model for sustainable growth of the South African BPO sector.*

*The research was two phased: Firstly, it interrogated existing theories and models on BPO growth to identify variables for BPO growth. The variables were identified as talent pool, infrastructure, accessibility, lower costs, and legislative framework. The relationships between variables were hypothesised. The reviewed literature discussed the global economy and traced the origins of outsourcing as rooted in the advent of Information Technology and computer-enabled production which enabled fragmented processes which could be in any part of the world. The literature showed that competition for markets, coupled with a glut of products on the market, forced creativity which resulted in companies seeking operations in low-cost locations. The first popular locations for BPO operations were India and the Philippines, with emerging locations, like South Africa, positioning themselves to tap into this global development. Secondly, a quantitative study was performed using a web-based questionnaire which was sent to a sample of BPO executives in the BPO value chain in South Africa to test relationships among between variables. The results of the study showed statistically significant relationships between talent pool, infrastructure, lower costs, accessibility and legislative framework with BPO growth, albeit with varying degrees of strength. Contrary to popular belief, lower costs are no longer the most important driver of BPO location choice. Accessibility and legislative framework have also been confirmed by data as variables affecting BPO growth. After the computation of the relationships, the research concluded that the model developed is a good fit for BPO growth.*

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## LIST OF ABBREVIATIONS

BEE	Black Economic Empowerment
BPM	Business Process Management
BPO	Business Process Outsourcing
BPESA	Business Process Enabling South Africa
CMV	Common Method Variance
COVID-19	Coronavirus disease discovered in 2019
CPS	Cyber Physical Systems
DTIC	Department of Trade, Industry and Competition
EE	Employment Equity
EU	European Union
F & A	Finance and Accounting
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GVC	Global Value Chain
HR	Human Resources
HRO	Human Resource Outsourcing
ICT	Information and Computer Technology
IT	Information Technology
ITes	Information Technology enabled services
ILO	International Labour Organisation
IMF	International Monetary Fund
IoT	Internet of Things
IPA	Investment Promotion Agency
IS	Impact Sourcing
IVR	Interactive Voice Response

KPO	Knowledge Process Outsourcing
LDC	Least Developed Country
LPO	Legal Process Outsourcing
MNC	Multinational Corporation
MNE	Multinational Enterprises
OECD	Organisation for Economic Co-operation and Development
PWC	Price Waterhouse and Coopers
R & D	Research and Development
SPV	Special Purpose Vehicle
UN	United Nations
UNDP	United Nations Development Program
WB	World Bank
WTO	World Trade Organisation

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# **1 CHAPTER 1: RESEARCH BACKGROUND**

## **1.1 Chapter overview**

This chapter introduces the study on the development of a structural model for the sustainable growth of the South African Business Process Outsourcing (BPO) sector. The chapter begins by outlining the background to the research problem and then sets out the research aims and objectives. The chapter also provides various topics that will be revisited in the literature review to situate and contextualise existing knowledge into the study. A proposed theoretical framework is also shown in the chapter. The structure of the whole thesis is shown at the end of the chapter.

## **1.2 Background**

The advent of Information Technology (IT), globalisation and the 2008 global recession have resulted in significant economic structural changes. Of particular importance to this study is what Smith (2012) describes as the new wave of imperialism where developed economies seek to increase shareholder value through export-oriented industrialisation. This strategy seeks to reduce production costs by outsourcing some of their processes to low-salary bill countries for labour arbitrage (Roach, 2003). The advent of IT-enabled production has caused an over-supply of competing products on the global market, providing customers with more product options than before (Sturgeon, 2013). Globalisation and IT-enabled production have revolutionised manufacturing; companies can fragment their production processes into different segments that can be performed in any location to the extent that some of them merely own patents (Radlo, 2016). These structural economic changes have put company executives under pressure to find innovative ways of increasing value to shareholder investment (Pellicelli, 2018). One of the strategic ways of rationalising operations and increasing shareholder value has been to concentrate on core processes while contracting non-core ones (e.g., manufacturing, customer service, IT, Human Resource (HR) and Accounting) to external service providers in a variety of geographical locations accessible through the use of technology. This concept is called Business Process Outsourcing (BPO) (Szymczak, 2013).

Due to its complexity, the concept of BPO has evolved and has been associated with different terms over the years. BPO's close association with the control of processes and tasks has resulted in it being referred to as a component of Business Process Management (BPM), a term used by Maciel, Neder, Ramalho, Rabelo, Zambra, and Benevides (2018) to cover an organisation's all-encompassing culture, performance, the conduct of the organisation, and its management of processes. BPO is just a component of Global Business Services (GBS). GBS is an evolution of BPO processes from simple to highly complex ones that are performed through global shared services delivery centres (Wirtz, Tuzovic, & Ehret, 2015).

Work done by Peck (2017) shows that cutting production costs through outsourcing is not the only strategy available to companies, they could also locate their production to a distant location with lower production costs without outsourcing, a concept called offshoring. Massini and Miozzo (2010) have demonstrated that offshoring can take place without outsourcing. For example, an American online retail store services its customers out of South Africa and has not outsourced any of its processes to any third-party (Nelson Hall, 2015).

The creation of networks for every process required for production and spatial distribution of production services in outsourced locations has resulted in the formation of Global Value Chains (GVCs) (Gereffi & Fernandez-Stark, 2019). Since then, world commercial transactions, investment and production are increasingly organised around these value chains (Szymczak, 2013). Developing countries strive to attract GVCs so that they can participate in world trade. Participation in world trade acts as a source of capital for developing countries and is useful for economic growth, job creation and development (Strydom & Viviers, 2015). Integration by emerging economies into GVCs facilitates Foreign Direct Investment (FDI) and strengthens a country's local capabilities to export services. According to the International Monetary Fund (IMF) (2017), integration can be achieved through trade openness, centrality in the global and regional trade networks, bi-lateral trade flows and integration into GVCs.

South Africa can participate in BPO GVCs as an exporter of services (Lacity & Willcocks, 2016) or as a consumer of foreign services. For both export services and domestic services, the country's participation can happen at the following levels:

- *Providing low-end services* – these are simple customer-related activities like inbound customer services, outbound sales, data capturing, claims handling etc.
- *Providing high-end services* – these are more complex services that include Legal Process Outsourcing (LPO), Knowledge Process Outsourcing (KPO) or Human Resources Outsourcing (Nelson Hall, 2015)

South Africa's BPO offering, and capability mainly focus on lower-end services due to a shortage of skills (Business Process Enabling South Africa, 2018) (BPESA). This challenge is exposing South Africa to competition from emerging BPO markets such as Honduras, Brazil, Costa Rica, Eastern Europe (Cushman & Wakefield, 2016) and other established locations which are offering similar services.

The main global BPO companies in South Africa include Teleperformance, WNS, Capita, CCI, EXL, Merchants and Webhelp. Domestic BPO companies include Nimble Group, Anthony Richards & Associates, SA-Commercial and MBD (Everest 2019). The fact that South Africa already has BPO global value chains shows that it has the potential to grow the sector through organic growth or through new service exports projects. Domfe, Osei-Akoto, Amuakwa-Mensah and Owusu (2013) believe that with the correct institutional framework and appropriate government policies, the BPO sector has the potential to grow and deal with unemployment challenges that are inherent in many countries.

Developing countries, like South Africa, have an opportunity to effectively participate in BPO GVCs and deal with high levels of unemployment. Some of these developing countries find it difficult to participate in the global trade because the investment conditions in their countries may not be conducive to Foreign Direct Investment (FDI). In South Africa, the government has identified the BPO sector as key to economic growth and has, through the Department of Trade, Industry and Competition (DTIC), introduced incentives to facilitate its growth, but the total size of the sector remains

relatively small compared to other BPO location like the Philippines. In 2016, South Africa's BPO total size by employee headcount was approximately 220,489 (BPESA, 2018) compared to India and the Philippines who employed over 3.96 million (SESEI, 2020) and 1,145,716 (Frost & Sullivan, 2020) respectively in the same year. Strydom and Viviers (2015) indicate that developing countries encounter challenges when they try to exploit opportunities offered by GVCs, causing them to lag those countries with flexible policies.

In 2016, South Africa was listed as a pioneering BPO location in the BPO location index developed by Cushman and Wakefield (2016), because the first contact centre in the country was reported to have been established in 1976 but only became substantial in the 1990s ( Benner, Lewis, & Omar, 2007). This implies that the sector should have matured enough to compete with other BPO locations. The location index has classified the BPO pioneering locations as reflected on table 1.1.

The country ranking of BPO pioneering locations by Cushman and Wakefield (2016) using factors as risk, cost, and conditions as shown on Table 1.1 indicates that South Africa was ranked 8 out of 14 countries in terms of attractiveness as a BPO location. The country has also been ranked 14, 2 and 7 on conditions, risk, and cost, respectively. This ranking is despite the R1.3 billion DTIC incentives paid to companies to grow the sector between 2007 and 2018 (Barendse *et al.*, 2020).

Table 1.1 shows ranking of BPO pioneering destinations. The overall scores are determined by weights categorised as conditions 30%, risk 20% and cost 50% as shown below:

Table 1.1: Ranking BPO pioneering destination.

BPO -PIONEERING DESTINATIONS				
	30%	20%	50%	
LOCATIONS	CONDITIONS	RISK	COST	2016 RANK
VIETNAM	6	11	1	1
PERU	12	6	4	2
LITHUANIA	1	8	12	3
EL SALVADOR	15	13	3	4
INDONESIA	8	3	6	5
HONDURAS	13	15	2	6
BULGARIA	2	5	10	7
<b>SOUTH AFRICA</b>	<b>14</b>	<b>2</b>	<b>7</b>	<b>8</b>
SRI LANKA	11	12	5	9
CHILE	5	1	11	10
COSTA RICA	10	9	8	11
RUSSIA	4	7	13	12
SERBIA	9	14	9	13
TURKEY	7	10	14	14
SPAIN	3	4	15	15

1= Most attractive

(Source: Cushman & Wakefield,2016).

South Africa is faced with a problem of youth unemployment which has been steadily increasing since the recession in 2008 (Oluwajodu, Blaauw, Greyling, & Kleynhans, 2015). According to StatsSA, the country's unemployment rate in the second quarter of 2019 was estimated at 29% (Statistics South Africa, 2019). Youth unemployment is a large contributor to this figure, with youth in the age range of 15 to 24 mostly affected. BPESA (2018) reports that most of the employees working in the BPO sector are in the age range 18 to 30. The country should take advantage of BPO global opportunities to deal with high levels of unemployment, particularly amongst the youth, the demographic with the highest level of unemployment (Statistics South Africa, 2019). Altman (2013) argues that the BPO sector offers South Africa an opportunity to reduce unemployment by creating jobs through export services. The author's argument echoes Domfe et al. (2013)'s assertion that the sector has the potential of creating employment in Ghana. Similarly, when the Philippines struggled with unemployment in the 1990s, unemployed people got jobs in the BPO sector, with the proportion of employed people increasing from 38.9% in 1990 to 48.1% in 2005 (Magtibay-Ramos, 2007). In India, BPO is a major source of employment (Panda, 2012).



Despite investing in the development of a BPO value proposition through Everest Consultancy in 2011, the country is not effectively capitalising on its strengths to make itself attractive as a BPO investment destination. Although the country has won awards for providing a conducive environment from the European Outsourcing Association, the National Outsourcing Association, and the Global Sourcing Association (formerly National Outsourcing Association) in 2013, 2014, 2016 and 2017 respectively (BPESA, 2018), the total size of the sector remains uncompetitive.

With more than 600,000 high school and tertiary graduates each year, the country believes that it offers global BPO value chains a large skilled English-speaking talent pool with a cultural affinity to the United Kingdom, its primary source market for BPO (Everest Consultancy, 2018). There is no evidence from the reviewed literature to suggest that most of these graduates are absorbed into the BPO sector. The skills problem might be the reason for slow growth in complex services (high-end services) as certain tertiary skills are a pre-requisite when performing such roles.

South Africa offers BPO companies cost savings of at least 60% through the DTIC incentives which pay up to R184,000 for every job created and retained for five years (BPESA, 2018). Financial incentives are very attractive but the process of accessing them is either onerous or companies do not qualify. Besides, financial incentives are open to abuse; companies may decide to operate in South Africa for the duration of incentives. For example, Teletech, a large US IT company established in 2007, accessed the incentives until 2010, the year they decided to close operations in the country (Mawson, 2010). The incentives program excludes domestic companies which employ the largest number of people. The confusion surrounding processes of accessing the DTIC incentives and the policies that govern their access has the potential to hinder investment.

Frameworks developed by McIvor (2010), Gerbl, McIvor and Humphreys (2016) and Surdea-Blaga (2020) discuss, to varying degrees, the variables that create an environment conducive for BPO growth. All the models agree that lower costs, talent pool, foreign language proficiency and infrastructure, are important variables for consideration in the choice of location for a BPO operation. McIvor (2010)

emphasises the existence of a talent pool and legal matters while Surdea-Blaga (2020) highlights the accessibility of cities earmarked for investment. The current position is that these models are in-exhaustive because some of the variables in the frameworks may only work optimally in countries that did not experience apartheid as South Africa did: Discrimination of humans along racial lines (Clark & Worger, 2011). After independence in 1994, the government enacted laws that were meant to redress the imbalances created by the apartheid government (Ponte, Stefano, Roberts, & van Sittert, 2007; Nzima & Duma, 2014). Some of these laws are in direct conflict with investor interests so the conditions in South Africa are not the same as in other BPO locations. The issue of racial discrimination resulted in inequality where the majority of South Africans do not have access to infrastructure required for BPO growth.

As indicated above, South Africa, just like the Philippines and other countries, has experienced colonialism. The nature of South African colonialism, apartheid, was extreme in the sense that it was a deliberate and conscious racial discrimination effort to promote Afrikaner nationalism (Mhlauli, Salani and Mokotedi, 2015). As a result, the history of South Africa was characterised by the struggle for supremacy between blacks and whites where blacks did not have free movement, no political representatives, no access to land ownership, no access to equal education (they only had access to Bantu Education and Afrikaans was introduced as a medium of instruction in African schools) and no access to basic services (Nnadozie, 2013). According to Mhlauli *et al.*, (2015), Afrikaner nationalism was promoted through the enactment of laws such as the Group Areas Acts of 1950 and 1966 (which separated racial areas for non-whites and whites) and the Reservation of Separate Amenities Act of 1953 (aimed at segregating the use of public amenities).

The effect of these acts meant that development was prioritised in white areas. The introduction of Bantu Education and the subsequent introduction of Afrikaans in schools as a medium of instruction implied that the school curriculum became an instrument for institutionalising racism (Worden, 1994). To date, South Africa struggles to redress the challenges from the past, infrastructural development and job opportunities seemingly favour whites. The implication is that the formerly non-white areas do not seem to have adequate infrastructure required for BPO growth.

Table:1.2 describes the situation in South Africa soon after the attainment of majority rule in 1996:

Table 1.2: Relative baseline statistics by segment %.

<b>Indicator</b>	<b>Black African</b>	<b>White</b>	<b>Indian</b>	<b>Coloured</b>	<b>SA total</b>
% with no education	24.3	1.2	10.2	2.6	19.3
Unemployment rate	42.5	4.5	20.9	12.2	33.9
Living in Shacks	46.0	0.8	9.6	1.3	34.0
No piped water	72.3	3.6	2.4	27.6	55.3

(Source: Nnadozie, 2013)

Table 1.2 above shows that soon after the attainment of majority rule in 1994, a lot of work needed to be done to redress the imbalances of the past. Unlike South Africa, the subsequent colonisation of Manila by the Americans from the Spaniards in 1898, saw the introduction of public education with English as a medium of instruction, the introduction of democracy, urban infrastructural development and introduction of election into local government. The Filipinos were allowed to determine their leaders and participate in government (Einsiedel, 2020). This development witnessed the influx of American professionals into Manila which led into modernisation and rapid infrastructural development. The English language support proficiency in the Philippines became an important factor in attracting BPO Foreign Direct Investment (FDI).

Reforms undertaken by the Americans in Manila caused the adoption of BPO as a growth strategy to be relatively simple for the country as it enjoyed unsegregated infrastructural development which is an important requirement for BPO growth. The use of English as a medium of instruction prepared the talent pool that is required by BPO companies. In South Africa, although some schools offered English as a medium of instruction, Afrikaans remained the main language taught in school and there is currently no BPO source market that requires Afrikaans speaking employees.

The different forms that colonialism took in these two countries mean that the use of a similar strategy for BPO may yield different results. Consequently, it is necessary to develop an adaptive structural model for sustainable growth of the South African

BPO Sector in order to help all stakeholders involved in BPO. A framework is needed to provide guidelines for growing the sector.

There are many factors that have made the BPO sector in both India and the Philippines successful. In India, Kaur (2020) believes that BPO in India was successful because of mainly a large skilled talent pool and English language proficiency. The country has made skills required for BPO growth available to investors. In the Philippines, skills have also been made available for investors. The Philippines developed a Roadmap for BPO which guides the country's strategy (Frost & Sullivan, 2018). South Africa does not currently have a Roadmap for BPO growth. A model for the sector development would be ideal. Details of the success of BPO in both India and the Philippines have been discussed in detail in section 3.12.

The sector is experiencing marketing and operational challenges. There are two main industry associations: BPESA and CapeBPO which assume a responsibility of clustering the sector, promote sustainability and promote the sector to the outside world. BPESA is a national organisation and CapeBPO is a Western Cape organisation. These two organisations often have conflicting marketing collateral and are always in disagreement with each in terms of vision and its executions. Board members of these two organisations are volunteers and sometimes drive selfish interests. In addition, these organisations do not have a legislative mandate to enforce laws and regulations and depend on membership. This situation shows that there are uncoordinated efforts to grow the sector. A model which deals with these challenges will help to deal with these challenges.

The country's current incentive model only offers international BPO companies financial and fiscal incentives for permanent jobs created through FDI. The international BPO market is only a smaller component of the total BPO size in South Africa. The logic of limiting incentives only to local companies is counterproductive for the growth of the sector. South Africa has an advantage of a thriving domestic market whose sustainability may be dependent upon government support through incentives. This study, therefore, deems that the current incentive framework is not

suitable for growth. The proposed model in this study is expected to provide a framework which will attempt to address challenges in the BPO sector

### **1.3 Problem statement**

The total size of the South African BPO sector is not growing as well as in other BPO location geographies like India and the Philippines. As an emerging BPO location for global BPO GVCs, the country requires a framework that will help with BPO growth and deal with challenges of unemployment and economic growth. The proposed model in the research study will help with that.

India and the Philippines are dominating the global BPO market share both by revenue and by headcount (ILO, 2016). Both countries are using the sector to deal with economic growth and job creation. Since the advent of BPO in India, the country has been using the sector to reduce unemployment, making it strategic for facilitating job creation and economic development (Panda, 2012). When the Philippines faced unemployment challenges, they used the BPO sector to address the problem (Magtibay-Ramos, 2007). In India, the sector grew from 3,690,000 in 2016 to 3,863,000 in 2017 (Ceicdata.com, 2018). In the same period, the headcount of the Philippines BPO sector grew from 1,145,716 to 1,250,465 while in South Africa, the sector grew from 220,489 to 228,642 (BPESA,2018, Frost & Sullivan, 2018).

Figure 1.1 shows that the growth of the sector's total size in the South African BPO market is slower than the growth that is taking place in the Philippines. The Philippines is considered more mature, in spite of the fact that the first call centre was recorded in 1976 in South Africa, with many of them establishing in the 1990s (Benner, Lewis, & Omar, 2007). The expectation is that by now the country should be having a well-developed and mature BPO market competing favourably with the likes of India and the Philippines. The sector should by now be providing a firm foundation for helping with economic growth and unemployment in the country.

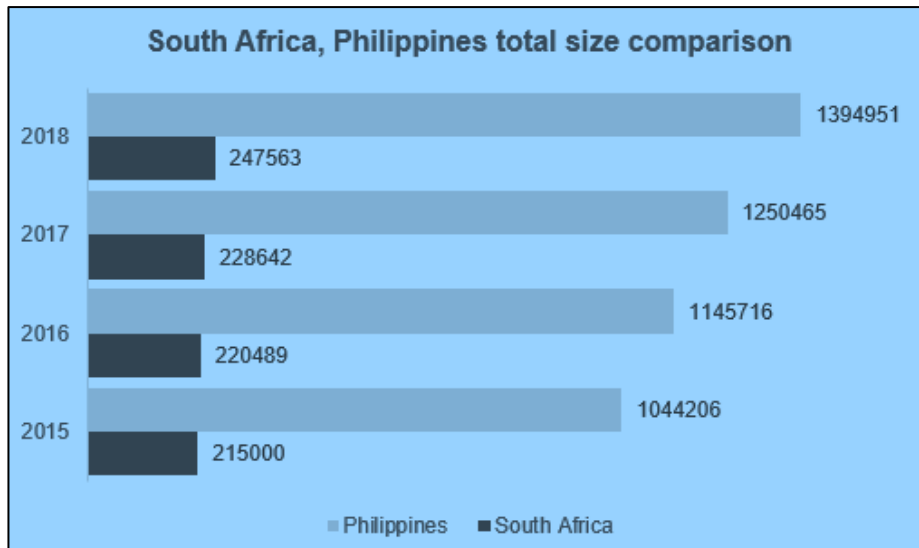


Figure 1.1 South Africa, Philippines, BPO total size comparison  
(Source: BPESA,2018, Frost & Sullivan, 2018)

#### 1.4 Research rationale

BPO is filled with models and theoretical frameworks on a wide variety of variables that influence BPO growth. Revisiting these models and concepts may reveal striking differences in operationalisation efficacies in different locations. Although the models developed by McIvor (2010), Gerbl *et al.*, (2016) and Surdea-Blaga (2020) seem fitting in explaining variables for BPO growth, this study deems the models optimal in mature BPO locations which have not experienced apartheid. Emerging BPO locations and their economic growth patterns, particularly BPO growth, vary with their colonial history and therefore would require different models. The bulk of existing literature and research undertaken in BPO studies by analysts and academics alike have not been exhaustive in providing a model or framework within which BPO in emerging markets, which have a history similar to South Africa, can efficiently and effectively operate and grow. Reviewed literature is mainly pre-occupied with exhibiting markets as locations of choice, with governance or contractual issues, and act more as marketing collateral than academic studies. Considering this situation, the study, will, therefore, aim to reduce the gap in academic BPO literature for unique markets, like South Africa, by developing a structural model for this particular BPO sector.

Frost and Sullivan (2018) describe India and The Philippines as the world's top BPO locations. Apart from a conducive environment for BPO growth, their successes may

largely be attributed to institutional support of the sector in those countries. The existence of Investment Promotion Agencies (IPA) in both India and The Philippines may also have played a part in their success; India has NASSCOM and IBPAP in The Philippines. In South Africa, there is no Investment Promotion agency that specialises in BPO investment agency. IPAs are critical in sector development and promotion (Morisset & Andrews-Johnson, 2004). The absence of an Investment agency is a motivation to develop a structural model for the BPO sector in South Africa.

Formulation of all laws, policies and strategies that facilitate economic development and job creation both at domestic and international level is paramount. The reconfiguration of South Africa after the attainment of majority rule in 1994 was based on legislation aimed at reversing the inequalities caused by apartheid (Albertyn, 2011). Thompson and Wissinki (2018) concur with Albertyn (2011) that laws became agents to facilitate transformation. However some of the laws promulgated, like Black Economic Empowerment (which requires foreign companies to cede part of their equity to locals) and the Employment Equity (which requires the development of black executives), seem to be in direct conflict with investors' agenda, as investors are driven by capital accumulation. A model which balances the interests of both the investors and the citizens' interest will help facilitate growth of the BPO sector.

South Africa's socio-economic situation is deteriorating and becoming a threat to the country's democracy. The country is currently in a technical recession (UNDP, 2020). The technical recession has made it difficult for the country to deal with the high-level unemployment rate and the slow growth of the economy. The situation was exacerbated by the outbreak of Covid-19 which, in addition to locking down the economy, has forced the country to divert attention and resources to the prevention and spread of the pandemic. The country's economic decline is causing abject poverty amongst citizens and increasing levels of unemployment, triggering protests and rebellion. Lack of service delivery and corruption has been the cause of rebellion amongst the poor since 2004 (Alexander, 2010). To mitigate some of these challenges, the country has identified the BPO sector as key to quick economic recovery post Covid-19, which means that the country has to create an environment conducive to its growth in order to gain competitive advantage over countries such

as India and the Philippines. Faced with unemployment challenges, the Philippines used the BPO sector to create jobs (Magtibay-Ramos, 2007).

The challenge is that the total size of the sector in the country is not growing fast enough. Inequalities that characterise the legacy of apartheid make it difficult for poor people to access services and make use of infrastructure to catalyse economic development (Thompson & Wissinki, 2018). Accessibility to infrastructure, government services and even to the talent pool is still a challenge.

At the time of this study, the researcher is already a BPO Research Analyst for the BPO industry body in South Africa, so any study in this or a similar subject would enhance the chances of becoming knowledgeable to advise the South African Government on outsourcing matters. The study should help the researcher to become a subject matter expert in outsourcing.

BPO Global value chains may also use the findings of this research to understand the opportunities and challenges in the South African BPO landscape and use the research as a handbook for BPO location studies for South Africa. The research can be used by the government for policy development.

## **1.5 Preliminary literature review**

The literature review made use of various sources from subject matter experts ranging from consultants, national and international books, website articles, newspaper articles, and academic journals to help situate and contextualise the existing knowledge into the research. The sources consulted covered thematic issues reflected in the following topics:

- The global structural economic changes that have taken place which are linked to the advent of BPO
- Major highlights in the global economy: The outbreak of Covid-19, the advancement in technology, the advent of BPO and offshoring
- The knowledge-based economy and how it has accelerated BPO
- Globalisation and its impact on services



- Global value chains and outsourcing, the reasons for outsourcing and the risks associated with it
- Concepts such as nearshoring, onshoring, multi-sourcing, and backshoring
- The South African BPO value chains
- Global BPO environmental risks
- Covid-19 and the future of BPO in South African major source market and target market
- The effects of Covid-19 on the UK and the USA
- The effects of Covid-19 on South Africa

Chapters 2, 3 and 4 provide details of the literature reviewed.

### **1.6 Primary aim of the study**

The primary aim of the study is to develop a structural model that is able to promote the growth of the South African BPO sector. The research seeks to establish factors affecting BPO growth and to provide recommendations for its growth.

### **1.7 The research objectives**

The research objectives of the study are:

1. To identify and interrogate variables that affect the growth of the BPO sector in South Africa.
2. To measure the relationships between observable variables identified as catalytic enablers for BPO growth.
3. To assess the mediating effect of the mediating variables.
4. To develop a structural model for sustainable growth of the South African BPO sector.

### **1.8 Research variables**

A research variable is defined by Creswell (2017) as any antecedent that can be subjected to measurement or observation and also varies. This definition echoes the one provided by Kumar (2010) that a variable is a measurable concept. Shukla (2018) describes these research variables as independent, intervening or mediating,

moderating or dependent. In this study, the researcher makes use of the independent, mediating, and dependent variables, which are discussed below.

### **1.8.1 Independent Variables**

A variable which impacts the value of another but is conversely not affected by changes in another variable is known as an independent variable (Shukla, 2018). In this study, the following independent variables were identified from the literature review:

- Talent pool
- Lower costs
- Infrastructure
- Legislative framework

The effect of each of these independent variables on BPO growth was measured in the study.

### **1.8.2 Mediating Variables**

Mediating variables mediate the impact of independent variables on the dependent variables (Creswell, 2017). Mediating variables are sometimes known as confounding variables. In some instances, the relationship between the independent and the dependent variable cannot be ascertained without the intervention of another variable (Kumar, 2010). There is only one mediating variable in this study. The mediating variable is accessibility. The mediating effect of this variable was assessed in the study.

### **1.8.3 Dependent Variables**

A dependent variable changes its value due to changes in other variables (Shukla, 2018). The dependent variable identified in this study is BPO growth. The impact of independent variables on BPO growth, namely, talent pool, lower costs, infrastructure and legislative framework, was measured in the study.

## **1.9 Research hypotheses**

A research hypothesis is defined by Anupama (2018) as a statement that predicts relationships among variables under scrutiny. The statement predicts relationships

of which the truth or reality is unknown but can be statistically verified. The aim of this study is to develop a structural model for the sustainable growth of the BPO sector in South Africa. In order to validate the model, the following hypotheses were developed:

*H<sub>1</sub>: There is a statistically significant positive relationship between infrastructure and BPO growth.*

*H<sub>2</sub>: There is a statistically significant positive relationship between infrastructure and accessibility.*

*H<sub>3</sub>: There is a statistically significant positive relationship between accessibility and BPO growth.*

*H<sub>4</sub>: There is a statistically significant positive relationship between lower costs and BPO growth.*

*H<sub>5</sub>: There is a statistically significant positive relationship between talent pool and BPO growth.*

*H<sub>6</sub>: There is a statistically significant positive relationship between legislative framework and BPO growth.*

*H<sub>7</sub>: There is a significant statistical correlation between infrastructure, lower costs, talent pool, and legislative framework.*

*H<sub>8</sub>: Accessibility mediates the relationship between legislative framework and BPO growth.*

*H<sub>9</sub>: Accessibility mediates the relationship between infrastructure and BPO growth.*

*H<sub>10</sub>: Accessibility mediates the relationship between lower costs and BPO growth.*

*H<sub>11</sub>: Accessibility mediates the relationship between talent pool and BPO growth.*

### **1.10 Proposed theoretical framework.**

A theoretical framework is described by Adom, Adu-Gyamfi, Agyekum, Ayarkwa, Dwumah, Abass and Obeng-Denteh (2016) as the foundation of any research. This is because it allows for the application of deductive reasoning where the researcher begins with a hypothesis followed by the possibility of arriving at a logical conclusion on the matter being studied. The authors further argue that where a theoretical framework is developed, it becomes easier to find the results more meaningful and credible. In addition, the theoretical framework helps readers of the study to ascertain the factors that underlie the hypotheses. According to Osanloo and Grant (2014),

constructs, principles and concepts are all parts of a theoretical framework which help to show the reader the direction or the roadmap of the research.

The independent variables in the theoretical framework which are catalytic to BPO growth have been identified as lower costs, talent pool, infrastructure and legislative framework. These independent variables are mediated by accessibility as an intervening variable. For choice of location for a BPO operation or for expansion of an existing BPO operation, the decision making is influenced by the assessment of these variables as shown by Mclvor (2010), Gerbl et al, (2016) and Surdea-Blaga (2020).

BPO growth is dependent on the supposedly positive impact that lower costs, improved infrastructure, growing talent pool and accommodating legislative framework would have on its growth. The growth of the global BPO sector is encountering challenges; the main challenge is transformation, adapting to the ever-fluid operational environment. Measuring the relationships between these variables should help establish factors that facilitate the growth of the sector.

### **1.11 Research Assumptions**

Assumptions give a picture of the study phenomena and the changes that are needed (Creswell, 2017). The picture given by assumptions is of interest to both the researcher and the outcome of the study. In this study the following assumptions were made:

- All the executives of BPO value chain selected for the study understand the variables: Lower costs, talent pool, infrastructure, legislative framework, accessibility and BPO growth
- The South African government and the BPO sector will benefit from the structural model developed

### **1.12 Research Paradigm, Methods, and Methodologies**

A wide approach to a study involves the convergence of philosophical worldviews, the research designs and the method used. The selection of the research design and the research methods is influenced by the philosophical worldview assumptions of

the researcher Creswell (2017). A positivist research paradigm has been chosen for this study. This is because the paradigm is based on the natural sciences which are suitable for inquiry into the understanding of the social world. Therefore, a quantitative research approach was chosen for the study in order to give scientific evidence of why and how things occur using measurements.

The study used a questionnaire as an instrument for the collection of data required for hypotheses testing. The questionnaire used in the research was constructed for the first time and tested for reliability through pilot testing. The pilot testing of the research questionnaire was achieved by conducting a pilot study. The pilot study used 10 respondents who are subject matter experts and BPO company executives, to help in determining the accuracy and adequacy of instructions given to the respondents. A reliability test performed by a qualified statistician showed a scale reliability coefficient of 0.9689 which indicated that the questionnaire has internal consistencies.

The reviewed literature identified infrastructure, legislative framework, talent pool, lower costs, and accessibility as variables affecting BPO growth. The relationships between these variables were tested using SPSS Amos V25 which uses Structural Equation Modelling (SEM) to determine the correlations between the variables identified in the reviewed literature.

The population suitable for this study comprises all links in the BPO value chain. The research population units include the following:

- Executives of international and domestic BPO companies
- Executives of international and domestic service providers
- Executives of relevant national and local government offices in South Africa
- Investment Promotion Agencies (IPA)
- Special Purpose Vehicles (SPV)

The researcher used sampling procedure guidelines as provided by Taherdoost (2017) and Qualtrics.com. Qualtrics.com provides an online calculator which was used to calculate the sample size. With a confidence level of 95% and an error margin

of 5% for population sizes of the strata, a sample of 165 was chosen out of a population of 196 through a stratified probability sampling method.

For data collection, a web-based self-completion five-point Likert scale questionnaire was used to collect data for validation and testing relationships between variables identified in the review of the literature. The questionnaire used to collect data was constructed by the researcher and was used for the first time in the research.

Structural Equation Modelling analysis is used to establish the degree to which the theoretical model is supported by sample data, as indicated by Schumacker and Lomax (2016).

The following techniques are used to establish the fitness of variables in the proposed model:

- Multiple regression analysis
- Standardised Root Mean Square Residual (SRMR)
- Comparative Fit Index (CIF)
- Chi-square divided by degrees of freedom (CMIN/DF)

### **1.13 Stages in the research process**

The steps in the research process: Topic and background to the research, review of literature, quantitative research design, data collection, data analysis, data interpretation, development of a structural model for sustainable growth of the South African BPO sector and the broadcasting of the findings are reflected in Figure 1.4. The figure shows guidelines from Lourens (2010) and Van der Merwe (2011) which were followed in the study:

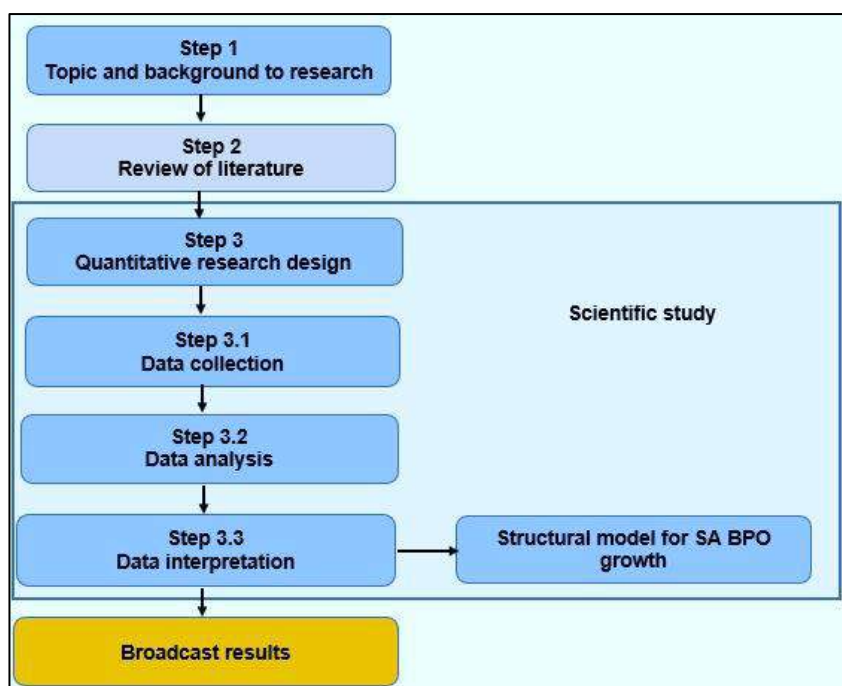


Figure 1.2: Step in the research process  
(Source: adapted from Lourens, 2010 and Van der Merwe, 2011)

The steps shown on Figure 1.2 represent a structural process that is normally followed by a scientific inquiry. Adhering to a structured process minimises procrastination and eliminates wastage of resources during research.

A comprehensive study of what each of the methodoly steps entails is discussed in detail in chapter 6.

**Step 1: Topic and research background** –In over a decade of working in the BPO sector, the researcher has witnessed the slow growth of the total size of the sector, yet it has the potential to grow the economy. It is for this reason that the researcher has selected the topic aimed at developing a structural model for sustainable growth of the BPO sector in the country to deal with challenges of employment and economic growth.

**Step 2: Review of literature**- A review of the literature led to the identification of variables that are catalytic to BPO growth. These are lower costs, infrastructure, talent pool, accessibility and legislative framework.

**Step 3: Quantitative research design-** A quantitative approach was used in the study. The reviewed literature led to the development of hypotheses that need to be tested. The approach relied on testing and examining relationships between the variables or determining the cause and effect (Creswell (2012), so data collected was used to test and show relationships between variables that had been initially identified as catalysts for BPO growth.

**Step 3.1 Data collection:** A web- based self-completion five-point Likert scale questionnaire was used to collect data for validation and testing relationships between variables of the model.

**Step 3.2 Data analysis:** The analysis was done using SPSS Amos V25. This software comes with statistical packages that are used to compute almost any statistical analysis. For the purposes of this analysis, the package was used to compute the Confirmatory Factor Analysis.

**Step 3.3 Data interpretation:** Data was interpreted to support or reject existing theories and to recommend enhanced models that can support the growth of the BPO sector in South Africa using the following variables:

- Talent pool
- Infrastructure
- Accessibility
- Legislative framework

The model is expected to help deal with unemployment challenges in South Africa, help with the growth of the BPO sector and facilitate economic growth.

**Step 4 Broadcast the results:** The last step was broadcasting the findings to relevant stakeholders to whom this study was significant. The research process and the ethical issues were compliant with general research expectations, and as a result, the conclusions of the study were unreservedly broadcast.



### **1.14 Scope of research**

The research is limited to BPO, which is just a subset of Global Business Services (GBS). GBS is a more advanced and evolved form of BPO where companies provide high-value complex services requiring high-level skills. Daub *et al.* (2020) give examples of these high value complex services which are found in IT, finance, human resources etc. for which South Africa does not have skills. BPO is the largest component of GBS, accounting for 90% of GBS employees in the country (BPESA, 2018).

The research targets BPO executives, executives of support service providers, government officials and executives of IPAs/SPVs. The BPO companies are spread across the country, government work is prevalent in all the provinces where BPO is active and the SPV work is national in scope rendering the sample wide enough to gather credible data.

### **1.15 Thesis contribution to the current state of knowledge**

- Development of a structural model for sustainable growth of the BPO sector in South Africa.
- The study has shown that lower costs are no longer an important consideration in the choice of location for an offshore or outsourcing operation. This finding overrides the popular traditional belief and theories that offshoring and outsourcing companies choose a BPO location on the basis of costs (Ferruzzi *et al.*, 2011).
- The outcome of the measurement of the relationships between variables added new concepts and new views for the consideration for BPO growth.
- Accessibility to soft infrastructure, talent pool and government support facilitates BPO growth. The legacy of apartheid has resulted in unequal access to social and economic opportunities, informal settlements and poor transport networks (du Plessis, 2013). The country's citizens who live in these informal and poor areas find it difficult to access infrastructure, especially the soft infrastructure required for BPO growth. Ryan (2020) and Thompson (2020) both argue that a country that provides access to internet connectivity for its

citizens is likely to attract BPO investment. Governments may have attractive incentives, but if they are not accessible to investors, it will not help with investment. According to the Department of Science and Innovation (2018), there are challenges in accessing incentives offered by the government due to onerous processes and red tape. Access is also applicable to talent search. The consideration of accessibility and legislative framework will be an addition to the existing knowledge with respect to variables that affect BPO investment.

### **1.16 Ethical considerations**

Since all research involves people, it may be susceptible to ethical challenges which may arise during the process of research and stall progress (De vos, et al., 2011), so researchers need to pay attention to two types of responsibility; human and non-human (Gravetter & Forzano, 2003). The human side of ethics will address all issues affecting the emotions of the respondents while the non-human may address damage relating to symbols like brands. Ethics is defined by Schermerhorn (2013) as standards of good or bad, or right or wrong in one's conduct in the context of a governing moral code. With these ethical issues, it is important for the researcher to understand that some prominent concepts such as values, morality, community standards, laws and professionalism differ from one setting to another.

If data collected is not managed in a proper way, it may end up being accessed by unauthorised persons resulting in a breach of both trust and contract with the respondents. Some companies do not want their confidential information known. If that happens, it may lead to reputational damage and loss of customer trust. Other issues relating to harm of participants and deception are also dealt with below.

To mitigate the impact of ethical issues, the researcher did the following:

- The researcher designed an introductory letter detailing the research topic and the legitimacy of the survey
- Participants/Respondents participated in the survey voluntarily. The instruction to voluntarily participate was stated upfront in the mailer of the questionnaire
- All collected data would be stored on the researcher's google drive with password inscription so that no one else would have access to the data

- The responses, together with the respondent identities, would be kept confidential to prevent reputational harm to the respondents
- All consulted sources would be acknowledged

### **1.17 Structure of the research**

The Thesis is divided into eight chapters which are organised as follows:

#### **Chapter 1: introduction and problem statement**

This chapter is an introduction to the research study. It provides background, context, and scope of research. The problem statement is contained in this chapter, including the thesis's contribution to the current state of knowledge relating to the variables that influence the choice of location for BPO companies.

#### **Chapter 2: Global economic structural changes linked to BPO**

This chapter traces the origins of the global economy as rooted in the development and subsequent expansion of long-distance trade which culminated into globalisation. It also provides an outline of major highlights in the global economy that have led to the advent of BPO.

#### **Chapter 3: Global value chains and the advent of outsourcing**

The chapter discusses the GVCs and how resulted from internationalization and globalisation. It also traces the origins of outsourcing.

Figure 1.3 summarises the research steps. The research steps fall under categories broadly divided into three: Literature review, empirical study, and results.

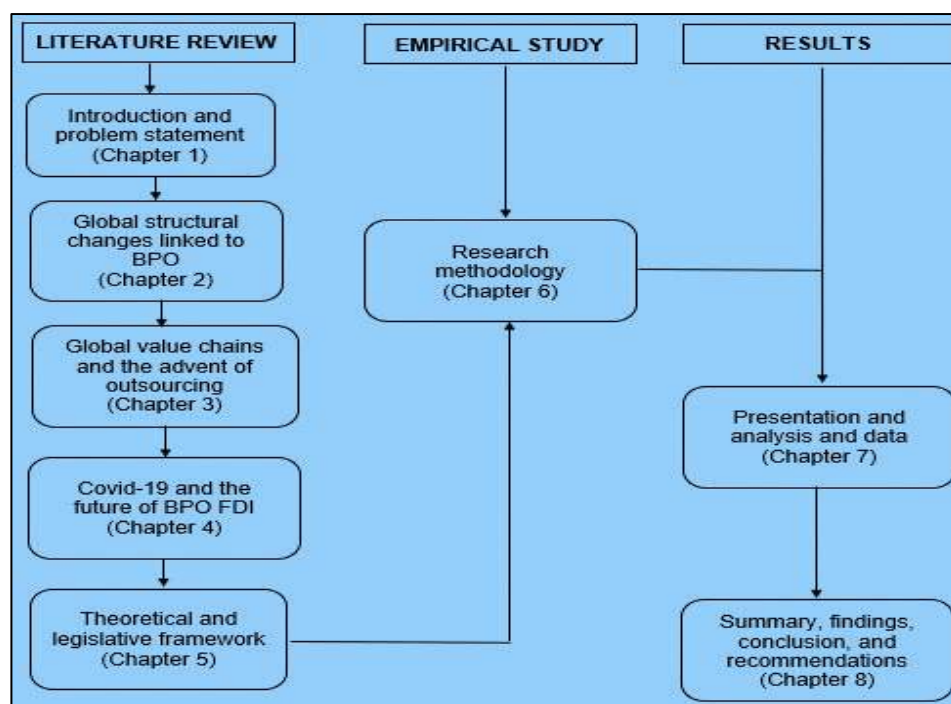


Figure 1.3: Research outline  
(Source: Researcher's own construct)

#### **Chapter 4: Covid-19 and the future of BPO**

This chapter discusses the effects of Covid-19 on South Africa's major source market, the UK, and South Africa's major target market, the USA.

#### **Chapter 5: Theoretical and legislative framework**

The chapter discusses frameworks by McIvor (2010), Gerbl et al., (2016) and Surdea-Blaga (2020). These frameworks form the basis of the model development.

#### **Chapter 6: Research methodology**

This chapter outlines the research design and methodology. It discusses the sample, data collection methods and data analysis.

#### **Chapter 7: Presentation and analysis of data**

Chapter 7 provides a detailed data analysis and presents findings from the research. It discusses the results from the tests of hypotheses developed in the initial stages of research as good or bad fit, including the statistical analysis that has been used to arrive at a conclusion.

#### **Chapter 8: Summary, conclusions, and recommendations**

This chapter discusses the conclusions from the research and the implications of findings to the BPO sector in South Africa. Recommendations are also provided in this chapter.

### **1.18 Chapter summary**

The chapter introduced the study on the development of a structural model for the sustainable growth of the South African BPO sector. It outlined the background to the research problem and discussed the research aim and objectives. The chapter provided various topics that were revisited in the literature review. A proposed theoretical framework was also shown in the chapter. It ended with how the whole thesis is structured. Chapter 2 presents the global economy structural changes that are linked to BPO.

## **CHAPTER 2: GLOBAL ECONOMIC STRUCTURAL CHANGES LINKED TO BPO**

### **2.1 Chapter overview**

This chapter traces the origins of the global economy and attempts to show how BPO has resulted from global processes that have been obtaining over centuries. It focuses on global economic structural changes that have taken place due to rapid automation, and IT-enabled production or provision of services. It outlines how manufacturing has been revolutionised to the extent that companies merely own patents and thereafter fragment production processes into a range of elements that can be performed in any location in the world (Radlo, 2016, Gereffi, 2005). It is, therefore, important for this chapter to demonstrate how this development has reduced the world to a single marketplace and how outsourcing is being made possible by rapid automation and IT (Szymczak, 2013, McIvor, 2010). The chapter also discusses major highlights of the global economy which includes the outbreak of Covid-19, advancement in technology, BPO and offshoring, knowledge-based economy, and globalisation. Lastly, the chapter discusses the globalisation of services and how they have been impacted by these structural changes.

### **2.2 The global economy**

The global economy has experienced significant structural changes that have affected nation states' relationships and interactions (Gereffi, 2005). Using the domain of development economics, structural change refers to changes in arrangements of productive activity in the economy and various distributions of productive elements among diverse sectors of the economy, different occupations, geographic locations, types of product, and other elements of the economy (Machlup, 1991). The result of the structural change was a dynamic process fuelled by technical advancements and carried out through well-defined international channels such as free trade, capital markets liberalization, and people migrations: This is called globalisation (Verde, 2017). Of interest to this study, is what Memedovic (2010) calls the evolution of services. Concurring with this view is Fagerberg (2013) who believes that globalisation can only do two things: make some developing

countries poorer and make some developed countries richer than they were. This is because it has provided developing countries with opportunities to tap into the global market but only a few have been able to exploit these opportunities because of a lack of technological resources to do so. The author further argues that failure of developing countries to integrate into the global economy has resulted in abject poverty for most of them as developed markets have found new markets in developed countries. Globalisation is described by Schermerhorn (2013) as a convergence of world markets, resources, production, and provision of services where companies or countries are no longer confined to their physical boundaries. Although the world markets seem to be cooperating, their convergence is characterised by conflicts between nation states and, in some cases, regional blocks (Hosseini, 2010). Gereffi (2005) argues that the global economy can be analysed at different levels:

- Macro – the way that global institutions like the International Monetary Fund (IMF), World Bank (WB), World Trade Organisation (WTO), International Labour organisation (ILO) or the European Union (EU) develop cultures for global interactions in their specific areas and thereby shape parameters within which the world should operate. The intention of the IMF and the WB in developing countries is under scrutiny from International NGOs and African academics. They argue that the recommendations by IMF and WB for economic structural adjustment in many developing countries are an attempt to control developing economies in a way that enables them to generate enough revenue to pay back debts owed to them. As a result of the IMF and the WB influence on world economics, the world is characterised by economic strife between the global North and South. The global North being developed nations and the global south being undeveloped or under developed nations. Kingston, Irikana, Dienye, and Kingston (2011) argue that Zimbabwe and Zambia are good examples of the dismal failure of the IMF and WB Economic Structural Adjustment Programmes (ESAP) where poverty, inflation and unemployment were the results. The struggle between the Global north and south shapes the form and nature of GVC activities in the south. One is persuaded to believe that FDI into the global south could be a replay of the scramble for Africa that happened in the 1880s when European countries divided Africa amongst themselves. The GVCs have positioned themselves

globally in exactly the same way: scrambling for markets and profitability in developing countries. BPO expansion into developing countries could be viewed the same.

- Meso – where the key structures for the global economy are countries and firms.
- Micro – the level at which activities of social groups react to global issues such as globalisation.

It is important to note that whether the global economy is looked at from a macro, meso or micro level, it has ushered in a new era where markets and resources are no longer viewed at national level but have become global in scope. This implies that competition has intensified, creating complexities associated with making decisions for local business units while considering the interests of other units in different parts of the world. The competition resulting from globalisation has widened the gap between countries of the global South and the global north. The global South has become a source of competition for new markets and cheap labour. Diversity and multi-culturalism have become critical success factors to the extent that businesses are forced to understand product or service preferences in different cultures of the world from conception to distribution. This is mainly so for the BPO countries which locate in countries with different cultural backgrounds as them. The global economy has its roots in the development and subsequent expansion of long-distance trade between 1450 and 1640 (Gereffi, 2005). Underlying this expansion, is the development of capitalism in Europe (Ocran, 2019). This capitalist period, which covered period between 16<sup>th</sup> and 18<sup>th</sup> centuries, has involved the concentration of the means of production into a few wealthy hands and the growth of monopolistic and trust companies.

The industrial revolution, which was associated with rapid automation, resulted in an over-supply of capital. The goods which were previously produced by hands were now produced by machines causing a glut of products on the market. There had to be a radical shift in policy, from national trade to international trade relations. Capital had to be exported, causing rivalry amongst European countries to scramble for a share of world markets. Some of the countries involved in the scramble for Africa, are



the same countries which are struggling for markets. From another angle, the operation of GVCs in developing countries is a new wave of economic control by developed countries. What resulted from all these developments was the formation of international monopolistic imperialist companies with the aim of dividing the world amongst themselves, one such company was the Dutch East India Company. These imperialist companies were responsible for setting up commercial empires and hubs across the globe (Gereffi, Humphrey, & Sturgeon, 2005). Countries of the world began interacting with each other as victors or victims of this political and economic development, shaping the global economy as it is understood today. These global dynamics have shaped the basis of global BPO investment.

The partitioning of the world by European countries amongst themselves (referred to as colonisation), which mainly affected the Americas, Africa and Asia meant that the affected countries were not able to determine or make decisions on their own concerning their political, economic, religious and social welfare (Bulhan, 2015). Colonisation was a direct result of the desire by colonisers to protect their interests in their colonies. European countries had to make sure that the interest and investment of their monopolistic and capitalistic companies carrying out trade across boundaries had to be protected (Ocran, 2019), so this became the main period when countries of the world began to interact with each other economically, politically and even religiously. Although the causes of colonisation were not predominantly economic (some countries like France colonised a desert in West Africa (Harris, 1911), the act itself paved the way for foundations of the global economy. The coloniser and the colonised relationship was exploitative in nature, so the principle was to have as many colonies as possible to facilitate commerce. The objectives of global incentives in the 18<sup>th</sup> century have not changed. It may be concluded that the relationship between a BPO host country and a BPO company could be exploitative if unchecked through regulatory framework.

Factors that characterise the global economy in the 21<sup>st</sup> century are a result of a series of prolonged processes and changes that have been obtaining for centuries. These processes and changes have evolved to shape the global economy as it is known in the 21<sup>st</sup> century (Ocran, 2019, Krueger, 2006). Of these developments, the

most recent and notable ones include the division of the world into networks of political and economic alliances both globally and regionally, terrorism, growing animosity between the Middle East and the West, black consciousness movements, the struggle for economic freedom by developing countries, the introduction of the Euro as a world currency, trade wars between the USA and China and most recently the outbreak of coronavirus. These developments have consequences that shape the world economy politically, socially, and economically. The developments have been coupled with rapid automation and advancement in IT.

Currently, the global economy is on the one hand characterised by the trade conflict between the USA and China and, on the other, by tensions arising from Brexit, affecting the future of the UK's relations with the rest of Europe (European Union, 2020). Developing economies are not directly affected by the trade tensions, because their benefit from world trade is very minimal. Inequality remains a challenge as their economies are mainly structured along informal employment with poverty still problematic. WTO (2019) indicates that African economies have not developed in almost ten years and that growth is largely affected by uncertainties, negative business sentiments and corruption. Conflict between nation states has fuelled nationalism and protectionism where countries need to protect their interests. This development has seen the former President of America, Donald Trump, embarking on a campaign to bring back outsourced jobs to the USA. Decisions against outsourcing have a negative impact on BPO FDI in developing countries to which most of the outsourced work goes.

### **2.3 Major highlights affecting BPO in the global economy**

In the recent past, the global economy has experienced drastic changes which have resulted in the confluence of multi-dimensional developments that have ushered in the new potential for the world (Manasserian, 2012). The following section discusses the major highlights of the global economy that have had an impact on BPO.

#### **2.3.1 The outbreak of Covid-19**

The outbreak of Covid-19 in China at the end of 2019 and its subsequent spread to the globe has resulted in a negative socio-economic impact. The effects of Covid-19

are similar to the effects of pandemics previously suffered globally. According to Feyisa (2020), three influenza pandemics occurred in 1918 (A/H1N1), 1957 (A/H2N2) and 1968/69 (A/H3N2) (HPA 2006). The Spanish flu (A/H1N), which occurred in 1918/19 killed between 20-40 million people globally. The author states that the economic effect of these pandemics was felt globally, with the impact on the USA ranging from a loss of \$71.3billion to \$166.5 billion. Due to globalisation, the effects of Covid-19 could similarly affect the global economy significantly (Islam & Muyeed, 2020). The authors indicate that the virus is likely to cost the global economy \$2.7 Trillion (3.1% of global GDP) and that the virus' adverse impact on US, China, Japan, Germany, Britain, France, and Italy may cripple the global economies as these countries make up 60% of the world supply and demand in terms of GDP. Table 2.1 shows Covid-19 infections and the economies of the world:

Table 2.1: Covid-19 infections and global economies.

<i>Country</i>	<b>GDP</b>	<b>Manufacturing</b>	<b>Exports</b>	<b>Manufactured Exports</b>	<b>COVID-19 cases</b>
<i>USA</i>	24%	16%	8%	8%	31.8%
<i>China</i>	16%	29%	13%	18%	2.0%
<i>Japan</i>	6%	8%	4%	5%	0.4%
<i>Germany</i>	5%	6%	8%	10%	4.1%
<i>UK</i>	3%	2%	2%	3%	5.4%
<i>France</i>	3%	2%	3%	4%	3.3%
<i>India</i>	3%	3%	2%	2%	1.8%
<i>Italy</i>	2%	2%	3%	3%	5.2%
<i>Brazil</i>	2%	1%	1%	1%	4.2%
<i>Canada</i>	2%	0%	2%	2%	1.7%

(Source: Zamani et al., 2020)

Table 2.1 shows that the USA has been hardest hit by the pandemic, followed by the UK and then Italy. The impact of these high rates of infection have caused lockdowns which have resulted in economic recessions. Cepal (2020) indicates that the Federal Reserve projections show a 6.5% decline of GDP in 2020. The recession in the USA economy has caused massive unemployment and 52.7% of Americans applied for unemployment insurance between 21 March and 18 July 2020. This development is likely to reduce the United States' propensity to offshore and to outsource work, as it must deal with its own challenges of unemployment. The USA remains one of South

Africa's major source markets, negative economic growth would have a direct impact on the growth of South African BPO as expansion into the USA market would be difficult.

Figure 2.1 shows unemployment in some regions of the globe. The data reflected corroborates with data on Table 2.1 that countries with the highest Covid-19 infections have the highest unemployment rates. For example, the USA has over 14% unemployment rate with 31.8% of global Covid-19 cases. Conversely, Japan has the lowest Covid-19 cases and the lowest unemployment rates. It is also noteworthy that all the countries on figure 2.1 have seen a sharp rise in unemployment. High levels of unemployment in these countries have a bearing on how investment decisions will be made. There are likely to be decisions to reshore BPO operations to home countries due to companies' political pressure to invest in their home countries to create jobs.

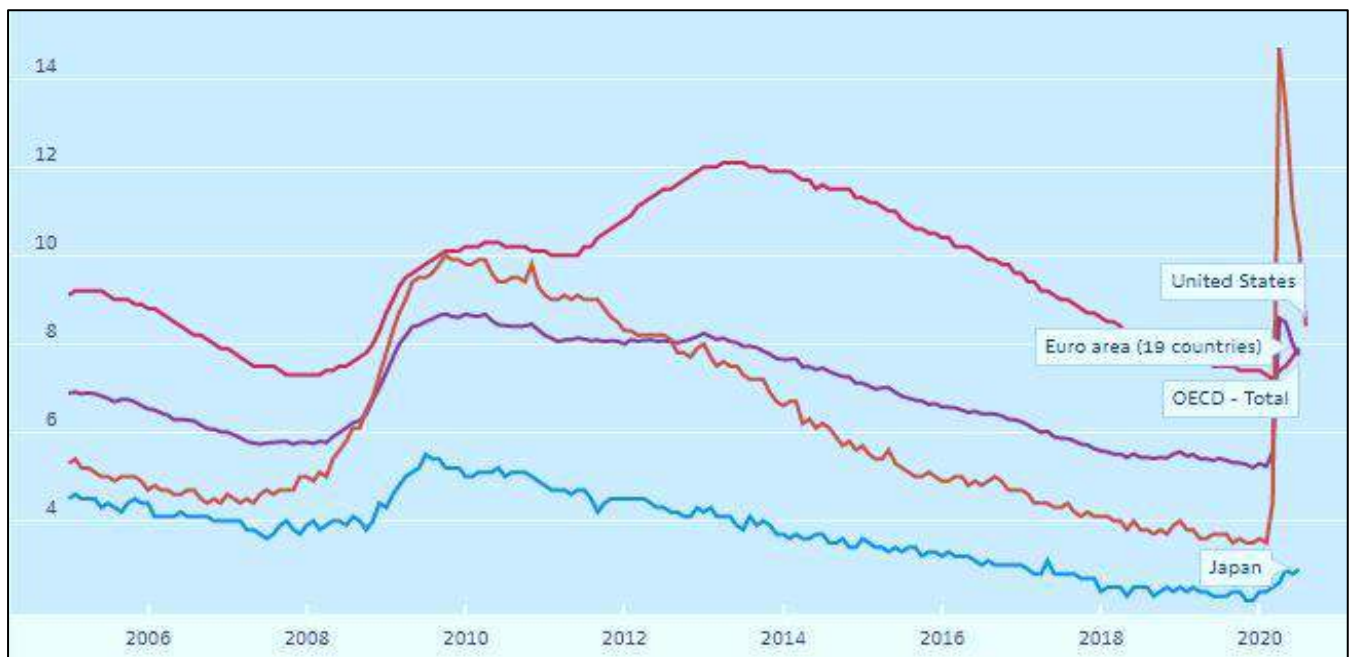


Figure 2.1 : Unemployment rates in some global regions  
(Source: OECD,2020).

According to OECD (2020), the USA has the highest unemployment rate, followed by the Euro area. Both the USA and the Euro area, particularly the UK, are South Africa's major source market for BPO FDI. The impact of a high unemployment rate is expected to have a knock-on-effect on the way and the rate at which the countries will offshore or outsource work, as this strategy is likely to face criticism locally.

According to Everest (2018), the UK accounts for 77.6% of the South African BPO market, followed by Australia at 10.9%, USA at 1.2% and others at 10.9%. If there are policy shifts in these markets, South Africa would be adversely affected, hence the need for a correct policy framework that will help with sustainable growth of the sector.

### **2.3.2 Technological advancement**

Global trade can be speeded up and simplified by the use of IT-enabled production processes. Rapid automation is disrupting production models, multi-national service companies are now organised along BPO value chains making it possible to fragment production or provision of services to different locations around the world (Gereffi & Fernandez-Stark, 2019). BPO value chains are an outcome of advancement in technology, so as companies seek sustainable and efficient ways to run their businesses, innovation will continue to be the primary objective.

According to Strange and Zuchella (2017), the world is advancing towards Industry 4.0 (fourth industrial revolution) which Li (2018) believes involves the use of technological advancements such as Cyber-Physical Systems (CPS), Internet of Things (IoT) and cloud computing. Some companies are striving to shift to digitalisation to streamline processes and improve product and service quality. The fourth industrial revolution is enabling smart products to communicate and interact with each other through the internet of things, the use of big data and analytics to lower costs and improve the quality of the products. This operational change has ushered in new opportunities in highly complex roles in BPO, which include software engineering and technical support. The impact of the increased use of robotics is replacement of humans in carrying out work processes and affecting traditional outsourcing dynamics while production processes have been streamlined using 3-D printing. The implication is that some occupations in the call centre will vanish, especially those which are repetitive in nature and other occupations which involve complex problem solving will emerge (Görmüş, 2019). Repetitive work in the call centre include customer service, data capturing, document filing and quality assurance. More complex roles that are likely to emerge include big data analytics, machine learning, software engineering and AI analysts. There is an urgent need for

developing countries like South Africa to align themselves with technological changes to remain relevant for participation in the global BPO value chains (Bamber, Fernandez-Stark, Gereffi, & Guinn, 2014).

In the BPO sector, contact centres have been disrupted, traditionally, they used a common multi-channel approach where telephone, email, Interactive Voice Response (IVR), internet, SMS and web chats were not integrated, and each was used independently. Customer demand for mobile and computer applications to transact and to communicate with their families means that BPO companies must respond timeously to remain competitive, so BPO companies that adopt a channel integration approach are likely to achieve a competitive advantage (Barnett, 2019). The level of transformation of BPO companies is highly dependent on the availability of appropriate infrastructure in countries where BPO GVCs operate. Kearney (2019) argues that the attractiveness of the location of a service is influenced by the level of digital adoption. Ryan (2020) argues that a country that has ability to get citizens to access internet is able to attract BPO FDI.

The major trends in IT advancement in the 21<sup>st</sup> century will be discussed in isolation below:

#### **a) The Internet of Things (IoT)**

The Internet of Things (IoT) refers to the integration of smart products with sensors such that users get information on product faults, wear and tear and any information relating to product usage (Murray *et al.* 2016). WNS, one of the biggest global BPO companies operating in South Africa, believes that the BPO sector could grow given the opportunities in IoT (CIO.com,2015).

IoT has transformed the concept of customer service in some of the following ways, which have in turn transformed the location of the service:

- *Improved customer service*- Customer service will become more proactive than reactive; companies will be aware of issues with their products before the issues become crises. The voice of the customer or customer feedback will be captured through big data analytics (Abu Ghazaleh & Zabadi, 2020)

- *Up-skilling*- van Deursen and Mossberger (2018) argue that the IoT requires a new digital skills set. Therefore, BPO locations must ensure the availability of a skilled talent pipeline as a pre-condition for attracting BPO FDI is met. Everest (2018)
- *Attention to big data analytics*-More attention will be given to big data analytics; this requires the contact centre to shift their focus towards complex service deliverables rather than merely answering calls and writing emails. This shift implies that BPO locations must prepare themselves for the complex skills required for highly complex services (Peck, 2017)

### **b) Big data analytics (BDA)**

Data which was made available through normal and traditional ways of research like manufacturing records, customer records and research and development is now obtainable from multiple sources which include IoT and social media. According to Chen *et al.*, (2012), big data and data analytics involves large quantities of data applications that are so huge, ranging from terabytes to exabytes and are so complicated that they integrate communication between smart products and sensors. Experts are needed who are to interpret the data meaningfully to make strategic decisions useful for businesses. The concept of big data analytics dates to the era of database management (ibid). It relies heavily on data mining and data analysis applications which simplify the analysis of huge amounts of data .

Big data is making analysis of data much more insightful and saving organisations from costs through predictive analytics. For example, the Management Revolution (2014) notes that traditional IT reporting would only make historical analysis, yet BDA enables companies to track trends and identify opportunities without incurring costs of committing resources to marketing research.

When customers interact with employees of a contact centre, they are often told that their calls are recorded for security and training purposes, but the truth of the matter is that the recordings have value and are not just needed for compliance purposes. Although the data is unstructured, technological analyses are enabling this data to be

useful in the future. The big data analytics is a process that can be outsourced to specialists in a call centre who are able to manage analytics.

### **c) Robotics**

According to Koren (1986), robots are advanced automated machines that make use of computers to perform the work of humans. Robots are believed to have been first used in USA and European manufacturing companies in the 1960s (Sirkin, Mok, Yang, & Ju, 2015). Their usage was not on a grand scale because they were quite expensive. Only recently have components and advancement of computer applications become accessible to small companies. Robots do not take the place of human beings, and some are not even configured as humans but do take and perform the tasks that humans are supposed to perform equally so. These smart robots now can hear and follow instructions.

The 4<sup>th</sup> industrial revolution is leading to a global adoption of robots for various reasons:

- i. *Commercial gain* – Ivanov and Webster (2017) argue that the use of robots provides financial gain since service robots, chatbots and self-help desks can work continuously rather than a usual 40 to 45-hour week worked by humans.
- ii. *Efficiency and effectiveness* – work performed by machines is not susceptible to human errors, so the cost of redoing work is minimal. Robots also have an ability to use inputs efficiently.

Sovereign strategies and old economic theories that have dominated the global economy are no longer applicable to the realities of a highly digitalised and connected globe. In the BPO sector, a new concept called robosourcing is evolving. The concept entails the outsourcing of jobs from humans to machines. Although many researchers believe that robots will not replace humans, some authors like Strange and Zuchella (2017) argue that use of robots has an adverse impact on outsourcing and offshoring. They further argue that low costs are major drivers for the choice of location for an outsourced or offshored operation. If the wage bill for outsourcers becomes unsustainable in outsourced or offshored locations, then companies have no choice



but to re-shore operations to source markets where there is a fully-fledged adoption of robotics or to complement their delivery with robotics.

### **2.3.3 BPO and offshoring**

BPO and offshoring remain major features of the global economy. The concepts are discussed in detail in chapter 3.

### **2.3.4 Knowledge based economy**

One of the most important trends in the global economy is the availability of knowledge and as a result, the current global economy is referred to as the “knowledge-based economy.” This term refers to the use of knowledge-intensive processes for the production and provision of services (Powell & Snellman, 2004). Intangible assets, such as algorithms that run computers and formulae that support chemical manufacturing processes, are at the centre of the knowledge economy. The intellectual property rules governing the ownership of these assets have altered dramatically over the world. In the knowledge economy, these laws have an impact on who may and cannot be an entrepreneur (Drahos & Braithwaite, 2017). This development has a significant impact on BPO businesses that start in developing countries like South Africa. In the call centre, knowledge management is primarily concerned with producing, storing and producing knowledge for effective use in customer support.

Since it is impossible for an organisation to separate humans from their knowledge, human capital is increasingly becoming important and strategic to any company (Schermerhorn, 2013). Some companies include employees on the balance sheet. The collective brainpower of all the employees is called intellectual capital. Intellectual capital results from a repository of Research and Development in the company, as well as from education acquired from educational institutions, staff development programs or learning on the job. The knowledge is shared through ICT and other various mobile phone applications (Kumar, & Van Welsum, 2013). Knowledge-intensive activities and the collective brainpower of the employees are central to technological advancement and innovation. The knowledge repository consist of knowledge acquired by a company through customer interaction and innovation. Over

a long period, this data repository becomes the company intellectual property that is used to service customers.

Understanding of the knowledge economy is important for the customer service companies because they are knowledge-intensive companies that make use of computer and mobile phone technologies to service their customers. These technological applications have done away with national borders and company offices in order to allow for the development of virtual teams. Schermerhorn (2013) believes that virtual teams exist in space, whose members, located in different parts of the world, carry out their responsibilities and interact with each other using technology. The availability of data repositories and access to them has created a new crop of employees who rely on the intranet and internet to service customers, simplifying problem solving.

The knowledge economy is making BPO and offshoring quite straight forward as work can now be performed from any part of the globe if employees can access company data repositories. The knowledge economy has also affected how people work in the office, managers are realising that if the employees have access to knowledge, then there is no need for them to come to the office every day. This development will shape strategies and models on how a country can participate in global value chains.

### **2.3.5 Globalisation**

The definition of globalisation, from a broader perspective, refers to a situation where companies and countries take the universal view of their socio-economic and political policies while, conversely, making the universal views particular to their setting (Wittmann, 2014). Globalisation facilitates interdependence amongst states in terms of markets, material and human resource. The advent of IT has enabled procurement of resources from any geography in the world, fuelling competition from the global north and the global south. Critics of globalisation have cited human rights violations, inequality, child labour, gender-based violence, struggle for economic and political supremacy and the use of genetically modified organisms as the most notable effects (Lipschutz, 2006). Blockbusting of markets and the means of production by developed countries have created a dependency syndrome from African states on

developed nations for products. In the BPO sector, manipulation of markets by companies from developed markets enables them to determine material and human resource dynamics. BPO companies sometimes use any chances available to them to make as much profit as possible. According to Sturgeon (2013), central to globalisation and global coalescence is the internationalisation of production, the emergence of GVCs and the convergence and integration of marketplaces. Internationalisation of economic activity has become so intricate that countries and companies have developed networks for international sourcing with their business model along GVCs which make use of technology-enabled business models. For globalisation to take place, Sturgeon (2013) further argues that it must happen through the following:

- Market expansion through normal and traditional trade
- Foreign Direct Investment through Multi-National Enterprises (MNEs) and Multi-National Corporations (MNCs) including trade amongst themselves

Earlier discussions reflect that most of the countries around the globe experienced internationalisation through imperialistic companies like the Dutch East India Company (DEIC). and eventually through the MNCs and MNEs. Global interaction with imperialistic companies sowed the seeds of colonisation while interaction with MNCs and MNEs sowed the seeds of globalisation. The functions and nature of these companies transformed when they developed the capability to supply their products to different parts of the world to the extent that they could deal with huge orders without owning any means of production (Gereffi, 1999). The extension of commercial activities across national boundaries became inevitable. MNCs and MNEs became so powerful that they would determine the nature of products to be produced at international level, their form, how they were made and the companies that would make them. Although countries retained autonomy of their political and religious rights, economic matters were influenced by the wishes and interests of these MNCs and MNEs (Geppert, Becker-Ritterspach, & Mudambi, 2016).

Internationalisation of economic activity was so complicated that countries and companies developed networks for international sourcing leading to what Schermerhorn (2013) describes as the network company. The network company

retains its core processes and outsources its non-core processes through a network of strategic alliances. The network company is characterised by the confluence of globally remote activities (Dicken, 2011). This confluence has been made possible by advancement in computer technology which has erased all the physical boundaries at both firm and country level, any business process can now be performed in any part of the globe. Sturgeon (2013) believes that it was at this stage that business became modelled along GVCs which made use of technology-enabled business strategies. This was the beginning of globalisation as it is understood and experienced today.

According to Wittmann (2014), central to globalisation is internationalisation, the emergence of GVCs and the convergence of marketplaces. While this is so from an economic point of view, some developed countries were primarily focused on the balance of political power during colonisation and the expansion of their territories. Due to these complexities, Friedman (2000) attempts to explain globalisation using the following balances:

- *Balance between member states* – refers to the struggle for supremacy by all countries of the world economically, politically, socially, religiously, and technologically. Least Developed Countries (LDCs) compete with developing and developed countries. The balance of power is automatically twisted in favour of developed countries in the event of competition or conflict and tilted in favour of developing countries against LDCs. In some cases, developing and LDCs normally want to use their natural resources to leverage power but developed countries use financial agents, non-governmental organisations, and social organisations to influence their goals. The struggle for supremacy among member states entails both opportunities and problems depending on the level of development. These struggles result in what Phillips (1999) calls the “paradox of state power,” when states gain and lose power at the same time because of globalisation. These gains and losses occur when a state becomes vulnerable to external influences and when it gains opportunities that are created by globalisation. LDCs find it difficult to have influence in the global arms trade, diamond trade, human and drug trafficking (Spoor, 2004). At the time of writing this research, the United States of American remains the

most influential country in the global arena. Although Russia and China are trying to overtake this influence through the BRICS formation, these countries' challenge remains minimal. In order to show superiority, BPO companies opt to invest mainly in locations where their home countries used to have a colonial relationship. The countries in which they choose to invest would normally have a cultural affinity with their home countries, making communication and control easy.

- *Balance between nation states and global markets* – The welfare or well-being of states is being influenced by financial centres situated in Wall Street, Hong Kong, London, and Frankfurt (Friedman, 2000). Historically, most African states in Sub-Saharan Africa have struggled to maintain the economic structures which they inherited from their colonisers due to differences in ideology; colonisers were purely capitalistic in nature while the independent countries wanted capitalism laced with socialism, South Africa is a good example. Most of these states collapsed economically and sought relief from financial agencies which used the opportunity to press African governments to adopt political and economic reform. African politicians refer to this as “regime change.” The African Development Bank (ADB) in 1997 reported that when Zimbabwe gained independence from the British in 1980, finance agencies and developed countries felt that the country was not reformed enough for a free-market economy. The conditions of the bail out included the adoption of the Economic Structural Adjustment Program which had severe consequences for the country. Similarly, the same program was prescribed for Zambia in the 1990s when it was faced with economic melt-down (Amita, 1993). Ever since these programs were introduced, developing countries and LDCs accused western countries of financial meddling for political influence. From the 1990s until he was ousted from power in November 2018, Robert G. Mugabe, the former President of Zimbabwe declared himself an enemy of western countries which he accused of trying to influence “regime change” through the donor agencies. The change of focus of financial agencies from merely alleviating temporary balance of payment deficits to active involvement through adjustment programs is evidence of the huge influence that western countries have had on the political and economic future of Africa. In the case

of South Africa, the rise of political parties like the Economic Freedom Fighters is an attempt to ensure that the African resources are controlled by Africans.

The understanding of these balances in globalisation is important for the development of a structural model for BPO value chains in South Africa because one needs to understand the background motive for the presence of global BPO value chains; are they a projection of western politics into Africa or are they simply used by companies in pursuit of profit? With the benefit of hindsight, the model should be able to balance the interest of all the stakeholders involved.

#### **2.4 Globalisation of services**

The literature available on internationalisation during the first half of the twentieth century confines the concept to physical production of products in firms and agriculture on the farms (van der Merwe and Chadwick, 2006). This is because services have, for a long time, been considered as a by-product of physical economic output. With the limitations of little technology in the first half of the twentieth century, the production of physical goods and the consumption of associated services were happening at the same time and close to each other. This scenario prevented rapid independent development of services to contribute to the global economy. Essentially, what were perceived as services traditionally, were difficult to separate from the consumption of the product itself until after the second half of the 20<sup>th</sup> century when advances in ICT had accelerated global trade in services (Lambregts & Kleibert, 2017). Lanz and Maurer (2015) argue that services account for an estimated one third of value add in exports for developed countries and almost 26% for developing countries. This implies that services have become the generator of value add.

Developed and developing countries have identified opportunities in the growth in export of services either as consumers or as exporters. Developing countries could either become passive participants in globalisation or become recipients of products and services from developed countries. In the ensuing sections of the study, the research will demonstrate how some developing countries have been open to these opportunities without a clear plan or strategy on how the country can benefit from the

global value chains. As a result these countries agree to trade terms and arrangements that disadvantage their citizens. Conversely, some countries are taking advantage of the size of the services market to promote economic and job creation in their countries. For example, India and the Philippines have been able to take advantage of these structural changes in the global economy which have facilitated economic growth and job creation through BPO (Lambregts & Kleibert, 2017).

In the past, the contribution of services to the global economy was understated by traditional economists who believed that consumption of a service was inseparable from the product itself. Such notions only consider physical output from manufacturing or agricultural as major contributors to GDP growth. At this stage, it is necessary to mention that predominantly output based statistics are not an appropriate assessment to measure the replacement and impact of captive business services that are outsourced to third-party service providers which catalyse the growth of business services. IT enabled customer service has drastically reduced the need for physical interaction in service provision, implying that production and consumption of service is no longer happening at the same time, production can take place in a different location from the consumption locations. This means that the contribution of business services to GDP can now be statistically established (Lambregts & Kleibert, 2015).

The paradigm shift of focus from physical goods to services has accelerated global trade in services which is now estimated to be over 62.5% of global GDP and to provide an estimated 43% of global employment. Due to this development, global export of services has become one of the most visible catalysts of globalisation (Dossani and Kennedy, 2007). As indicated earlier, challenges in separating services from both physical products and the process of manufacturing them was as a result of the constraints in technology. After the second half of the twentieth century these constraints did not exist because of the advent of ICT. Rapid automation and rapid technological advancement, including digitalisation, made it possible for products and services to be produced in any location in the world. IT made it possible for some business processes which are not company core focus areas such as payroll, human

resource, accounting, and marketing to be contracted to a third party who could be in any part of the world.

Automation and IT enabled services, and growth in service exports coincided with the global recession which took place in 2008. On the one hand, it was advantageous that machines and technology made it possible to produce goods and services in large quantities, while on the other hand, the goods and services produced caused a glut of competing products on the market, making it difficult for companies to break even. Companies sought efficient modes of production and service provision to eliminate waste and creative ways of increasing shareholder value. The two seemingly easiest options available were to either offshore non-core processes to a location that is low cost (Radlo, 2016) or to outsource the process to a company which would perform the tasks in the same country in a location that is also low cost (Szymczak, 2013). Such considerations were made on the premise that outsourcing companies and offshoring destinations comparably offered lower fixed and variable costs and that tradeable non-complex low value add processes were no longer economically viable at the developed countries' wage levels.

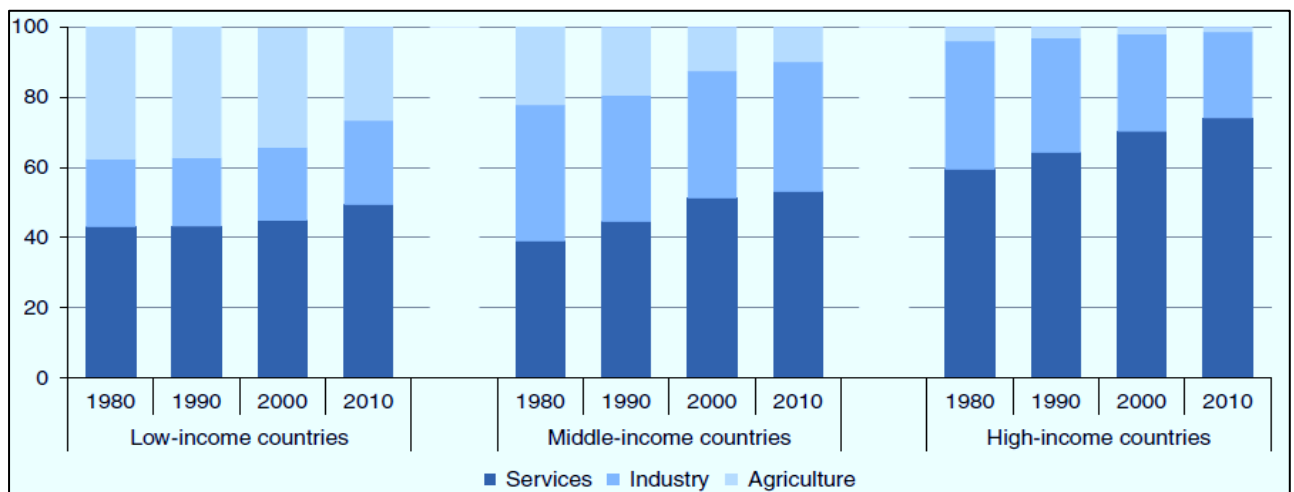


Figure 2.2: Sectoral development of world economies: service sector value added in percent of GDP  
(Source: Wirtz et al. 2015).

Figure 2.2 shows that the percentage contribution to GDP in the services sector in low-income countries has risen significantly from about 41% in 1980 to about 47% in 2010. Although the increase is low, the contribution is generally higher than industry and agriculture. In high income countries, services contribute over 60% to GDP. Low-



income countries have an opportunity to position themselves strategically to participate in the global trade of services which require low capital investments. According to Rubalcaba-Bermejo (2004), when a country participates in services export, it exposes itself to global opportunities relating to markets, capitalisation, offshoring and even access to international outsourcing.

According to the United Nations (2020), world trade in services accounts for a quarter of world exports and has grown amid trade wars between the United States and China. In 2018, there was a 7.7% growth in services exports. In Africa, the services export were only slightly behind manufactured goods in the export structure shown in figure 2.3:

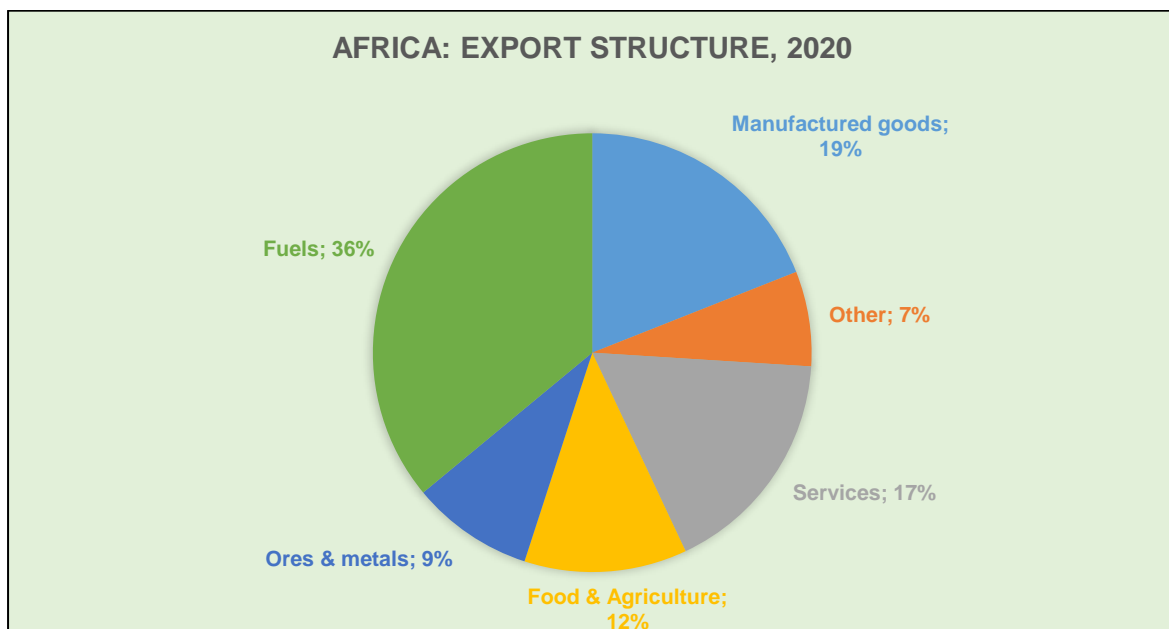


Figure 2.3: Services export structure.  
(Source: United Nations 2020)

In Africa services exports are becoming popular, coming in third behind fuels and manufactured goods. African trade is embracing opportunities that come with the export of BPO services which are gaining global momentum.

#### 2.4.1 Globalisation impact on BPO services

The impact of globalisation is quite wide, it depends on factors which range from the nature of transactions (services or goods), the country's level of development and its

ability to participate in global trade, to the country's political ideology (Taylor, 2003). Globalisation of physical goods and services have a distinct impact; for goods, the floodgates are open for goods manufactured in developed countries to be exported to developing countries, constraining their capacity to produce their own products, which would create employment and facilitate economic growth. For services, the case is different, the expansion of BPO companies world-wide is often regarded as an upliftment of the lives of citizens of less developed countries, but Indian economists Chandrasekhar and Gosh (2006) argue that the employment creation impact of BPO is exaggerated.

The employment skills requirement, especially in IT and other high-end processes, exclude unskilled and semi-skilled people, leaving a relatively higher number of people that would have benefitted from employment. For example, BPO is seen by the South African government as key to employment generation (Anwar & Graham, 2019). In South Africa, the minimum entry level qualification required for low-end job processing is a matric certificate. This requirement excludes students who have exited the education system from grades 9 to 11, but who would otherwise be able to perform similar tasks with appropriate knowledge empowerment. Why are companies in the BPO sector in South Africa convinced that grade 12 is the minimum required for entry into the BPO labour market?

In addition to the factors mentioned above, many developing countries are not yet ready for a large BPO investment. A shortage of skills, poor governance and detrimental political and economic policies affect FDI. BPO value chains located in low-cost locations often struggle to attract the right talent for their contracts and end up settling for second best. This is because their business models are driven by profits, paying low salaries to maximise on Return On Investment (ROI). The BPO sector has become very unpopular with skilled potential candidates. In addition to this, the researcher's previous experience, though undocumented, shows that BPO companies tend to shed or retrench employees with many years of work at the company to avoid an unsustainable salary bill to the company due to annual salary increments.

The following section of the research discusses the impact of globalisation on BPO services:

### **a) Job creation**

Countries which took advantage of opportunities that came with the globalisation of BPO services have gained in terms of economic growth and job creation in their countries. They are now able to create employment opportunities for their citizens who were previously disadvantaged or were not able to access employment opportunities. Naidu (2006) states that the globalisation of services significantly improved the lives of Indians.

There has been a lot of debate on whether jobs created in BPO, or business services are sustainable or not. Frade and Darmon (2005) describe employment from global value chains as “precarious” employment. Sustainability of these kinds of jobs is quite costly and relies much on government subsidy and incentives. The irony of it is that these subsidies and incentives are paid by developing countries which need streams of revenue that they can get for economic development. With this arrangement, it is difficult to conclude that job creation leads to economic development of a country’s citizens. In addition, the contract terms of employees working for international BPO companies normally coincide with the end of a client contract. This makes the jobs insecure.

While the job figures cited above demonstrate the ability of the sector to create jobs, these figures might be more applicable to mature markets where the majority of employees can be hired on a permanent basis. Besides, the jobs are more volatile, they depend on the performance of employees in various campaigns within the company, and once a contract of a campaign is terminated on grounds of poor performance, then all the employees suffer the consequences.

### **b) Skills and knowledge transfer**

The impact of globalisation on skills is two pronged: Developing countries or potential BPO locations need to enhance the levels of their skills in order to compete effectively for BPO FDI, and companies need to develop their own employees for skills that will

make them attractive for other business contracts. According to Gereffi and Fernandez- Stark (2019), developing countries' skills strategy is focused on a demand-driven skills initiative aimed at achieving 3 main objectives: expanding the current skills base to meet demand, enhancing skills to provide better and quality services and acquiring skills required for carrying out tasks that require specialised skills. The skills development, regardless of the level of training, is a result of a public-private partnership.

Although there can be partnerships for skills and knowledge transfer in BPO value chains, the matter has been a subject of debate for some time. Outsourcing relationships are driven by profits; outsourcers do not have the luxury of developing skills that are not related to contracts at hand. Besides, BPO value chains are in developing countries where companies look for non-complex low-cost skills, so any skill transfer that happens is for low-end processes that do not require any specialised skills. The researcher concurs with Hartungi (2006) that BPO companies move with their skills to locations. The researcher's experience in the BPO industry in South Africa shows that global value chains only insource routine and simple work and import specialists for critical roles. Twenty-one years after the establishment of the first international BPO in South Africa in 1998, the Department of Home Affairs still grants "critical skill" work visas for a customer service manager role, implying that South Africans cannot manage customer service, or that the skill has not been transferred in the twenty-one years.

It is difficult to ascertain whether the skills developed are transferrable to other sectors of the economy. Although there may be skills transfer, sometimes the BPO value chains are accused of refusing to transfer skills to locals (Schermerhorn, 2013). If no skill transfer happens host countries enact laws that "force" the companies to transfer skills to locals. In South Africa, the introduction of laws such as Black Economic Empowerment, Affirmative Action and Employment Equity is evidence that, generally, skills transfer is problematic (Albertyn, 2011). Skills upgrading in a BPO location is shown on figure 2.4.

Type	Diagram	Workforce Development Initiatives
Entry into the Value Chain		<ul style="list-style-type: none"> <li>• Call centres hire people with high school Diplomas or bachelor's degree.</li> <li>• Further skills training is provided by the company</li> </ul> <p>In Guatemala, inter-institutional alliances were created to promote call center and BPO skills training. Intecap, a technical training institution funded through a 1% levy on salaries has been central to these initiatives (ECLAC, 2009).</p> <p><b>Type of skills preparation</b>      <b>Institutions involved</b></p> <ul style="list-style-type: none"> <li>• Short training      Private sector Government</li> </ul>
Upgrading within the BPO Segment (Functional Upgrading)		<ul style="list-style-type: none"> <li>• Skills development is carried out by the private sector, either through in-house or contracted training programs.</li> <li>• Educational institutions and governments help to develop course content and provide scholarships.</li> </ul> <p>In South Africa, the government created the BPO Support Programme to generate more jobs. The program includes training for 35,000 direct jobs and 4,000 in middle management.</p> <p><b>Type of skills preparation</b>      <b>Institutions involved</b></p> <ul style="list-style-type: none"> <li>• Short training      Private sector</li> <li>• Formal Education [Degree required]      Government</li> <li>•      Tertiary Institutions</li> </ul>
Full Package Services (Functional Expansion)		<ul style="list-style-type: none"> <li>• Expansive hiring process targets candidates with high school diploma and/or colleges graduates to work in this industry.</li> <li>• New hires must first complete BPO training programs to guarantee quality services. This refers to the same training offered in the "Upgrading within the BPO segment."</li> </ul> <p>In the early 2000s in India, there was a significant push into the BPO segment by ITO and KPO firms. Recruiting was the central aspect to this expansion, and firms focused particularly on hiring women from middle class background.</p> <p><b>Type of skills preparation</b>      <b>Institutions involved</b></p> <ul style="list-style-type: none"> <li>• Short training      Private sector</li> <li>• Formal Education (degree required)      Government</li> </ul>

Figure 2.4: Upgrading and skills development.  
(Source: Fernandez-Stark et al., 2016)

### c) Capacity building for domestic BPO

The researcher will use the term 'contact civilisation' to denote a type of learning that occurs when domestic BPO companies get in contact with global BPO value chains. Contact civilisation occurs when domestic companies learn international best practice and conversely when international companies learn how to adapt to cultural dynamics in a host country. The international BPO value chains introduce their own quality standards and procedures from their home countries. These standards and procedures are passed on to local companies either through deliberate and conscious

ecosystem interactions or through labour mobility across companies (Fernandez-Stark et al., 2016).

The BPO sector in South Africa has achieved some gains in creating invaluable partnerships and ecosystems that have resulted in synergy or cooperation amongst BPO companies. The ecosystem comprises the following:

- Global value chains
- Domestic value chains
- Government
- Labour organisations.

These stakeholders can create meaningful relationships for a combined approach to common problems in the sector, skills challenges, transport problems and other sector specific challenges. Lane (2004) concurs with this kind of arrangement where if globalisation threatens local operations, coordinating and sector clustering becomes the most immediate response.

Building capacity for domestic value chain is important in two ways. Firstly, relying entirely on global BPO value chains is risky for countries, as indicated in earlier sections of the study; BPO investment is fluid and depends on many variables to be sustainable. What happens if a company employing 3,000 employees decides to re-shore services overnight? If local companies are exposed to a range of international markets the risk of unemployment is mitigated. Secondly, does South Africa really need to offer incentives in addition to low waged labour ?

## **2.5 Chapter summary**

This chapter showed how BPO is an extension of global processes that have been obtaining over centuries. The chapter focused on global economic structural changes that took place due to rapid automation, and IT-enabled production and provision of services. The chapter outlined how manufacturing has been revolutionised to the extent that companies merely own patents and fragment production processes into different elements that can be performed in any location. In addition, the chapter demonstrated how this development has converted the world into a single marketplace. The chapter also discussed some major highlights of the global

economy: The outbreak of Covid-19, advancement in technology, BPO and offshoring, knowledge-based economy, and globalisation.

## **CHAPTER 3: GLOBAL VALUE CHAINS AND THE ADVENT OF OUTSOURCING**

### **3.1 Chapter overview**

The chapter traces the origins of GVCs and discusses how they have resulted from two major global developments: Internationalisation and globalisation. The chapter also discusses how companies spread their activities across their national boundaries and fragment their operations in different geographies because of the advent of IT-enabled production. The chapter shows the forms and levels of outsourcing as promulgated by Peck (2017); nearshoring, onshoring multi-sourcing, back shoring and offshoring. This is intended to explain the business environment required for each of the forms. Examined in this chapter also, is the South African BPO landscape and how the existing BPO ecosystem in the country is conducive for BPO growth. The chapter outlines the risks that are associated with outsourcing. Also discussed in the chapter is the level of transformation in the BPO sector in terms of laws of the country and how they are forcing companies to include people previously excluded from economic participation.

### **3.2 Global value chains**

Global value chains are a result of two major global structural changes: Internationalisation and globalisation (Wittmann, 2014). In internationalisation, companies have a geographical spread of economic activities across national boundaries which are not integrated while in globalisation there is a degree of functional integration (Sturgeon, 2013). The advancement in technology and the evolution of efficient transport network systems have made integration of manufacturing processes possible and countries have become specialised in manufacturing what they are good at. MNCs have started organising themselves along GVCs; this process has involved the creation of networks for every process required for production and has led to the spatial distribution of production services (Gereffi & Fernandez-Stark, 2019).

The concept of value chains refers to all commercial activities that add value to a product or service from conception to consumption (Van Dijk & Trienekens, 2012).



The products consumed by citizens of a country may have passed through a series of value-add processes where certain features or applications were added in a country other than where it was manufactured. Bair (2005) argues that the product is made in one country, packed, and consumed in other countries. In GVCs, distance exists between local product and consumer. Figure 3.1 shows what has made GVC economics complex; a country imports a product, adds value to it and exports it to another country for a similar action, until it gets to the final consumer. It becomes very difficult to attribute the production to one country (Liu et al., 2014).

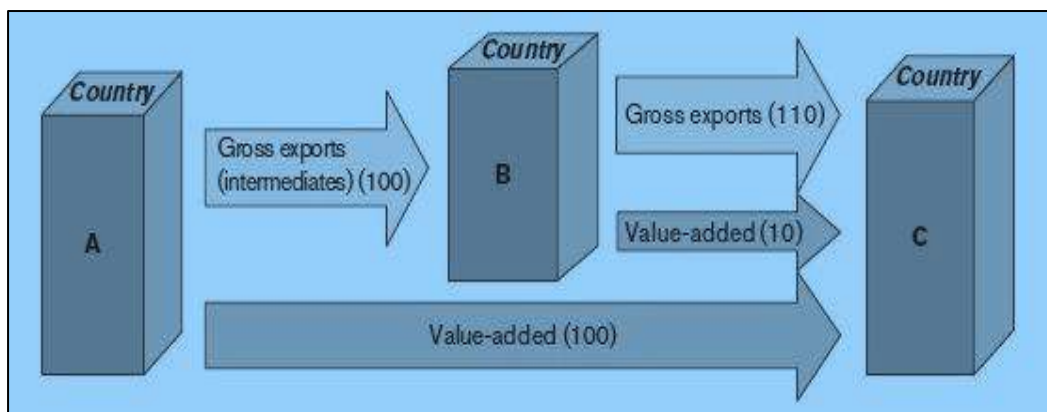


Figure 3.1: Value add from GVCs.  
(Source: Liu et al., 2013)

Figure 3.1 shows that GVCs can either locate their value-add operations in different countries or can simply outsource their value-add processes to their contractors in different locations. This new economic order has transformed the world in so many ways:

- Due to e-commerce, companies and consumers are bombarded with information on competing products and services from various parts of the world. Local services or products in developing economies are forced to compete with products from developed economies. Consumers of products are now using computer and mobile applications to shop for products anywhere in the world. (Hall, Jaffe & Trajtenberg, 2000).
- Organisations are being forced to make local decisions while considering their small business units in other parts of the world.
- Organisations are becoming multi-cultural and diverse (Schermerhorn, 2013).

Figure 3.2 shows how globalisation and global value chains have transformed the world economy:



Figure 3.2:Global economy.  
(Source: Schermerhorn (2013)).

The travels of a T-Shirt in figure 3.2 demonstrates how global interdependence has led to a single marketplace. A shirt made in China, sold to the United States of America finds itself in Africa. The implication of this development is that consumers or customers are faced with product or service alternatives. Companies must find innovative ways to be profitable, one of which is concentrating on their core processes and outsourcing their non-core processes.

GVCs cut across multiple sectors where there is potential for international trade, tourism, business services or even textiles. This study focuses on the BPO global value chains and how their existence has shaped modern world trade. From a global BPO value chain perspective, it is important to mention that South Africa has become a beneficiary of globalisation as an emerging market of the BRICS block.

At the centre of globalisation of services and GVCs, is the emergence of a “network” company (Schermerhorn, 2013) which survives through outsourcing or contracting and offshoring some of its processes to third parties globally or locally where services are procured at rates lower than the primary location. Value chains created by this “network” company, at a global scale, provide a great deal of services value add from

product or service conception through to consumption. This arrangement has revolutionised business including those in political and economic settings. These uncontrollable production relationships created by disjointed production processes show the extent of interdependency of companies and countries. More attention is being given to GVCs and countries to strategies to managing global interactions than at local level.

Branded merchandisers like Nike are an example of the “network company” which does not own any manufacturing plants but depends on a complex network structure of contractors to perform specialised tasks. The main responsibility of Nike is to manage contractual relationships. The intricate nature of contractor relationships is shown on Figure 3.3:

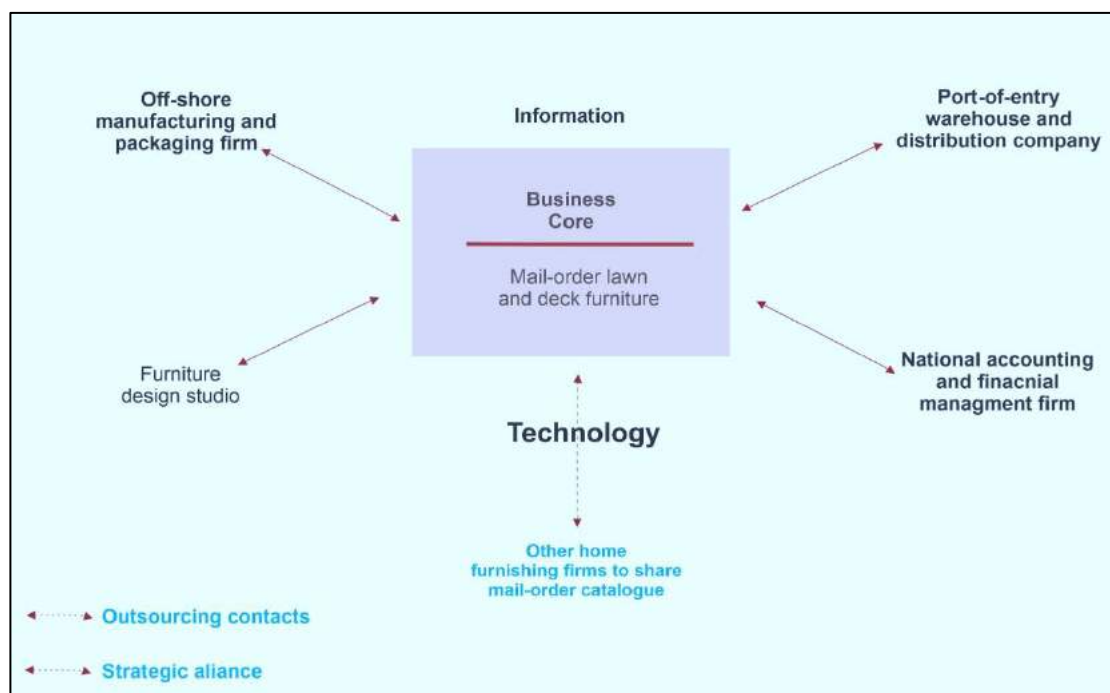


Figure 3.3: The “network company” ( Source: Schermerhorn, 2013).

As indicated on figure 3.3, various processes of the “network company” are executed in different locations by strategic alliance partners and outsourcing contractors. The arrangement exposes developing countries like South Africa to global economic opportunities.

Global BPO value chains conduct businesses across multiple verticals on the following broad categories of outsourcing; business process outsourcing, knowledge process outsourcing and information technology outsourcing (Milberg and Winkler, 2013). These broad categories of outsourcing present developing countries with specialisation opportunities. The countries can decide to specialise in low-end or high- end processes or a choice of verticals within the processes. The diagram below illustrates a BPO, Knowledge Process Outsourcing (KPO) and Information Technology Outsourcing (ITO) value chain:

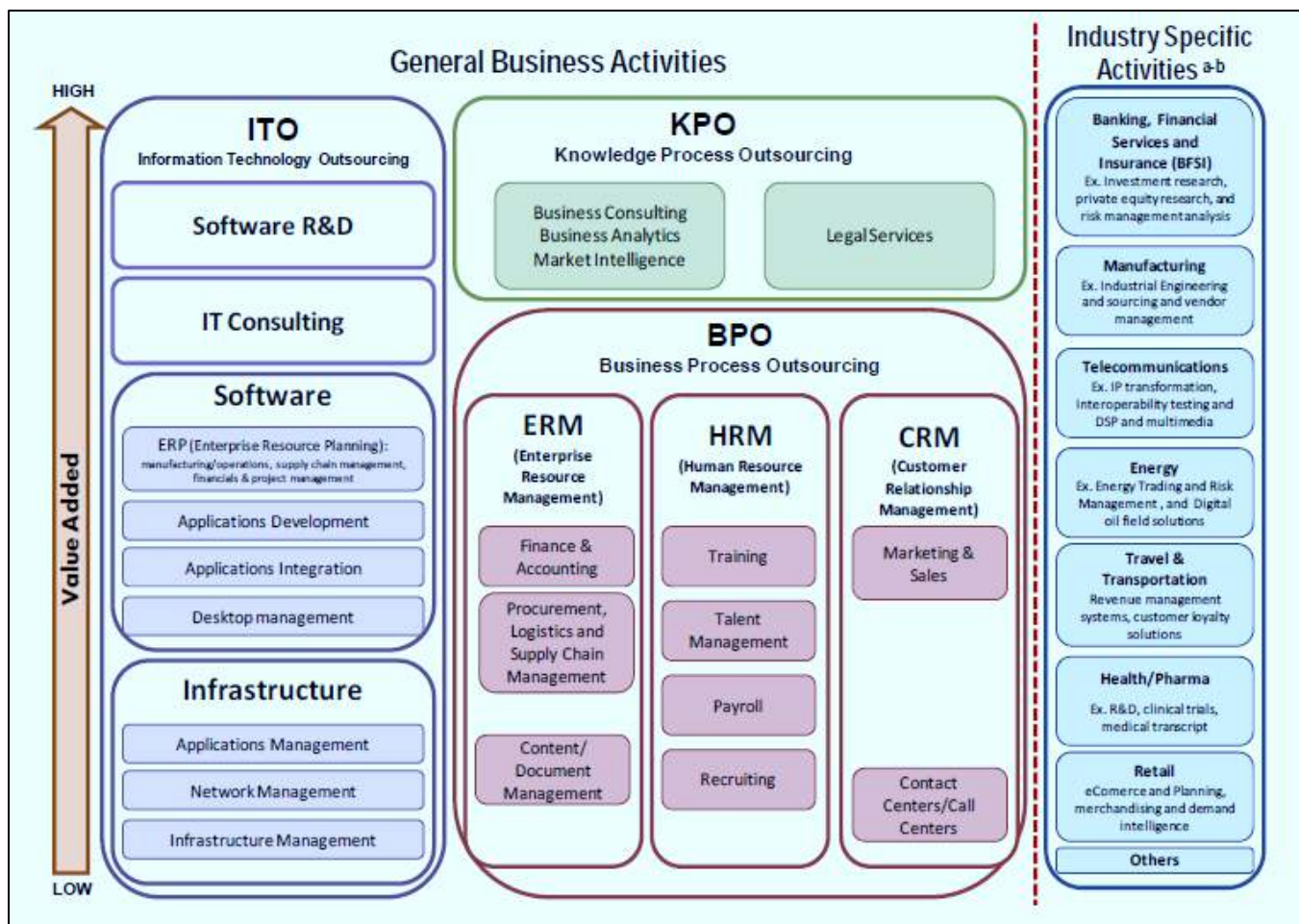


Figure 3.4: Global BPO value chains (Source: Milberg & Winkler, 2013)

Figure 3.4 attempts to show that outsourced work can be divided into either complex (high-end work) or non-complex (low-end work). The non-complex work involves simple processes like data capturing and voice customer service. Low-end processes require less skill and in South Africa the minimum entry requirement is a high school certificate. The complex services including high value work like finance and

accounting (F&A), legal process outsourcing (LPO), software development and knowledge process outsourcing (KPO). The high-end processes require a specialised skill, qualified by a University degree.

Industry specific activities are the verticals which exhibit that global BPO value chains can conduct business across multiple sectors, from manufacturing, tourism, health, finance, telecoms, mining to energy. Companies can outsource their processes within these verticals to an outsourcer (a company that does work on behalf other companies), which can then decide where these processes can be performed considering the cost differentials (Bair, 2005). Outsourcing models will be discussed in detail in later sections of this research.

The global BPO sector is quite fluid, the size of companies by both revenue and headcount is dependent on their ability to get contracts and profitably sustain them. The bulk of BPO activities are in India and the Philippines. Everest (2018) lists the top global 50 BPO companies of which the top 20 include, ADP, Teleperformance, Accenture, Conduent, DXC Technology, Xerox, Genpact, Cognizant, Convergys, and Capita. The researcher has listed these companies as they either are strong prospects for South Africa, or they have operations in the country.

### **3.3 Global sourcing**

The concept of global sourcing entails procurement of supplies from any geography with supply capabilities (Kobate & Muambi, 2009). This strategy is driven by the need to leverage lower costs of procurement and availability especially in developing economies. Global sourcing of components of production are not limited to production inputs but also includes the sourcing of skilled human capital from across the globe. Schermerhorn (2013) believes that global sourcing makes production easier and products globally competitive in terms of marketing. An example of global sourcing is when a Mercedes Benz vehicle is manufactured for European market in Port Elizabeth in South Africa, its headlamps are sourced from Taiwan, its bumpers from Germany and assembled by a Zimbabwean immigrant worker. The complexity of global sourcing makes it so difficult that it requires an informed strategy. Gupta (2003) summarises the global sourcing models as follows:

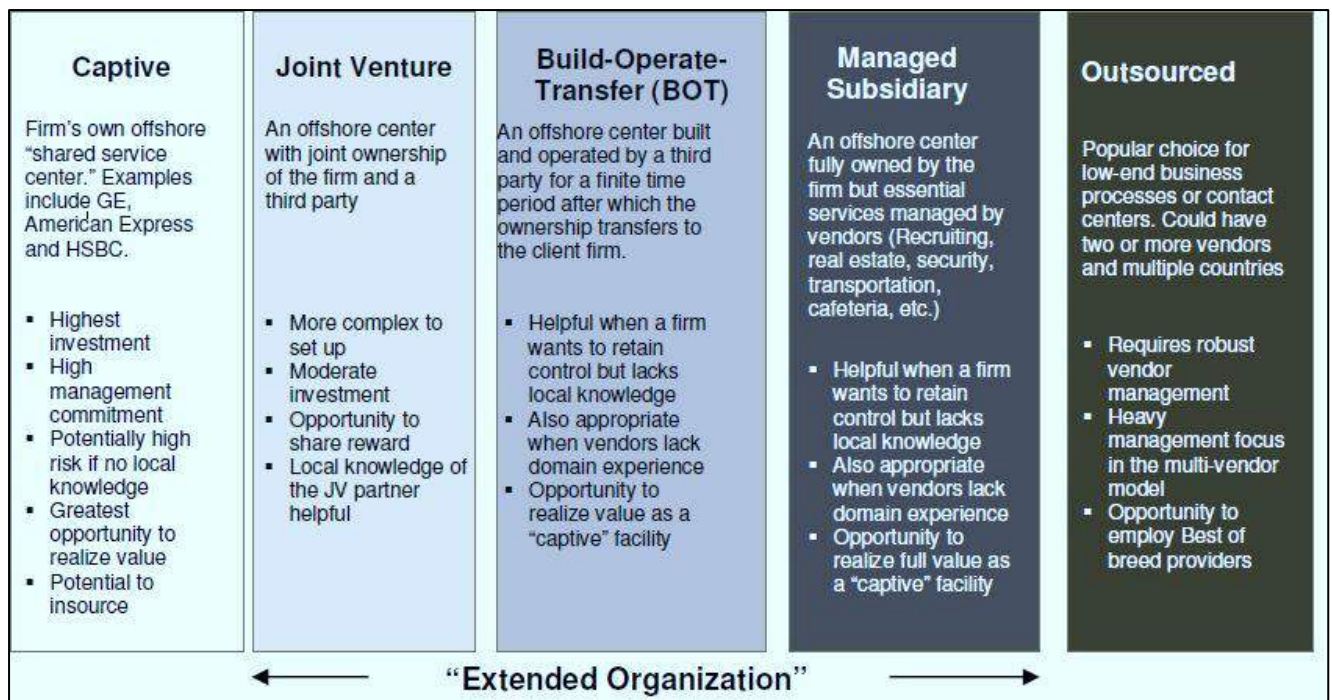


Figure: 3.5. Outsourcing models  
(Source: Gupta, 2003).

The choice of global sourcing models shown on Figure 3.5 is mainly influenced by many factors which include the company's operating models, its risk appetite, the nature of services being offshored (complex or non-complex) and the general conditions in the location in question.

### 3.4 Outsourcing

*"Work will be done where it makes the most sense"* Nandani Nilekani Founder and former CEO of Infosys (Peck, 2017: 1). Outsourcing is defined by Tomiura (2018) as a situation where a firm contracts out tasks to third parties across the firm's boundary. The contracts are governed by a service level agreement in which the contracting firm specifies details pertaining to the date of delivery, the quantities involved, the quality of the product or service and the technical specifications. Other details of the agreement relate to the location of the delivery of the service whether it would happen in the locality or in an offshore location. The definition of outsourcing by Tomiura (2018) is supported by Lioliou (2018) who believes that it is not only contracting production and services, but also assets and people for a company to achieve its objectives. The author argues that the concept of outsourcing is varied in its nature

as use of external services can range from procurement of resources, purchase or rental of software packages, infrastructure, people, and cloud services.

The definitions of outsourcing by the two authors show that outsourcing is something that happens all the time from company to personal level. The definition of outsourcing by Lioliou (2018) challenges the position of Davis-Blake and Broschak (2009) that activities that a company has no capacity to perform and which they have not performed before cannot be considered as outsourced services when procured from an external service provider but purchases. This view needs interrogation, outsourced services, whether a company has performed them before or not, are purchased because the company must pay for them. What is noteworthy about the definitions of outsourcing is the influence that they get from work done by William (1975) as quoted in Ferruzi, Spers and Ponchio (2011) that outsourcing is because of a firm's make or buy decision.

There is another concept of outsourcing which Etwaru (2014) labels as robosourcing. The argument is that, with rapid advancement in technology, especially in artificial intelligence and robotics, work which is being performed by human beings will be outsourced to robots. This innovation can be effected on an already existing outsourcing arrangement and can also be adopted by companies providing in-house services. This type of arrangement is suitable for processes that are repetitive in nature, implying that robots cannot replace human beings who perform highly complex activities. Further argument by the author is that robosourcing has happened before: Henry Ford replaced horses with engines (Alizon, Shooter, & Simpson, 2008) so, the same concept is likely to obtain for human beings performing repetitive work.

Although the concept of outsourcing is traced back to the 18<sup>th</sup> century, public discourse on it gained momentum in the 1990s when it became the most influential mode of global trade (Milberg & Winkler, 2013). Peck (2017) agrees with Milberg and Winkler (2013) that routine blue-collar jobs were already being moved offshore for decades but the advent of IT in the 1990s made it possible for a similar process to be extended to services. The author further states that the global sourcing market is estimated to have grown to between \$120 and \$145 billion. The research will not pre-

occupy itself with the origins of outsourcing earlier than or closer to the 18<sup>th</sup> century, but rather the stint between 2008 and 2011 when the concept heightened during the recession and during IT advancement. The period preceding the recession was characterised by competing products on the market (Kakabase & Kakabase, 2000). Company executives were under pressure to increase shareholder value, so they were forced to look for innovative ways to re-engineer their business models to adapt to a very volatile business environment where profitability was not guaranteed.

The spaces of outsourcing are clearly separated by the outsourcing model by Peck (2017). This model contains outsourcing theories and modalities. This concept of outsourcing disregards distance and it can be done by either a global value chain or domestically.

	Domestic	Offshore
In-house	<p><i>A The integrated firm</i> Both core and secondary activities are managed within the organizational boundaries of the firm, sited within a domestic economy</p>	<p><i>B Corporate transnationalization</i> Establishment of overseas divisions or "captive" centers. Transnational firms with functions that span national borders</p>
Outsourcing	<p><i>C Domestic sourcing</i> Buying in inputs and services from local (in-country) suppliers and providers</p>	<p><i>D Global sourcing</i> Sourcing inputs and services from overseas vendors and suppliers. Interfirm contracting and collaboration across national borders</p>

Figure 3.6: Spaces of outsourcing  
(Source: Peck, 2017).

According to figure 3.6, in-house customer service can happen at two levels: Domestically and internationally. When it happens domestically, local companies do not outsource their services and internationally they retain their services but choose a cheaper location to carry out their services. For example, Amazon, adopted a similar model when they chose to operate their customer services and AWS out of South Africa (Nelson Hall, 2015). Outsourcing also happens at two levels: domestically and internationally. Domestic outsourcers perform work on behalf of



other companies locally and when they choose to locate their operations in a geography that is distant, it becomes offshore outsourcing (Ibid).

When company executives were put under pressure by structural economic changes to find innovative ways of increasing value to shareholder investment (Pellicelli, 2018), the easiest option to profitability was to adjust and adapt processes by retaining the organisation's core processes and outsource non-core processes that affected the company's overheads without increasing shareholder value (Vagadia, 2012). De-linking production processes and fragmenting them to different locations and to different unrelated contractors is made possible by use of Information Technology.

Traditional popular outsourcing locations are India and the Philippines but of late, the emergence of other smaller locations like Honduras, Brazil, Fiji, Poland, and Eastern Europe is offsetting the balance of power in terms of BPO location distribution (Cushman & Wakefield, 2016). Within each location, cities and towns exhibit different characteristics. Some cities are not conducive for BPO growth. Of the TOP 50 global locations by Tholons as cited in Peck (2017) on figure 3.7, Bangalore is number one, yet in the same country the city of Jaipur is number 36. Depending on the jurisdiction's capacity to offer meaningful incentives and conditions which attract BPO FDI, the distribution of investment within a country is varied. For example, BPESA (2018) reports that in South Africa, BPO FDI is mainly concentrated in Cape Town, with the city accounting for about 60%, with the rest split between Durban and Johannesburg on an almost equal basis. The popularity of cities within a location differs.

The map on figure 3.7 enumerates the top 50 BPO locations as per Tholons ranking:



Figure 3.7: Global BPO popular sourcing sites  
(Source: Peck, 2017).

Figure 3.7 shows that the main popular sourcing sites are in India and the Philippines. Johannesburg is considered number 20 out of Tholons' 50 top sourcing sites (2017). This means that the country faces stiff competition from other global BPO location sites other than India and the Philippines.

### 3.5 Reasons for outsourcing

A company's decision to outsource is driven or influenced by varied reasons depending on the company's vision and strategy at a time when the outsourcing decision is made. Whatever the reason companies have for outsourcing, they are influenced by at least ten theoretical perspectives (Busi & McIvor, 2008) as quoted in Ferruzzi, Neto, Spers and Ponchio (2011). These perspectives are listed below:

- Williamson (1975)'s transaction cost theory
- Resource based view
- Principal agent theory
- Vertical integration theory
- Strategic management
- Evolutionary economies

- Market relationship theory
- Industrial economics
- Strategic alignment theory
- Core competence theory

Outsourcing decisions, whether influenced by the list from Busi and Mclvor (2008), are either cost driven or strategic driven (Edvardsson, 2011). Cost driven strategies entail saving direct and indirect costs for the firm. For this reason, some companies outsource even their core competencies. When that happens, Martinez-Sanchez et al, (2007) as quoted in Busi and Mclvor (2008) argue that the company will lose intimacy to critical technological knowhow that offers opportunities for process and product innovation. A great deal of work done by Ferruzi et al., (2011) concluded that companies outsource mainly because they want to utilise the specialisation of a service provider and that they would be wanting to reduce costs. The authors arrived at the conclusion after examining the following common factors that are synonymous with reasons for outsourcing:

- Outsourcing to a company specialising in a particular outsourced process
- Increased output from the outsourcer
- Acquisition and adoption of new technologies
- Absence of internal resources
- Enhanced quality services
- Increased management flexibility
- Cost containment
- Competitive advantage

### **3.6 Outsourcing risks**

While outsourcing has been hailed for the various benefits it has provided in the period preceding the 2008 recession, it comes with its risks which clients often overlook. Schermerhorn Jr (2013) shows that outsourcing may work quite well for small-sized companies but for bigger ones, there is always a risk of losing control of contracted activities such that a customer needs and loyalty are compromised in the process. The author reiterates that if there are many contractors, the company will

end up failing to control them. Peck (2017) argues that the risks go beyond just management of outsourced services to:

- The challenges of managing and upskilling the offshore labour force
- Headaches arising from the unpopularity of shipping jobs overseas
- Challenges of coping with language barriers, cultural alignment issues, relocation costs for executives)
- Geopolitical issues, foreign exchange, and wage rate fluctuations
- The question of long-term viability
- Labour turnover

### **3.7 Offshoring**

The study has adopted Radlo (2016)'s definition of offshoring as a term used to describe a business, which is undertaken outside the country, beyond the neighbouring country. Academics focusing on offshoring have produced two schools of thought, one studies the fragmented nature of production steps that allows some of these steps to be offshored while the other focuses on treating offshoring as trading tasks (Chang, 2012). Whichever way one views these schools of thought, consequently offshoring obtains. The terms outsourcing and offshoring are sometimes used interchangeably. These concepts are different, each happens independent of each other or sometimes at the same time. Offshoring can be done by a company seeking to outsource a client's business process to a cheaper location that is beyond a neighbouring country or by a company that also seeks to leverage cost savings and competency by locating in cheaper BPO locations. The most common ones being India and the Philippines and lately South Africa (Lacity & Willcocks, 2016).

There has been a public outcry by citizens of developed countries to force companies to re-shore operations which are in various parts of the world to combat unemployment. According to Khan and Lacity (2012), there is limited literature on the pressure that is exerted on developed countries to enact laws that force companies to bring jobs back home. Table 3.1 compares the benefits of keeping business onshore and offshore.

In addition to the above discussions, traditional literature suggests that in offshoring, the geographical distance for a BPO location is not a challenge because technology has killed distance between locations (Cairncross, 2001). Recent research shows that physical distance is important in times of exploiting the cultural linkages that exist between the source market and the near-shore location (Kiesler & Cummings, 2002).

Table 3.1: Onshore, offshore benefits

	<b>Onshore benefits</b>	<b>Offshore benefits</b>
People	Talent pool is unmatched	Untapped talent pool
Business Climate	Entrepreneurial, market-based, easy access to capital	Less burdensome taxation, regulation, litigation
Infrastructure	Telecom, energy, transport	New global clusters created
Market Access	Innovation in largest market	Untapped markets
Intellectual Property	Commitment to patents	
Government	Political stability	
Quality of life	Freedom, health care, security, environment	
Cost		Talent, facilities cost less
Proximity to manufacturing		Plants are already offshore

. (Source: Gupta, 2018).

According to Table 3.1, while the offshore locations can be cheaper, issues of political stability cannot be guaranteed. The paradox of offshoring, according to Radlo (2016), occurs when companies scramble for cheaper offshoring locations, create a huge demand for skills and push the wage bill higher than their parent locations and then get forced to re-shore their operations back to their home countries due to the laws of supply and demand.

### **3.7.1 Risks associated with offshoring**

Any location chosen for offshoring is fraught with its own potential risks. Gupta (2003) has conveniently divided the risks into functional, locational and vendor risks to describe risks specifically linked to offshoring.

Table 3.2: Risks associated with offshoring.

Functional Risks	Location Risks	Vendor Risks
<b>Information Technology</b> <ul style="list-style-type: none"> <li>• Skills availability</li> <li>• Project complexity/development methodology</li> <li>• Domain experience</li> <li>• Communication training</li> <li>• Competition for employees</li> </ul>	<b>Geo-Political</b> <ul style="list-style-type: none"> <li>• Political stability</li> <li>• Regulatory system</li> <li>• Attitudes towards foreigners</li> </ul>	<b>Cultural Compatibility</b> <ul style="list-style-type: none"> <li>• Work ethics</li> <li>• Performance metrics</li> <li>• Communication style</li> </ul>
<b>Business Processing</b> <ul style="list-style-type: none"> <li>• Lack of integration with other processes</li> <li>• Process maturity</li> <li>• Customer/regulatory constraints</li> <li>• Underdeveloped communications infrastructure</li> <li>• Domain Expertise</li> <li>• Communication/Training</li> <li>• Competition for employees</li> </ul>	<b>Financial</b> <ul style="list-style-type: none"> <li>• Limits on FDI</li> <li>• Taxation</li> <li>• Currency risk</li> <li>• Inflation risk</li> <li>• Repatriation of investment/profits</li> </ul>	<b>Vendor experience capacity</b> <ul style="list-style-type: none"> <li>• Domain experience</li> <li>• Recruiting/training processes</li> <li>• Scalability</li> </ul>
<b>Contact centres</b> <ul style="list-style-type: none"> <li>• Lack of integration into CRM process</li> <li>• Underdevelopment communications infrastructure</li> <li>• Contact Center Operations Expertise</li> <li>• Inadequate language and cultural training</li> <li>• Competition for employees</li> </ul>	<b>Legal</b> <ul style="list-style-type: none"> <li>• Judicial system</li> <li>• Local employment laws</li> <li>• Employment of foreigners</li> <li>• Intellectual Property</li> </ul>	<b>Vendor Infrastructure</b> <ul style="list-style-type: none"> <li>• Reliability</li> <li>• Redundancy</li> <li>• BCP</li> </ul>
	<b>Business</b> <ul style="list-style-type: none"> <li>• Bureaucracy</li> <li>• Barriers to trade</li> <li>• Loss of control</li> <li>• Knowledge transfer</li> </ul>	<b>Vendor Viability</b> <ul style="list-style-type: none"> <li>• Financial strength</li> <li>• Business model</li> </ul>
	<b>Technical</b> <ul style="list-style-type: none"> <li>• Infrastructure</li> <li>• Deregulation</li> </ul>	<b>Price Risk</b> <ul style="list-style-type: none"> <li>• Currency risk</li> <li>• Inflation risk</li> </ul>
	<b>Cultural</b> <ul style="list-style-type: none"> <li>• Social system</li> <li>• Work norms/ethics</li> <li>• Communication styles</li> <li>• Diversity</li> </ul>	<b>Legal and Contractual</b> <ul style="list-style-type: none"> <li>• Liability for Errors</li> <li>• Judicial jurisdiction</li> <li>• Termination-cause or convenience</li> </ul>
	<b>Other</b> <ul style="list-style-type: none"> <li>• Healthy/safety standards</li> <li>• Natural disasters</li> </ul>	<b>Market Consolidation</b> <ul style="list-style-type: none"> <li>• Management changes</li> <li>• Going out of business</li> </ul>

(Source: Gupta,2003).

Table 3.2 shows the risks that are associated with offshoring. The political systems of a country determine the way business functions and governmental policies. Political systems dictate the level of risk a country is subjected to. Al Khattab (2006) summarises the political risks as expropriation (without compensation in some

countries), forcible take-overs, failure by governments and countries to honour contracts, import and export restrictions, consumer protection laws, employment laws, tax regulations, trade restrictions and foreign exchange regulations. A political system can either be authoritarian or democratic. Authoritarian governments are, by characteristic, despotic and do not govern through constitutional processes. Democratic governments govern through use of the constitution and abide by its tenets (Altman, Flavin, & Radcliff, 2017).

There is always a dissonance between foreign direct investors and host countries because in their relationship matrix, they pursue different objectives (Schermerhorn Jr, 2013). FDI companies seek conditions that perpetuate their ability to make more profit while host countries seek to make policies inclined towards appeasement of their electorate but detrimental to investment (Graham, 2018). The discussion of whether FDI companies should be allowed to repatriate capital becomes academic. The restriction by host governments to capital transfer is tantamount to violation of property rights to an investor while the host countries will take it as externalisation of capital.

While political and legal considerations before making a choice of location decision are quite important for international companies, especially BPO value chains, there are also additional factors to consider. Availability of talent pool is a key driver of location choice for global BPO value chains (Lacity & Willcocks, 2016). The host country's literacy rates, levels of education, population growth rates, age distribution and career attitudes affect BPO value chains operations. If the supply of skills is not able to meet the demand, then the BPO value chains face a risk. The ability to secure dependable skilled talent pool depends on the demographics' attitude towards career, their levels of education. Social issues like levels of poverty are also essential to note as production, and provision of services may get affected within societies that are always on the road for demonstrations. It becomes imperative for BPO value chains to factor in the skills risks for ramping up possibilities.

The above discussions are linked to sustainability. From a BPO value chain perspective, companies are increasingly getting pressure to ensure empowerment

and human development in the way they do business (Nzima & Duma, 2014). This implies that BPO value chains must develop skills sustainably such that they will be used for future similar engagement. The question whether BPO skills are transferrable to other sectors again becomes academic, some companies only equip employees with skills required for the current campaign and not applicable to the next, but some argue that principles remain the same regardless of sectoral differences.

In South Africa, international BPO value chains are taking some work from domestic companies. For example, the state-owned enterprise, Telkom, outsourced its customer service operation to an international company. The process of transferring Telkom processes to a private company has been met with resistance and saw the rise of trade unionism in the sector when the employees blamed the development on outsourcing (telecompaper, 2016). Some sections of South African society believe that BPO value chains are disruptive, the *#FeesMustFall Movement* which took place in 2015 at South African Universities, cited “outsourcing” as one of the reasons for their demonstration (Vaal University of Technology, n.d.). Resistance to outsourcing is problematic from two angles, firstly, it impedes the growth of BPO ecosystem and secondly, it inhibits domestic capability.

The DTIC incentive scheme for BPO requires companies to meet conditions for Black Economic Empowerment to transform the economy and reduce inequality by empowering blacks previously excluded from economic participation (Nelson Hall, 2015).

### **3.8 Nearshoring**

Nearshoring refers to a strategy where a business process is performed in a neighbouring country. The activity of a corporation handing over tasks to professionals in a country close to a country in the same time zones is referred to as nearshoring. It entails employing the services of a nearshoring provider, often known as out-staffing. The purpose of nearshoring is, in part, to save money because the expense of setting up operations in a company's home nation is significant. Nearshoring, on the other hand, is more expensive than offshoring because the region's pay rates and living costs are similar to those in the home nation (Radlo,



2016). The author believes that nearshoring only happens at outsourcing level, but captives or companies that produce or provide services in-house can also nearshore their production or customer services. South Africa is presented with an opportunity to provide these services to neighbouring countries and rest of the continent. Table 3.3 shows the characteristics of a nearshore location:

Table 3.3: Characteristics of nearshore location.

<b>Construct</b>	<b>Characteristic</b>
Geographic	Location physically near the source market
Time	Shares similar time zones
Culture	There is cultural alignment with source market
Language	Share same language of service delivery
Political/ Economic	Exhibits political alignment or stability. Forms part of a wider economic grouping.
Historical	Shares some historical perspectives e.g., colonial history, Diaspora linkages

(Source: Carmel & Abbott, 2007).

Table 3.3 shows that nearshore locations have some degree of cultural alignment with source markets making it easier to attract investment. In addition, there are no complexities of language differences, the locations share the same language or same clicks. The table also shows that nearshore locations are historically tied to source markets either as former colonies or as belonging to same trading block.

### **Benefits and challenges of nearshoring**

Cost was formerly a primary motivator for nearshoring. However, as previously said, economic, geopolitical, and social shifts are becoming more important factors in a company's decision to nearshore. Many firms are contemplating nearshoring for a variety of reasons including delivering on quality, accessing fresh talent, scaling faster, improving user experience, and not relying just on cost savings (Markov, Wiener, & Amberg, 2011). The authors further argue that time zone compatibility, cultural affinity, improved communication, control, reduced travel costs and familiarity are some of the benefits associated with nearshoring. According to Whitehead (2021), The Japanese automobile company, Toyota, has successfully nearshored its operations to Thailand. However, different work habits, differences in legislative

framework, lack of skilled manpower are some of the challenges faced by companies that opt for nearshoring.

### **3.9 Onshoring**

Onshoring happens when business processes of domestic companies are contracted to local outsourcing companies (Schermerhorn, 2013). It may also happen that an international company be contracted to local work. Most of the BPO locations do not have local operations. South Africa's BPO competitive advantage arises from the fact that it has a mix of both international and domestic BPO. Onshoring is the process of relocating a company's operations to its home shore. It is outsourcing business processes to a less expensive area in the same country. That is, from your country's metropolitan areas, where the cost of living and earnings are greater, to your country's non-metropolitan areas. Domestic outsourcing is another name for it. Since it is closer to home, onshoring allows enterprises to have better control over operations and monitoring of process. There will be robust communication which is open and honest. Because reporting to headquarters can be done on a frequent basis, the team's output increases (Whitehead, 2021, Worley, 2012).

#### **Benefits and challenges of onshoring**

Onshoring solves the problems of cultural differences and improves the quality of delivery. Linked to this is the proximity of an onshored operation to the headquarters, since it is closer to home, onshoring allows enterprises to have better control over operations and monitoring of process. There will be robust communication which is open and honest. Because reporting to headquarters can be done on a frequent basis, the team's output increases. There is also no risk of foreign tax laws that are unfavourable to the company. However, Radlo (2016) argues that onshoring is paradoxical, in the long run, will result from outsourcing. The assumption is that demand for labour in cheaper outsourced locations will push labour wages up while creating a glut of labour in source markets (developed economies outsourcing to cheaper locations). The glut of labour in source markets will push wages down and companies will be forced to reshore their production or will start looking for partners domestically.

In South Africa, Telkom, a state-owned enterprise, adopted this model of onshoring by outsourcing some of its business processes to a company called WNS (Moyo, 2017). This arrangement was met with resistance since BPO companies are deemed to pay low salaries. For a private company, the arrangement would work well as it would likely reduce costs. South Africa has a large portion of BPO business that is outsourced locally using this model.

### **3.10 Multisourcing**

Multisourcing refers to use of multiple contractors for a complex task being outsourced (PwC, 2007). Multisourcing is appropriate for an outsourcing arrangement that involves complex processes while a commodity type of a service will require a single contractor. According to Radlo (2016), a company can treat business processes as a portfolio in which they can outsource parts of process to an outsider yet retaining some parts.

#### **Advantages and disadvantages of multisourcing**

While multisourcing cushions companies against risk of non-performance by an outsourcing partner, the concept is also susceptible to challenges. Table 3.8 outlines the disadvantages and the advantages of multisourcing compared to single sourcing:

	Single sourcing	Multiple sourcing
<i>ADVANTAGES</i>	<ul style="list-style-type: none"> <li>● Partnership between buyers and suppliers allows cooperation, shared benefits and long-term relationship based on high levels of trust</li> <li>● Reduction of risk of opportunistic behaviour</li> <li>● Large commitment of the supplier that is willing to invest in new facilities or new technology</li> <li>● Lower purchase price resulting from reduced production costs, due to better knowledge of the manufacturing process by supplier and achieved economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>● Alternative sources of materials in case of delivery stoppage by a supplier</li> <li>● Reduced probability of bottlenecks due to insufficient production capacity to meet peak demand</li> <li>● Increased competition among suppliers leads to better quality, price, delivery, product innovation and buyer's negotiation power</li> <li>● More flexibility to react to unexpected events that could endanger supplier's capacity</li> </ul>
<i>DISADVANTAGES</i>	<ul style="list-style-type: none"> <li>● Great dependency between the buyer and the supplier</li> <li>● Increased vulnerability of supply</li> <li>● Increased risk of supply interruption, especially for asset specific products</li> </ul>	<ul style="list-style-type: none"> <li>● Reduced efforts by supplier to match buyer's requirements</li> <li>● Higher costs for the purchasing organization (greater number of orders, telephone calls, records, and so on)</li> </ul>

Figure 3.8: Advantages and disadvantages of multisourcing.  
(Source: Costantino, & Pellegrino, 2010)

While multisourcing seems to be appropriate in mitigating risk associated with outsourcing, researcher's industry experience shows the following:

- a) Appointment of multiple contractors complicates monitoring and evaluation of performance.
- b) The arrangement causes role confusion within contracted companies as complex tasks are difficult to separate.
- c) Many contracted companies compete for supremacy which results in a conflict. A conflict of contracted companies normally affects achievement of goals.

### **3.11 Backshoring**

Backshoring, commonly known as re-shoring, is a term used to describe a situation where previously offshored business processes are moved back to their countries of origin (Wiesmann, Snoei, Hilletoft, & Eriksson, 2017). Recent technological innovations including digitalisation is forcing companies to relocate their offshored services to their home countries where use of technology is higher than in offshored locations. The argument for reshoring is that global issues are limiting the benefits that global companies are deriving from offshoring and besides, the cost savings are overstated (Brown, 2010). The reasons for Backshoring range from political, economic to social, these include, global business environment risks, host country attitude, factors in the country of origin, and internal problems within the organisation.

#### **a) Global business environment risks**

The global business environment is quite dynamic. The factors which were considered five years ago in location choice may no longer be existing currently. The pull factors for choice of location are fluid (Ellram, 2013). Political unrest, unstable currency of the location and competition for assets are also issues that cause backshoring.

#### **b) Conditions in the host country**

Political, economic, social, and technological changes in the host country influence a company's choice regarding location of its production processes. Some locations are attractive at the beginning and later show that they lack opportunities for growth. In some instances, contractors are accused of poor performance and inability to uphold contracts (Locke, Rissing, & Pal, 2012). Some locations are accused of theft of intellectual property, for example, in the recent past, there was nothing unorthodox about copying a brand in China. In addition to these push-factors, is the attrition rate of the employees. Attrition is very expensive for employees as recruitment and training happen every time.

### **c) Home country conditions**

Home countries subject companies with offshored processes to political incentives that encourage production at home. Political parties position themselves well in situations where there are no challenges of unemployment. Increased automation in home countries has resulted in companies backshoring their operations to make use of robots instead of humans (Mattos, Dasgupta, & Jiang, 2020).

### **d) The company itself**

The company would have hurriedly decided to offshore their operations without adequate research and data that shows that their operations are sustainable or not. There are some instances where a decision is made using data but ignoring simple things like the accent of people in the home country which is often discovered after setting up (Peck 2017). Most of voice contact centres which were offshored to India from UK had to be reshored because UK customers could not understand the accent of Indians (Vaidyanathan, 2011).

## **3.12 The Global BPO Landscape**

There has been varied estimations by various analysts on the size of the global BPO market and its growth trends. Since BPO is only a component of GBS, analysts and reports concentrate on the GBS sector. However, Mckinsey, one of the renowned Knowledge Management companies in the world, states that the global BPO market size is estimated at US\$163 billion and is expected to grow to US\$183 by 2023 (Barendse, Ekeji, Rajagopaul, & Runeyi, 2020, September 30). According to Peck (2017), traditional markets associated with BPO are India and the Philippines, which have become the world's powerhouse for BPO, but the author argues that there are emerging markets like Managua, Nicaragua, Halifax, Canada, Argentina, Jarkata, Indonesia, San Antonio, Texas, Cordoba, Dubai, United Arab Emirates, Recife, Brazil, Leeds, UK, Dublin, South Africa, Valparaiso, and Chile which are likely to upset the BPO balance of power in the near future.

Apart from the new entrants mentioned above, there are other locations which are already providing alternatives for BPO work to advanced economies. These locations are listed by Frost & Sullivan (2018) as China and Mexico, together with other

developing locations such as Chile, Brazil, Poland, Thailand, Indonesia and Malaysia. China and Mexico are mature locations that are capable of providing alternatives to BPO companies looking to offshore their operations. This section will focus on India and the Philippines. Figure 3.9 shows description the locations:

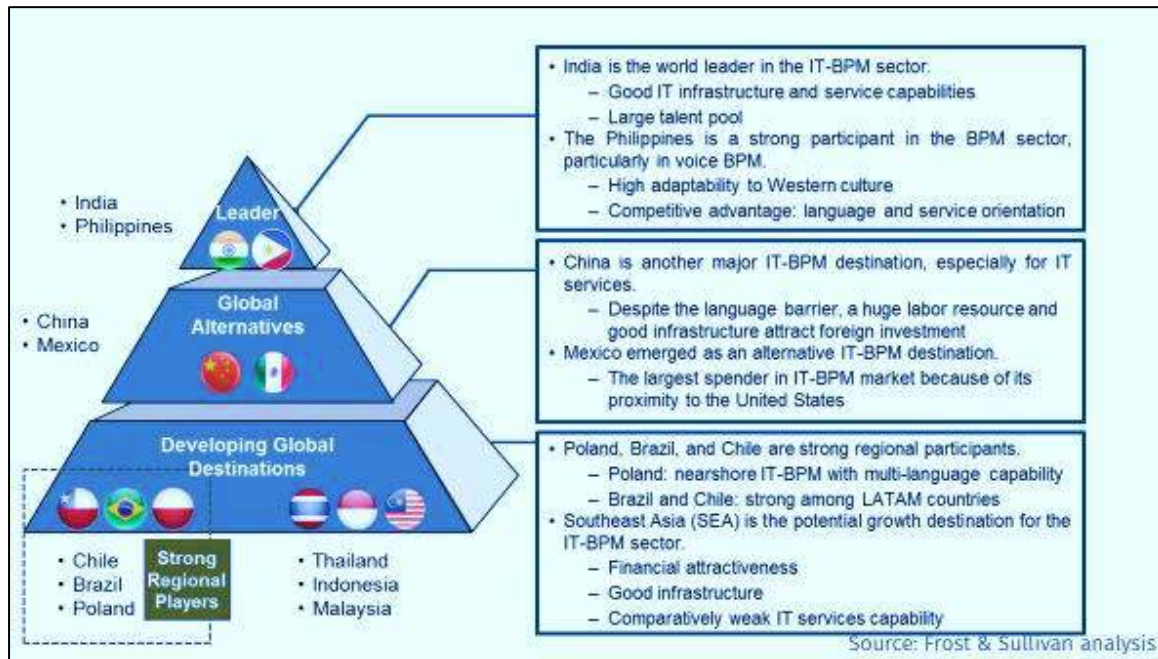


Figure 3.9: Global location alternatives.  
(Source: Frost & Sullivan, 2018)

Figure 3.9 positions India and the Philippines as world leaders, with India as the world leader in Information Technology-Business Process Management (IT-BPO). Both China and Mexico threaten India and Philippines in terms of IT.

Although the global BPO market is poised to grow despite the challenges associated with Covid-19 to source markets, the situation is paradoxical as it is a direct consequence of the negative effects of globalisation where jobs leave a country in favour of one that has good conditions. Peck (2017) talks of unpopularity of outsourcing due to massive loss of jobs in source markets as a result of companies locating in countries that help them cut their variable and fixed costs. These political dynamics are likely to play an important role in the future of global BPO. However events play out, India and the Philippines remain the global BPO powerhouse, and many emerging markets will have something to learn from them.

The following graph from Barendse *et al.*, (2020) shows the current and forecast growth of the global BPO.

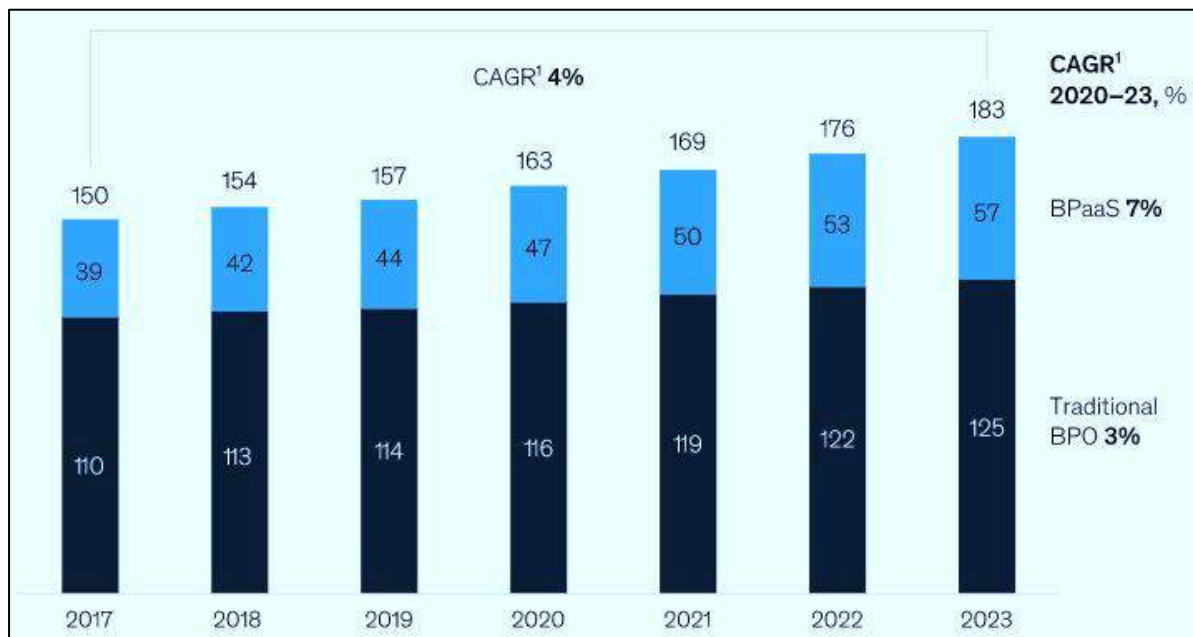


Figure 3.10: Global BPO market growth, 2017 to 2023 in US\$ billion (Source: Barendse *et al.*,2020)

The BPO sector is poised to grow regardless of the threats posed by Covid-19 albeit at a reduced rate. Thompson (2020) agrees with Ryan (2020) that the locations which are likely to attract bulk of BPO FDI are those which have the ability to expand their internet connectivity to allow for new WFH operating models. Some developing economies are still grappling with the effects of colonisation and the subsequent mal administration that their countries underwent. Internet connectivity and broadband coverage remains a challenge for most of these countries, yet it is a consideration during choice of location for a BPO investment.

Even before the outbreak of Covid-19, global outsourcing was evolving from merely a cost-driven to a strategic driven exercise. Table 3.4 from Peck (2017) shows the dynamics in the changing relationships in outsourcing. The table seems to suggest that for business continuity in terms of crises such as Covid 19, businesses must move away from traditional sourcing arrangement of mere transactional to transformational. Peck (2017) argues that in order for businesses to grow, they need



to adopt partnership models that allow for performance contracts with outsourcing companies than having arrangements that promote price-oriented arrangements.

Table 3.4 shows that both the outsourcing companies and their clients must develop mutual relationships that create a shared vision. Once this is achieved, companies are able to work together to adapt to the changes that take place in the operating environment. If outsourcing companies do not adjust their operations to the elements of both external and internal environment. Clients of BPO companies are no longer interested in managing outsourcing companies with an arm's length relationship.

In order for BPO for companies to succeed, they would need to change from a transactional to a transformational modality, implying that companies should be agile and willing to collaborate fully with outsourcing companies to help with redesigning new business models to promote business continuity and enhancing process management.

Table 3.4 shows the outsourcing modalities:

Table 3.4: Outsourcing modalities.

	Transactional	Transformational
Rationale	Cost reduction, efficiency gains, and profit maximization; focused on transfer of routine "lift and shift" operations; intended to take out costs for the benefit of "onshore" client firms	Organizational transformation; dynamic efficiencies, shared product, and service development; redesigning business processes; enhancing organizational capabilities
Relationships	Arm's length, price-oriented transactions with vendors; purchaser-provider relationships; rudimentary contracts	Strategic collaborations and partnerships with vendors; evolutionary and performance-based contracting; asset and technology transfers
Logic	Vertical disintegration, adoption of lean structures, and the shift from "make to buy"	Corporate "unbundling," and the shift from secondary to increasingly core functions
Competences	Focus on core competences within client firms; outsourcing of secondary activities and routinized tasks	Mutual development of dynamic competences across organizations; vendors and suppliers build shared competences
Labor	Arbitrage: tapping into low-wage labor pools/locations as a substitute for existing functions and operations at lower cost	Access to specialized knowledge and talent pools, in order to leverage competitive advantages
Processes	Standardized solutions, combining lower-cost labor with basic automation and rule-bound systems	Increasingly customized and complex solutions; focus on higher value-added operations and functions
Skill	Downgrading dynamic prevails: fragmentation and routinization of outsourced tasks and functions; centrifugal deskilling	Upgrading dynamic prevails: vendors and suppliers move up the value chain, taking on more complex tasks; decentralized upskilling
Vendors	As providers; "your mess for less" business proposition; early market entrants focus on price-based strategies	As partners; strategic coevolution with clients; deep and mature infrastructure of increasingly sophisticated vendors
Geographies	Offshore; spatial stretching of supply chains, principally from higher- to lower-cost locations	"Multishore" (re)combination and reintegration of offshore, nearshore, and onshore operations

(Source: Peck, 2017)

Table 3.4 shows that BPO companies may no longer be keen to offshore their services to single geographies but to multi-locations and mitigate the risks that are associated with having an operation in one location.

As indicated earlier, the global BPO market is dominated by mature and popular locations: India and the Philippines. In India, the sector has been divided into BPO and ICT. Figure 3.11 helps to breakdown the Indian BPO and ICT sector:

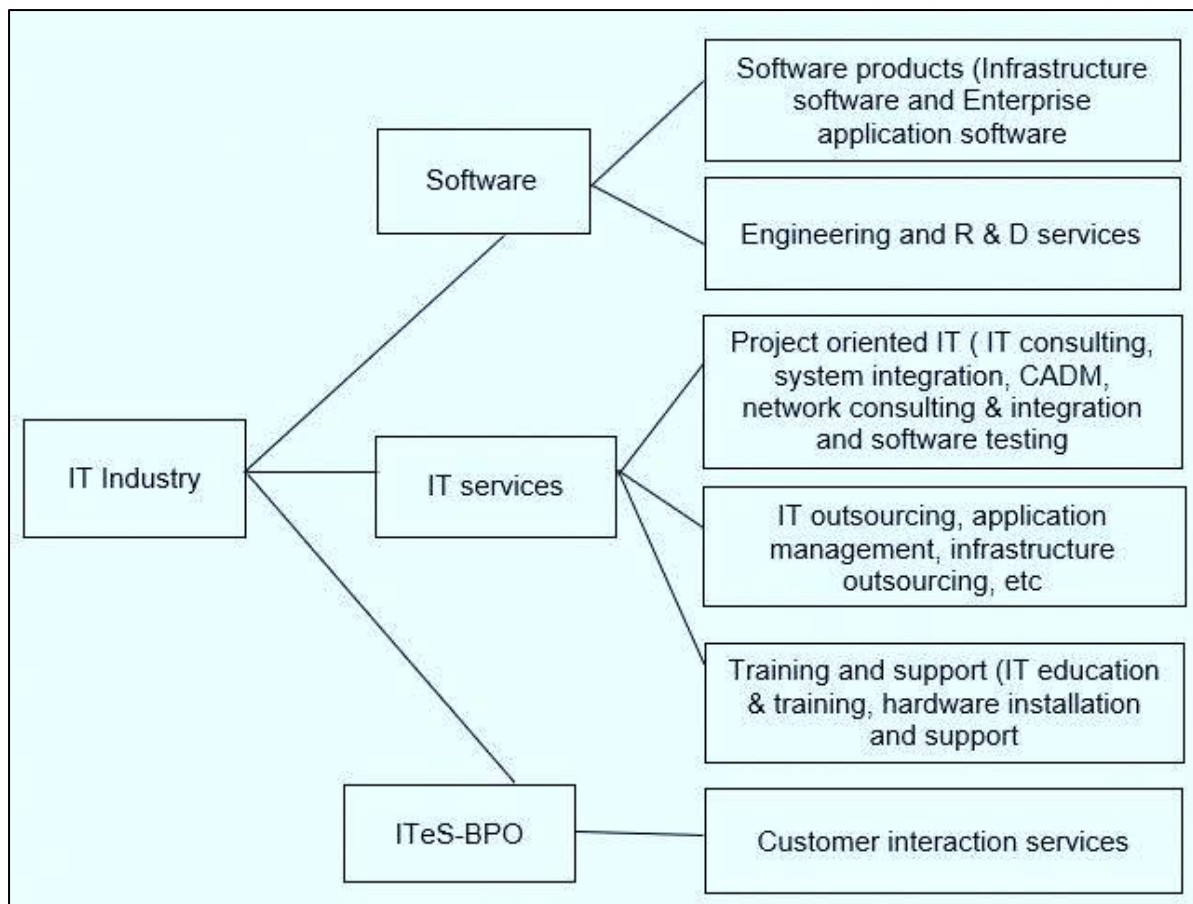


Figure 3.11: Indian ICT industry  
(Source: SESEI, 2020).

Figure 3.11 shows that BPO is just a component of total market that deals with outsourcing in India. the Indian BPO market by headcount is 1.1 million employees while the estimated ICT-BPO market is at 3.96 million (SESEI, 2020). The author writes that the total ICT sector contributes an estimated 7.9% to the GDP of India. This contribution is immense, considering that the sector is less capital intensive. The industry has been instrumental in social development of the country as well in economic growth. SESEI (2020) further states that the sector was the third in terms of FDI and accounted for US\$29.825 billion of FDI between April 2000 and December 2017. According to the same report, India accounted for an estimated 55% of the US\$185-90 global business services between 2017 and 2018.

As the pioneer of BPO, the country enjoyed and still continue to enjoy significant amount of FDI inflows. Kaur (2020) enumerates the reasons why companies outsource to India:

**a) India offers cheap labour.**

Compared to source markets, the hourly costs of doing work in India is much cheaper. For Example, companies which choose to perform their processes in-house will pay \$80 an hour for a developer in the USA but will pay \$15 only if the work is offshored to India. Not only do companies benefit from this cost saving but from the quality that is associated with the abundance of skilled manpower in the country

**b) English language proficiency.**

Most of the BPO source markets like UK and the USA are serviced in English language. India was colonised by the British, therefore, their level of English language is high given that some schools use it as medium of instruction. It is noteworthy that although the country speaks fluent English language, the challenges associated with accent has resulted in many countries reshoring their services back to their home countries. The country is reasserting itself as a powerhouse especially for high complex roles which do not require voice support.

**c) Good quality work**

Owing to the abundance of highly trained and skilled personnel, India offers high quality BPO work. The BPO FDI companies that operate in India look for a combination of both cost savings and quality of work offered. India is unparalleled by any BPO location in terms of quality of work especially in high end processes which do not require voice support.

**d) Solid talent pipeline**

India has a wide talent pipeline. The Universities and tertiary institutions in the country churn out thousands of graduates who are available for hiring in the BPO sector. Due to this, many Technology companies like Google, Cisco, Oracle, and HP have projects in India.

### **e) India offers 24/7 services**

India offers 24/7 services to all international BPO companies. The time differences between India and USA makes work to get done earlier than scheduled, resulting in low delivery turn-around times (TAT).

The availability of talent pool in India has been strengthened by the adoption of a strategy called impact sourcing (IS). Impact sourcing is defined by Madon and Ranjini (2018) as an outsourcing situation where BPO companies intentionally or consciously employ people previously excluded from economic participation for their simple data handling tasks of their outsourced operation. This strategy has seen a lot of outsourced operations in India being established in rural areas thereby impacting people who had never been exposed to such opportunities.

The primary aim of IS is to create a social impact (Verma, 2015). The author justifies adoption of IS using the following reasons:

- Lower costs – In India IS lowers the costs of operation for a BPO operation by between 35 – 40% as compared to the normal BPO operating model. There is a general consensus by IS researchers that the costs of operation of a BPO operation when it adopts an IS model are pushed down by lower attrition rates and lower salaries. Employees that are hired through IS are paid low salaries and tend to stay on the job than employees in traditional BPO operations. Figure 3.11 shows the cost savings arising from IS across all the popular BPO geographies. India offers the highest costs savings, followed by Kenya at 10-15% then South Africa of 4-6% and lastly by Egypt of 3-4%. The total size of the Indian ICT and BPO market has 3.96 million people employed in the sector. This high number may also be attributed to the low-cost savings of 35-40% resulting from IS. It may also be the reason why a lot of international companies outsource to India for their non-voice work because most of the work is done by cheaper employees. Although cost-savings from IS are significantly higher, some authors like Peck (2017) believe that the hidden costs associated with training and cultural alignment are a cause for frustration for outsourcing companies.

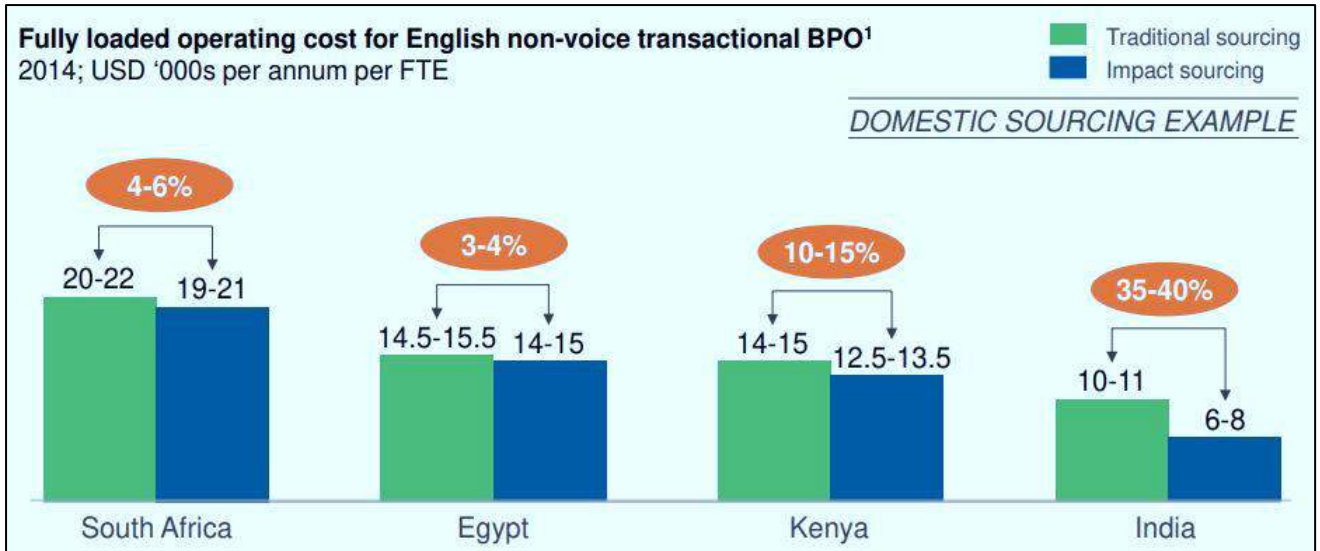


Figure 3.12: Impact sourcing costs (Source: Everest 2014)

Fully loaded operating costs include salaries and bonuses, property and rental, telecoms, and other continuing costs. The cost does not include expatriate staff, continued travel, governance, initial set-up costs, and margins/mark-ups.

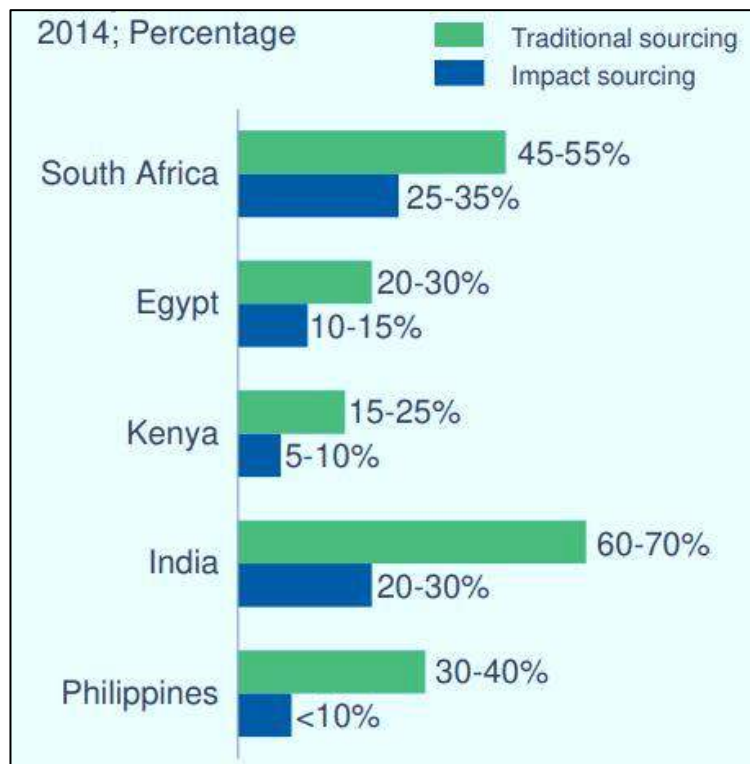


Figure 3.13: Attrition comparison (Source: Everest 2014)

Figure 3.13 shows that in all countries, the IS attrition rates are lower than those hired through traditional sourcing. South Africa has the lowest attrition rate of IS workers.

High unemployment rate in the country and the long history of economic exclusion means that when employees get an opportunity to work, they get motivated to stay on the job as it is the only opportunity coming their way.

- Reliable delivery – the performance of IS employees is at par with those in traditional BPO companies while they are cheaper
- Large untapped talent – Communities previously excluded from economic participation normally have highly qualified personnel ready for work but with no opportunities

The Philippines is one of the fastest growing BPO locations in the world.

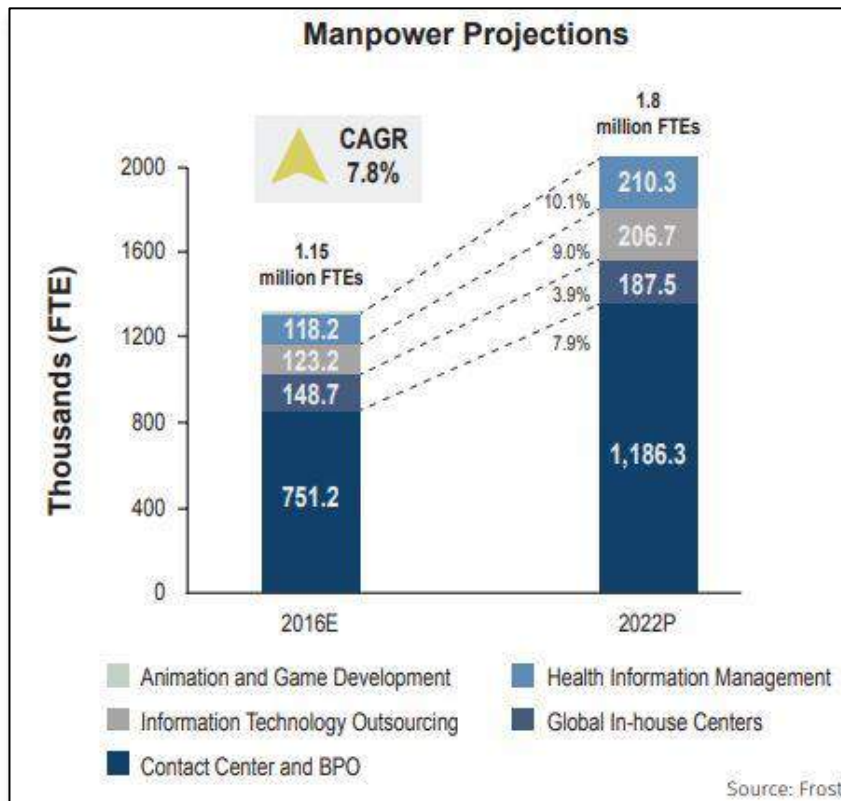


Figure 3.14: Philippines labour force  
Source: Frost & Sullivan, 2018)

As shown on figure 3.14, the Philippines IT-BPM sector has been forecasted to grow from 1.1 million people in 2016 to 1.8 million in 2022 (Frost & Sullivan, 2018). The sector is expected to grow as a result of the following value proposition (Ibid):

- Support from the government – the Philippines government ensures that all companies that invest in the country enjoy both fiscal and non-fiscal incentives

- Lower costs – The costs of operation in terms of variable and fixed costs are very low in the country
- Wide talent pool – the country has a large number of graduates that can easily be absorbed in the BPO sector

Although the conditions from Frost & Sullivan listed above helped the Philippines to overtake India on the number of voice call centres, the outbreak of Covid-19 has posed a lot of challenges. Woodman (2020) provides a comprehensive discussion on why the Philippines BPO is encountering challenges. Firstly, the country was not prepared for an eventuality or pandemic that would translate to a global catastrophe. Many contact centres were slow to adapt to the transitioning of operations from on brick and mortar to remote working. The conditions in the country were such that all over a million people employed in the contact centre could not work from home because their living conditions could not permit them to work from home. The author also argues that the poor internet infrastructure was a threat to remote working.

### **3.13 The South African BPO Landscape**

Currently there are over 100 local and international BPO providers such as Teleperformance, EXL, WNS, and Webhelp operating in South Africa (Rajagopaul et al., 2020). The South African BPO market has an estimate value of \$461 million which is a small fraction of the estimated global size of \$163 billion (Barendse *et al.*, 2020). The first customer contact centre is believed to have started in 1976 with a bulk of similar establishments happening in the 1990s after the advent of IT enabled production and provision of services ( Benner, Lewis, & Omar, 2007). Since then, some companies began to explore the country as a possible location for their BPO operations while local companies saw this as an opportunity to expand the local outsourcing opportunities. Table 3.5 below shows the growth of the total size:



Table 3.5;Growth of the total market size by headcount.

	2015	2016	2017	2018
Gauteng	139100	144400	146304	154954
Western Cape	45400	51300	54864	61555
KwaZulu-Natal	25500	17789	20574	25054
Other	-	7000	6900	6000
<b>TOTAL</b>	<b>215000</b>	<b>220489</b>	<b>228642</b>	<b>247563</b>

(Source: BPESA,2018).

Table 3.5 shows that Gauteng has the highest total number of people working in the BPO sector, followed by the Western Cape and then Kwazulu-Natal. The table also shows that the Western Cape has experienced the highest growth of the total market size. KwaZulu-Natal lost just 20 employees between 2017 and 2018.

The country’s offering specialises on voice. This means that most of the employees in the sector provide their customer services mainly through telephony. The service functions that are offered in a typical South African contact centre are shown on figure 3.15.

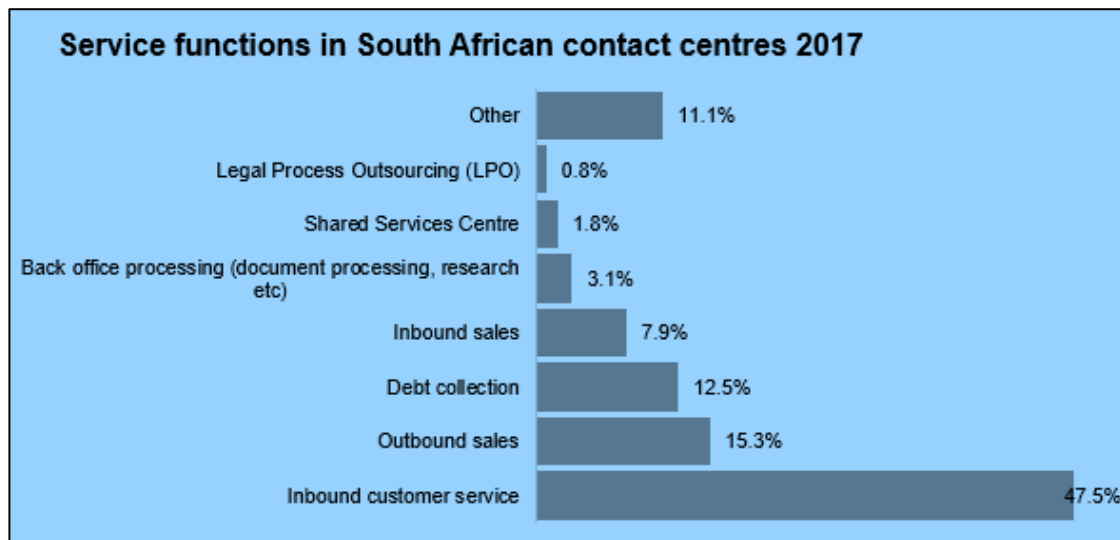


Figure 3.15: Service functions in South African contact centres 2017  
(Source: BPESA,2018)

Figure 3.15 shows that South Africa’s contact centre BPO work is mainly centred on inbound voice customer service. Inbound customer service, outbound sales and

inbound sales are all voice components, and all are at 70.7%. Legal process outsourcing, shared services and back-office processing are available at relatively small scales in the country. Challenges of availability of skills in high complex processes required in these functions is the main reason why they are offered at a smaller scale in the country. The service functions are used to service the verticals that are shown on table 3.6:

Table 3.6: Verticals serviced in South Africa.

	<b>Domestic</b>	<b>International</b>
Financial services	54,0%	10,0%
Retail	7,8%	24,4%
Telecoms	30,4%	18,2%
Utilities	0,0%	9,2%
IT	1,1%	14,2%
Transport/travel	0,1%	9,6%
Legal	2,6%	1,9%
Education	1,3%	3,4%
Healthcare	0,7%	0,6%
Public sector	0,8%	0,1%
HR outsourcing	0,6%	0,0%
Marketing	0,6%	0,7%
Security	0,0%	0,0%
Tourism	0,0%	1,0%
Media	0,0%	5,0%
Other	0,0%	1,7%

(Source: BPESA, 2018)

Popular verticals in the country include Telecoms and retail for both international and local companies.

Figure 3.16 shows the timelines with which BPO FDI have established in South Africa. Some of the companies are still in the country while others have disinvested or merged with other companies.

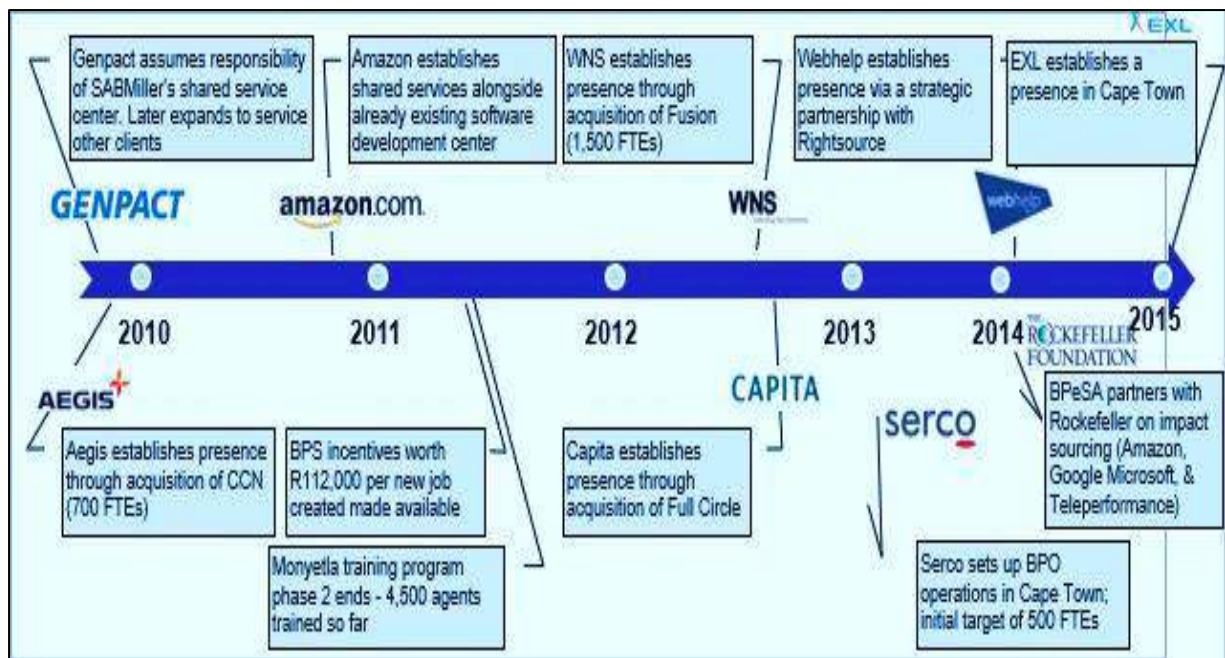


Figure 3.16: BPO investment timeline in South Africa (Source: Everest ,2018).

The timeline on figure 3.16 adapted from Everest shows the major BPO value chains in South Africa. At the time of writing this research, Genpact had disinvested from South Africa, with Amazon WNS Webhelp, (Serco merged with Webhelp) and EXL still in the country.

When the international BPO companies established in South African, their offering was based on two functional levels of the BPO value chain: low end (non-complex) and high end (complex) services. What these two levels of services offered in these distinctions is discussed below: It is noteworthy that there are very few high-end services offered in South Africa.

- *Low-end services (non-complex)* – these are simple customer related activities like inbound customer services, outbound sales, data capturing, claims handling etc. These types of services do not require a critical skill. The minimum entry requirement for this type of work is a matric certificate and/or in some cases any customer experience from previous sectors like retail and hospitality sectors
- *High-end services (complex)* – these are more complex services that include Legal Process Outsourcing (LPO), Knowledge Process Outsourcing (KPO) or Human Resources Outsourcing. This level requires a specialised skills in all vertical services and usually a Diploma or a University degree is the minimum entry level qualification.

7,700 people are estimated to be working in the complex segment of the BPO market (ibid). The growth of this node in the value chain has been affected by inadequate skills. Although there seems to be higher graduates from Universities, there seems to be no concrete or effective strategy in place to attract them to the BPO sector. Shortage of skills in high-end services is paradoxical, the Law Society of South Africa reports that in 2005 the country's universities produced 16,412 lawyers who rose to 23,712 in 2015 yet LPO accounts for only 0,5% of the South African BPO market (BPESA, 2016). The question then arises, why are there few employees in LPO yet there are so many law graduates? This subject warrants another research.

### **3.14 The BPO Ecosystem in South Africa**

The sector is supported by the BPO industry body called BPESA. This organisation is funded by the Provincial Government of Western Cape and the City of Cape Town. In the country, BPO activities are mainly in four provinces: Western Cape, Gauteng, KwaZulu Natal and Eastern Cape. BPESA is mandated to support the ecosystem shown on figure 3.16. It comprises domestic and international BPO companies, domestic and international supply chain and government entities.

BPESA's mandate of job creation through FDI is achieved through the following three pillars:

- *Marketing and Public Relations* -marketing South Africa to the rest of world as BPO location of choice to facilitate FDI, job creation and economic growth
- *Industry development* – promoting sustainability in the industry by facilitating “coopetition” amongst BPO companies competing for the same resources and markets yet located in one geographical area. In addition to this, BPESA keeps a membership register
- *Skills development* – It is the responsibility of BPESA to ensure that the supply for skills in the industry meets demand. This is achieved through partnerships with various skills development stakeholders linked to BPO

The ecosystem has potential to create synergy and improve performance of BPO companies. The government is not taking advantage of the existence of this cooperation of companies competing for same material and human resource to grow

the sector. Availability of a structural model for the BPO value chain will help the South African government promote this synergy to catalyse BPO growth and job creation. The ecosystem is shown below:

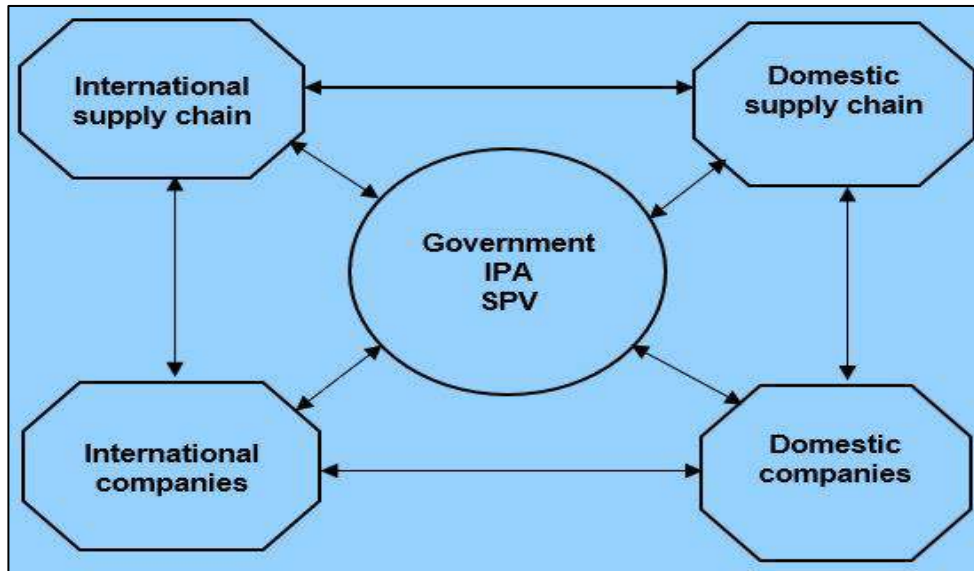


Figure 3.17: BPO ecosystem in South Africa.  
(Source: Researcher's own work).

Figure 3.17 shows the industry ecosystem as outlined in Peck's (2017)'s model of outsourcing. The interaction between international companies and domestic companies results in what the researcher terms contact civilisation. It occurs when links of the BPO value chain trade off best practice. Contact civilisation is expected to build local capabilities for services export market. Domestic supply chain are local companies which provide support services to BPO operators, International vendors are international companies that provide support services to BPO operators, Domestic companies provide local services while international companies provide services internationally but operate in South Africa.

The concept of outsourcing has already been discussed in detail in chapter 3 of this study. Domestic outsourcers perform processes on behalf of other companies which are either local or international. These companies are contracted by domestic organisations to perform certain tasks for which they are specialised, hence the name domestic outsourcers. In rare opportunities, these domestic BPO companies get contracted internationally and get to perform tasks on behalf of international

companies. Domestic outsourcers benefit from BPO value chains in terms of international best practice trade-off, skills transfer, and business opportunities.

International outsourcers are the global BPO value chains. They perform work on behalf of other international companies but have chosen to do the work in South Africa because of favourable BPO value chain conditions. Examples of these companies include WNS, Teleperformance, Merchants, Aegis, CCI, Capita and EXL (Nelson Hall, 2015). Some of these companies have started performing work for local companies and are competing with domestic outsourcers. Since these companies are global, they are better placed to get local jobs than domestic ones, a case which may affect sector sustainability.

Domestic captives are local companies which perform all their BPO processes in-house. International captives perform all their tasks in-house but chose South Africa as a location to offshore their operations. The role of government in the ecosystem is discussed in detail in chapter 5 of the study and will not be repeated here.

### **3.15 Transformation of the BPO sector in South Africa**

The call for economic change and equal distribution of wealth by the African National Congress has not spared international BPO companies. A few policy positions from the government are exerting pressure for transformation:

- **Radical Economic Transformation**– At Mangaung Conference in 2012. The ruling party in South Africa, the African National Congress committed to a second phase of transition which will be punctuated by radical changes in the economy (Politicsweb, 2013). These radical changes have implications which directly impact BPO value chain. .
- **BEE Policy Framework**– The DTIC conditional incentive scheme requires BPO companies to acquire a BEE level status which demands local ownership, a huge implication for BPO global value chains listed on Stock Exchanges in Europe and America.
- **Township Economy**– BPO global value chains are driving the Township Economy through establishment of community centres where employees are trained in work-readiness programs or can work from there. The World Bank

(2014) believes that Township economy is an essential catalyst for near – term economic growth. BPO companies have established centres in Delft, Western Cape, Soweto in Gauteng, and a planned Hamanskraal BPO Park by the City of Tshwane

- Impact Sourcing- an initiative where people from previously disadvantaged communities with difficulties in accessing employment opportunities are considered for employment.

### **3.16 Monitoring and evaluation of BPO sector performance in South Africa**

There is no Investment Promotion Agency in the BPO space in South Africa. The industry body, BPESA, operates as a specialist investment organisation. The organisation works in partnership with national government, local governments and other stakeholders that operate in the BPO space. Since BPESA operates as an investment promotion agency (IPAS), this section discusses how IPAs should be monitored and evaluated as it is also applicable to BPESA.

The United Nations (2008) believes that the process of evaluating performance involves determining whether activities are relevant, efficient, effective, sustainable and impact considering their objectives. With reference to IPAs, this is about whether an IPA is still needed for the attraction of FDI. Evaluation of performance of a sector through an IPA should be able to address the question of why the IPA exists. Most of the IPAs are heavily funded by the government, so monitoring and evaluation of performance often overlook the resources that are used to achieve objectives (Ibid). Furthermore, achievement of objectives does not necessarily translate to return on investment. Morisset and Andrew (2004) argue that while it is important to ensure that the effectiveness of an IPA is measure, people must bear in mind that the overall FDI inflows are in the final analysis determined by the quality of a country's business environment. This implies that the IPAs can only deliver to a certain level as their contribution is affected by other factors beyond their control.

The United Nations (2008) enumerates the reasons why the IPAs should be evaluated. In most cases, IPAs have a lot of stakeholders who have an interest in their existence and would want to gauge their performance:

- Evaluating an IPA performance is effective in making managers and government accountable
- Creates transparency in the way the IPA is being run
- Results of evaluation are important in crafting remedial action for the IPA
- Improves performance. As the adage says, if you cannot measure it, you cannot manage it

Table 3.18 shows the use, types, advantages and disadvantages of interviews and surveys.



<b>Interviews and surveys</b>			
<i>Used for</i>	<i>Types</i>	<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>• Measuring perceptions</li> <li>• Customer feedback</li> <li>• Non-customer feedback</li> <li>• Obtaining stakeholder views</li> <li>• Salary research</li> <li>• Measuring staff satisfaction</li> <li>• Case studies</li> <li>• Competitor research</li> <li>• Benchmarking</li> </ul>	Face-to-face	Direct feedback, potentially more accurate	Costs in terms of time and funds
	Telephone	Similar to face-to-face interviews, but less costly	Still quite expensive
	CATI	Relatively inexpensive, possible to reach a wide range of respondents	Interviewers may not have expertise. Not possible to explore subjects beyond the script.
	Web-based surveys	Can be very inexpensive and reach a very wide range of respondents.	Cannot persuade respondents to participate. Risk of misunderstandings
<b>Literature reviews</b>			
<i>Used for</i>	<i>Types</i>	<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>• Environment assessment</li> <li>• Competitive positioning</li> <li>• Learning about FDI and other trends</li> <li>• Learning about external factors</li> <li>• Competitor research</li> <li>• Benchmarking</li> </ul>	Published reports	Cheaper than commissioning "from scratch". Often topical and up to date.	Not always contextually relevant. May be expensive.
	Trade magazines	Can be very useful, focused, and up to date. Relatively inexpensive.	May have "partisan views".
	Academic papers	Can be inexpensive and useful. May inspire new ways of thinking.	Often not as relevant as they may appear at first
	Press reports	May bring to light points that have been overlooked.	Sometimes biased, inaccurate or incomplete
	Former internal reports	Often provide useful information about issues in the IPA. May help avoid "reinventing the wheel".	Circumstances may have changed. May deal with related yet different issues.
	Public sector reports	Usually free, may be up to date and topical. Tend to provide useful background.	Can be out of date and not contextually relevant.

Figure 3.18: Tools for IPA evaluation  
(Source: United nations,2008)

As shown by figure 3.18, the monitoring and evaluation of an IPA is mainly for accountability. Monitoring and Evaluation of sector performance by the City of Cape Town is mainly on one key performance area of job creation. Morisset and Andrew (2004) agree with this performance indicator. Their rationale is premised on the fact that the impact of most of developing nations wanting to attract FDI can be measured through jobs created, exports or technology transfers.

At the end of each year, Chief Executive Officers of international BPO value chains in South Africa sign an affidavit with the total number of jobs created in the sector (see annexure 3). All the performance indicators are shown on Annexure 3.

### **3.17 Chapter summary**

The chapter traced the origins of GVCs and discussed how the GVCs resulted from two major global developments: Internationalisation and globalisation. The chapter also discussed how companies spread their activities across their national boundaries and fragmented their operations in different geographies because of the advent of IT-enabled production. The chapter also discussed the forms and levels of outsourcing as promulgated by Peck (2017); nearshoring, onshoring multi-sourcing, backshoring and offshoring. This helped to understand the business environment required for each of the forms. Examined in this chapter also, is the South African BPO landscape and how the existing BPO ecosystem is facilitating BPO growth. The chapter discusses the level of transformation in the BPO sector in terms of how the laws of the country are forcing companies to include people previously excluded from economic participation. The chapter concludes by looking at the monitoring and evaluation of IPAs.

## **CHAPTER 4: COVID-19 AND THE FUTURE OF BPO**

### **4.1 Chapter overview**

This chapter begins by discussing the effects of Covid-19 on South Africa's major source market, the UK and South Africa's major target market, the USA (BPESA, 2018). The research has concentrated only on these two countries because the other markets are difficult to access. Discussion on these major market shows how Covid-19 has upset the existing market conditions by causing massive unemployment forcing source markets to consider their stance on offshoring and outsourcing. Cognitive dissonance by companies outsourcing to the Philippines (Thompson, 2020) has resulted in South Africa being considered as an option and opening opportunities for the BPO sector to grow. The chapter also highlights the effect of Covid-19 on South Africa. While the outbreak of the virus has strained the ill-equipped health sector in the country, its effect on the BPO sector was minimal. The virus forced all BPO companies to transition from on premises (brick and mortar) provision of service to work-from-home models. The chapter also discusses the future of BPO, that countries that have reliable internet connectivity are most likely to get BPO FDI, working from home is the future and that global sourcing will take pre-eminence (ibid).

### **4.2 Effects of Covid-19 on UK and USA.**

Since the outbreak of Covid-19 in Wuhan in China in the last quarter of 2019, the disease spread to the rest of the world uncontrollably. The immediate global response was either to partially or totally lockdown economies (Islam & Muyeed, 2020). The lockdown measures have, to a larger extent, changed political, social, economic, religious, and financial structures of the world. According to Akbulaev, Mammadov, and Aliyev (2020), the pandemic has catapulted geopolitical processes that have been obtaining for long. The authors further argue that China's position in trade wars, the occupation of Crimea by Russia's Putin, Brexit and Donald Trump's over-zealous populism are part of the underlying facets of the global struggle for supremacy that have been fuelled by Covid-19. These structural changes, together with the pandemic, shape perspectives on a country's stance towards inward and outward FDI. The Covid-19 disruptions in supply chains, travelling, manufacturing and business services is expected to reduce global economy by 4.5% (OECD, 2020).

BPO is one of the sectors that has been adversely affected by Covid-19. Following unanticipated disruptions that emanated from Covid-19, clients of third-party companies that specialise in outsourcing came to a realisation that their outsourcing partnerships were fragile because their partners did not have business continuity plans for times of crises (Carter, 2020). According to Horses for Sources (2020), the curfews and lockdowns imposed by delivery locations severely impacted the ability of outsourcing partners to meet SLAs as the support staff did not have adequate equipment to work from home. Therefore, post Covid-19, much attention will be given to the outsourcing sector as businesses and nations try to reconstruct the economy. The sector may be completely a different landscape as companies may be reluctant to put all their eggs in one basket (Ibid).

The weaknesses that have been exposed by the outsourcing relationships during the outbreak of the virus have potential to affect BPO FDI which developing countries have been enjoying over the years. Dexit and North (2020) believe that traditional outsourcing models do not work anymore, and they are these traditional sources that have been sustaining growth and economic development in many developing countries. The World Bank (2020) reiterates that the initiatives by developing and emerging economies, threatened by challenges in delivering health care facilities, could lead to longer recessions and deeper crises. Even before the outbreak of the pandemic, these emerging economies were already experiencing weaker economic growth, so Covid-19 compounds their problems as the flow of FDI is likely going to be impacted.

In the USA, which is the current target market for South African BPO, some companies including financial institutions with operations in India faced a lot of challenges at the start of the lockdown because the outsourcing standard operating procedures (SOPs) did not take into consideration times similar to the pandemic (Carter, 2020). The authors argue that the firms in the USA that have outsourcing relationships with outsourcing firms that are based in USA did much better than those whose services were offshored to locations abroad. The argument is that using USA partners create predictability of offering, stability, and reliability (Ibid). This assertion or discovery threatens the prospects of countries like South Africa to expand their

operations sourcing business from USA. The Philippines also offer BPO services to the UK market, similar disruptions as India were also experienced, for example, Virgin Media was forced to employ 500 people in the UK to take over customer services which were being delivered from the Philippines (Carter, 2020).

The pandemic has catalysed rapid transformation in the sector. Deloitte (2020) believe that what used to be traditional in the success of BPO sector no longer holds and what seemed to be considered impossible future is what countries and organisations should look to remain relevant, to increase productivity through home working, expand scope in delivery models, revamp business continuity plans, automate and enhance security. Figure 4.1 below shows the transformation being forced upon the global BPO because of Covid-19. The discussion of this transformation is critical to the research because it will help shape the country's strategy on tapping into the global market. The traditional methods of BPO operations have shifted, so as the marketing and promotional strategy.

Figure 4.1 shows the rapid transformation of the Global Business Services (GBS) sector across the globe. BPO is a component of GBS, so the transformation is applicable to BPO.

Conventional wisdom and orthodoxies	The new wisdom and future opportunities	Potential benefits
 Physical proximity is required to run effective processes	Work location, for many processes, is not location-dependent	<ul style="list-style-type: none"> <li>• Flexibility for employees and contractors</li> <li>• Expanded talent sources</li> <li>• Ability to flex workforce to address disruptions</li> </ul>
 Shared services and outsourcing are mainly for back-office operations	Complex processes can be delivered through shared services and outsourcing	<ul style="list-style-type: none"> <li>• Effective delivery models</li> <li>• Increased diversification across service delivery models and locations to reduce resiliency risk</li> </ul>
 Current business continuity plans (BCP) are sufficient	Addressing risks requires more than BCP—need to develop continuous resiliency	<ul style="list-style-type: none"> <li>• Greater flexibility and readiness to address new and evolving resiliency risks</li> </ul>
 Legacy systems are good enough, and some manual processes are acceptable	Full automation and moving to agile technologies can be done with the right triggers and support	<ul style="list-style-type: none"> <li>• Can make processes much more agile, transparent, and cost-effective</li> </ul>
 Physical sites (brick-and-mortar) are required to maintain security	Policy, process, and technology can provide adequate security for remote work	<ul style="list-style-type: none"> <li>• Can reduce requirements for physical space and address overall security to enable virtual working</li> </ul>

Figure 4.1: BPO sector survival beyond Covid-19  
(Source: Deloitte, 2020)

Figure 4.1 shows that it is no longer business as usual for companies in BPO. This transformation requires a complete overhaul of delivery models, especially adoption of WFH models. The change implies that companies in different countries can globally source talent. The country's ability to avail talent for such deployment and its capability to expand internet connectivity for potential labour force will be critical in the attraction of BPO FDI. Thompson (2020) believes that transformation resulting from Covid-19 has put short term future for BPO at risk and at the same time has created long term gains in homeworking, which has ushered in the prevalence of freelance work.

The Covid-19 effects on global economy are equally affecting the South African major BPO source markets. According to Everest (2018), these main BPO source markets include the UK, USA, and Australia. The following map on figure 4.2 shows the market share of these countries in the country.

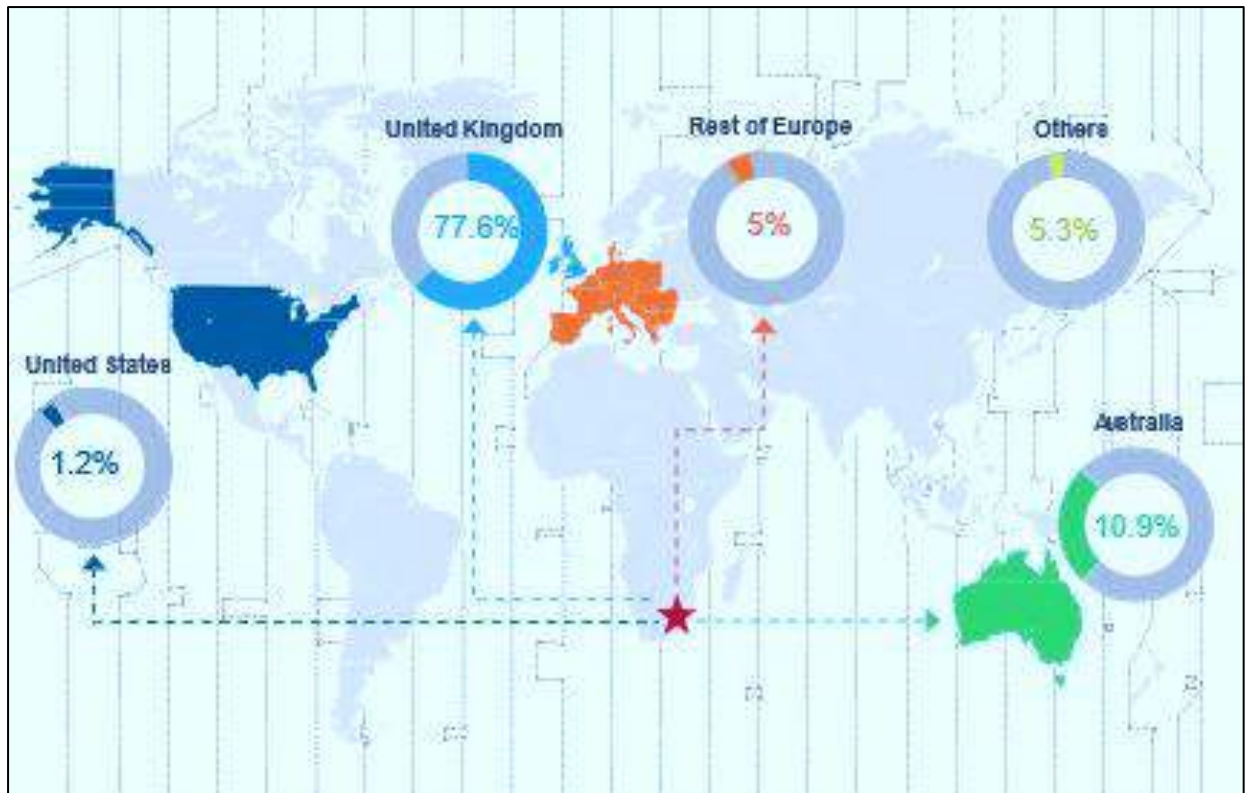


Figure: 4.2 South Africa's major BPO source markets by headcount  
(Source: Everest, 2018)

As shown on figure 4.2, the UK remains the major source market for BPO work for South Africa followed by Australia and then Australia. Although there are many reasons given by Everest (2018), the main one could be the cultural affinity that exists between the UK and South Africa, followed by English language capability. For Australia and USA, their official language is English, so that is why South Africa is expanding into markets requiring English language support. South Africa services different countries that have different time zones.

The significance of this forecast by OECD (2020) is that governments and companies in developing economies must identify new sources of economic growth and calibrate new targets for economic development in line with global trends.

The UN (2020) believes that recovery from the devastating effects of Covid-19 lies in strong developmental ties and global cooperation. Granting financial assistance to states that were severely affected by the pandemic will be central to accelerating economic revival that will get the world back on the track of sustainable development.

Developing economies in Sub-Sahara, whose ability to deal with Covid-19 effects through fiscal stimulus, will depend heavily on FDI. Table 4.1 shows how the G20 countries will suffer significant economic recession, except for China.

Table 4.1. G20 GDP projections.

Country	2019	2020	2021
Argentina	-2.1	-11.2	3.2
Australia	1.8	-4.1	2.5
Brazil	1.1	-6.5	3.6
Canada	1.7	-5.8	4.0
China	6.1	1.8	8.0
France	1.5	-9.5	5.8
Germany	0.6	-5.4	4.6
India	4.2	-10.2	10.7
Indonesia	5.0	-3.3	5.3
Italy	0.3	-10.5	5.4
Japan	0.7	-5.8	1.5
Korea	2.0	-1.0	3.1
Mexico	-0.3	-10.2	3.0
Russia	1.4	-7.3	5.0
Saudi Arabia	0.4	-6.8	3.2
South Africa	0.1	-11.5	1.4
Turkey	0.9	-2.9	3.9
United Kingdom	1.5	-10.1	7.6
United States	2.2	-3.8	4.0
Euro area	1.3	-7.9	5.1
G20	2.9	-4.1	5.7
World	2.6	-4.5	5.0

(Source: OECD,2020).

The constriction in global economy implies that developed economies would abate trade in physical goods because of the partial or total lockdowns, forcing them to reshore critical processes back home or by sourcing from cheaper options around the globe. These supply chain changes affect developing economies. In such business environments, a spontaneous reaction by companies is to reduce the labour force, also reduce their capital expenditure which results in unemployment. What this implies is that citizens will not have capacity to spend and that businesses will not be able to realise revenue.



The following section of the research studies the effect of Covid-19 in these source markets and the implication on the growth of the South African BPO sector.

#### 4.2.1 Effects of Covid-19 on the UK

When confirmation of the first Covid-19 patient in January 2020 was done, the number of infections grew rapidly to 100 000 in April of the same year (Shrestha & Lohani,2020). The increasing number of infections forced the government to introduce measures to contain the virus: Social distancing, self-isolation, and general cleanliness measures (ibid). The immediate response by the UK government was to sanction a lockdown of the country but allowing only employees offering essential services to operate.

The BBC reports that after the first lockdown, the UK suffered the worst economic contraction in 41 years (BBC, 2020). This is because all the sectors of the economy were significantly impacted by the pandemic. Figure 4.3 shows GDP changes in the UK economy since 1979.



Figure 4.3: GDP, % change on previous quarter  
(Source: Office for national statistics, 2020)

The BBC further reports that the services sector, under which the BPO falls, contracted by a record 2.3% in the first quarter of 2020, causing a severe impact since the services sector account for three quarters of the UK's GDP. It is noteworthy

that the contraction of the services sector, in the longer term, will have a negative effect on offshoring and outsourcing. Contraction of the economy normally results in unemployment, so if unemployment rises in source markets like the UK, the results will be adverse for developing economies planning to grow their economies through outsourcing. Some companies in source markets may end up taking advantage of high levels of unemployment and start reshoring their services to make use of wider broadband coverage, home office equipment and where the future patterns of infections and country measures are predictable (Thompson, 2020).

In a survey done by Deloitte (2020) UK, they note that the magnitude of the impact of the pandemic on companies is largely dependent on how much mature the service contact is, how robust the business continuity plan (BCP) is and where the contact centre is located. They further take note of the following:

- Companies are generally not prepared for a pandemic like Covid-19. Their BCPs do not take into cognisance an occurrence of an event like Covid-19.
- Companies which are digitalised experienced less disruptions than the ones which are not.
- Service performance is being challenged by force majeure claims
- Companies which can survive pandemics like Covid-19 need to digitalise and automate their local and offshore call centres.

When Deloitte (2020) asked the CFOs about the changes they envisage will be made to their global delivery network when the pandemic is over due to lessons learned? The results are reflected in figure 4.4.

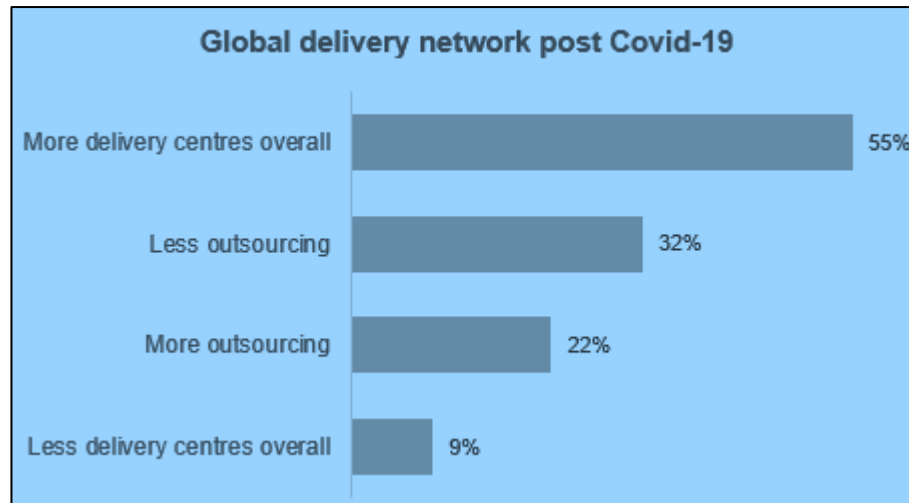


Figure 4.4: Global delivery network post Covid-19  
(Source: Deloitte (2020))

Data reflected on figure 4.4 shows that overall, UK will remain a major source market for outsourcing albeit at a smaller scale. The results show that only 32% of the company will have less outsourcing, with 22% of companies saying that they will more outsourcing. Companies in countries that benefit from BPO FDI from UK need to adopt agile operating models that will enable them to adapt to occurrences like Covid-19 which in most cases are not featured in company BCPs.

One of the major areas of transformation in UK BPO that has been fuelled by Covid-19, is the work-from home model. Gray (2020) quotes a major survey undertaken in the country which indicated that post Covid-19, 35% of the UK employees will be homeworking.

#### 4.2.2 Effects of Covid-19 on the USA

The Economic Commission for Latin America and the Caribbean (2020) reports that Covid-19 has severely impacted the USA economy, with the Federal Reserve's median projections stating a 6.5% decline of the GDP in 2020 leading to an unprecedented economic decline in more than ten years. Failure by the USA government to reach consensus on how to deal with Covid-19 is likely to prolong and delay the much-anticipated economic recovery. Already, there is speculation that a severe recession is likely to affect the US economy in the absence of a practical solution to the current pandemic challenges. Covid-19 spread to the USA on the back

of trade wars between the USA and China which has affected US exports and having an indirect impact on the economy (Akbulaev, Mammadov, & Aliyev (2020). The direct impact of Covid-19 was felt when there was a collapse of employment. Unemployment was a serious challenge in Donald Trump’s reign as president and as a result started the bring back jobs to America campaign. The Economic Commission for Latin America and the Caribbean (2020) states that 52.7 million claimed for unemployment insurance benefit in just five months, from March to June.

Initial unemployment claims which were filed weekly in the USA are reflected on figure 4.5.

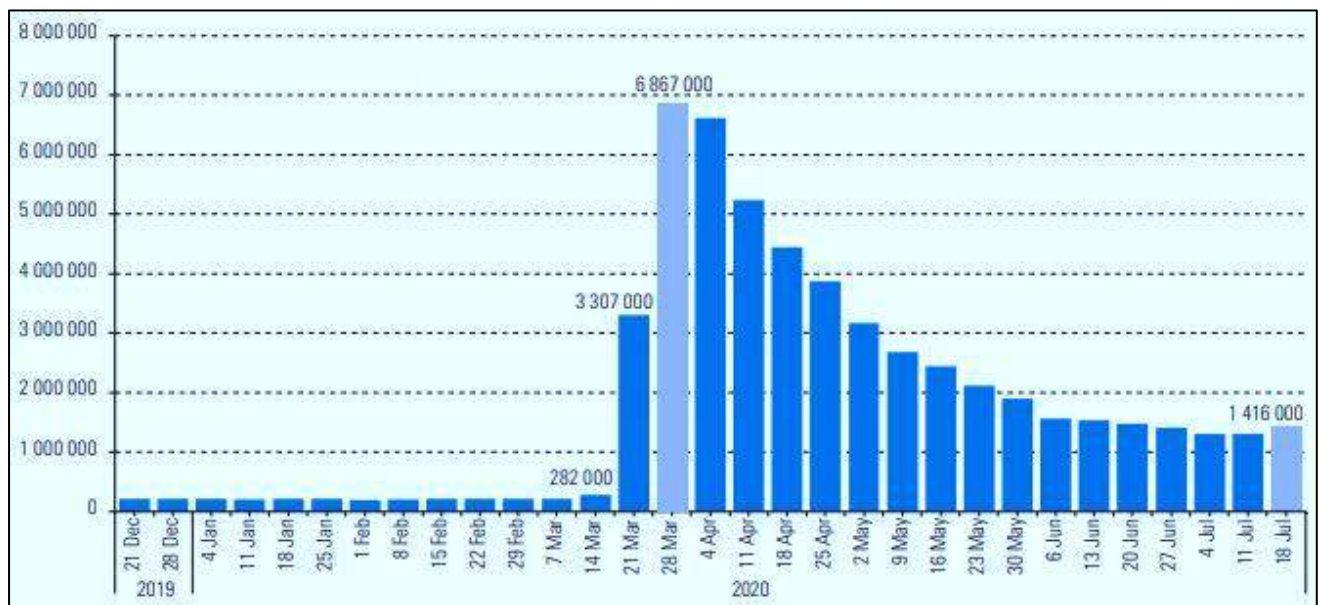


Figure 4.5: USA Weekly unemployment claims, 21 December 2019–18 July 2020 (Source: ECLAC, 2020)

The USA unemployment claims experienced a sharp increase of 3,560,000 from 3,307,000 to 6,867,000 between 21 and 28 March 2020. This significant increase in unemployment implies that the USA was confronted with high level unemployment. It may be concluded that when a country is faced with such high levels of unemployment, it will prioritise its citizens in job opportunities. It also reduces the propensity to offshore jobs to other locations. The impact of this development is that South Africa and other recipients of BPO FDI will struggle to get investment as countries concentrate on securing jobs for their citizens first.

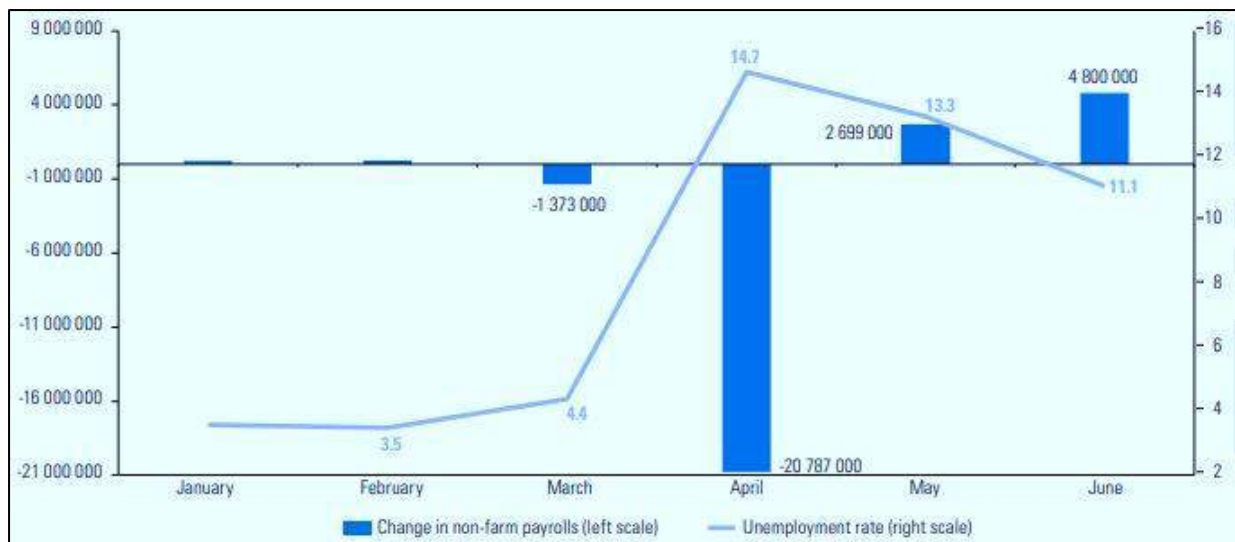


Figure 4.6: Average monthly job creation and unemployment rate, January–June 2020 (Millions of jobs and percentages)  
(Source: ECLAC, 2020)

Figure 4.6 shows that unemployment in the USA dramatically increased from 4.4% in March to 14.7% in April before declining to 11.1% after some companies had opened some operations. These are very important dynamics to understand as outsourcing and offshoring services to other locations are determined by these factors. Owen (2014) believes that the ability of the USA to expand its economy and reduce unemployment has been affected by corporations offshoring work to countries which include Mexico, China and other countries with low labour and production costs. The author argues that restoration of the USA capability lies in the elimination of regulations that incentivises US companies to offshore and to outsource. Schieberl and Nickles (2014) argue that from the second world war until the 1990s, the USA economy was doing well with manageable unemployment levels, but the advent of IT enabled production made it possible for labour to be procured from any part of the globe with ease. It became easier for the USA to offshore outsourcing as domestic labour was quite expensive to procure.

The Trump administration was characterised by the bring-back-jobs-to-America mantra, yet paradoxically, during his reign, 1,800 factories were lost to offshoring outsourcing (Al Jazeera, 2020). South Africa's prospects of tapping or penetrating the US market for BPO jobs has been vindicated by the assumption of Presidency by

President Elect Joe Biden who seems to subscribe to the concept of offshoring outsourcing (Ibid).

Currently, the USA is the biggest consumer of Philippines BPO services export (Chandwa, 2020). Other countries that consume these services are Canada and Australia. The USA is attracted to the Philippines primarily for one reason, the cultural affinity that exist from their historical relationship. Rodriguez (2019) summarises the reasons why the USA uses services from Philippines more than in any other country on table 4.2 below.:

Table 4.2: The Philippines BPO value proposition

<b>Value proposition</b>	<b>Description</b>
<b>Compatibility with western culture</b>	<ul style="list-style-type: none"> <li>• Philippines was colonised by USA for about 400 years</li> <li>• Philippines embody American culture and values till today</li> </ul>
<b>Less costly</b>	Philippines charges less for good quality compared to other locations
<b>English proficiency</b>	English is one of the official languages in the country
<b>Work ethics</b>	The Filipinos are hard working

. (Source: Rodriguez,2019)

Table 4.2 shows the cultural affinity between the USA and the Philippines. It also shows that doing work in the Philippines is less costly.

After the outbreak of Covid-19, the Philippines, from where most of the USA companies are serviced, imposed a nationwide lockdown in March 2020, with only the BPO sector allowed to operate. The reason given for this flexibility was that the BPO sector in the country is strategic and represents geopolitical interests. The author further reiterates that due to the way the Philippines handled the outbreak of Covid-19, the BPO sector was adversely affected, companies did not have capacity to immediately equip employees resulting in service disruptions. Some of the

companies took advantage of unemployment levels in their countries of origin and reshored their operations.

In 2018, the USA accounted for 1.2% of the BPO market in South Africa (Everest, 2019). The confusion and the dissatisfaction that resulted from the Philippines companies' failure to appropriately react to the effects of Covid-19 gives South Africa and other aspiring BPO locations an opportunity to tap into the USA market.

### **4.3 Effects of Covid-19 on South Africa**

Since the outbreak of the first case in the country and the subsequent lockdown on 26 March 2020, South Africa has been commended globally for its swift response to contain the virus (Kohler et al., 2020). Despite the immediate stringent response, South Africa is one of the countries that experienced the highest infections in the world. The authors further reiterate that the lockdown was very strict and only allowed movement of people working in essential services only causing the whole country to come to a halt. The UNDP (2020) reports that the outbreak of Covid-19 in South Africa happened on the back of a technical recession whose impact was exacerbated by the downgrading of the country by one of the rating agencies, Moody, into a junk status. These developments have severely crippled the South African economy. Kohler et al., (2020) show how sectors' capacity to operate has been adversely affected by the pandemic. The quick turn-around of the economy was made impossible by the fact that before the pandemic, the government was trying to resuscitate the economy to deal with challenges associated with high unemployment rates.

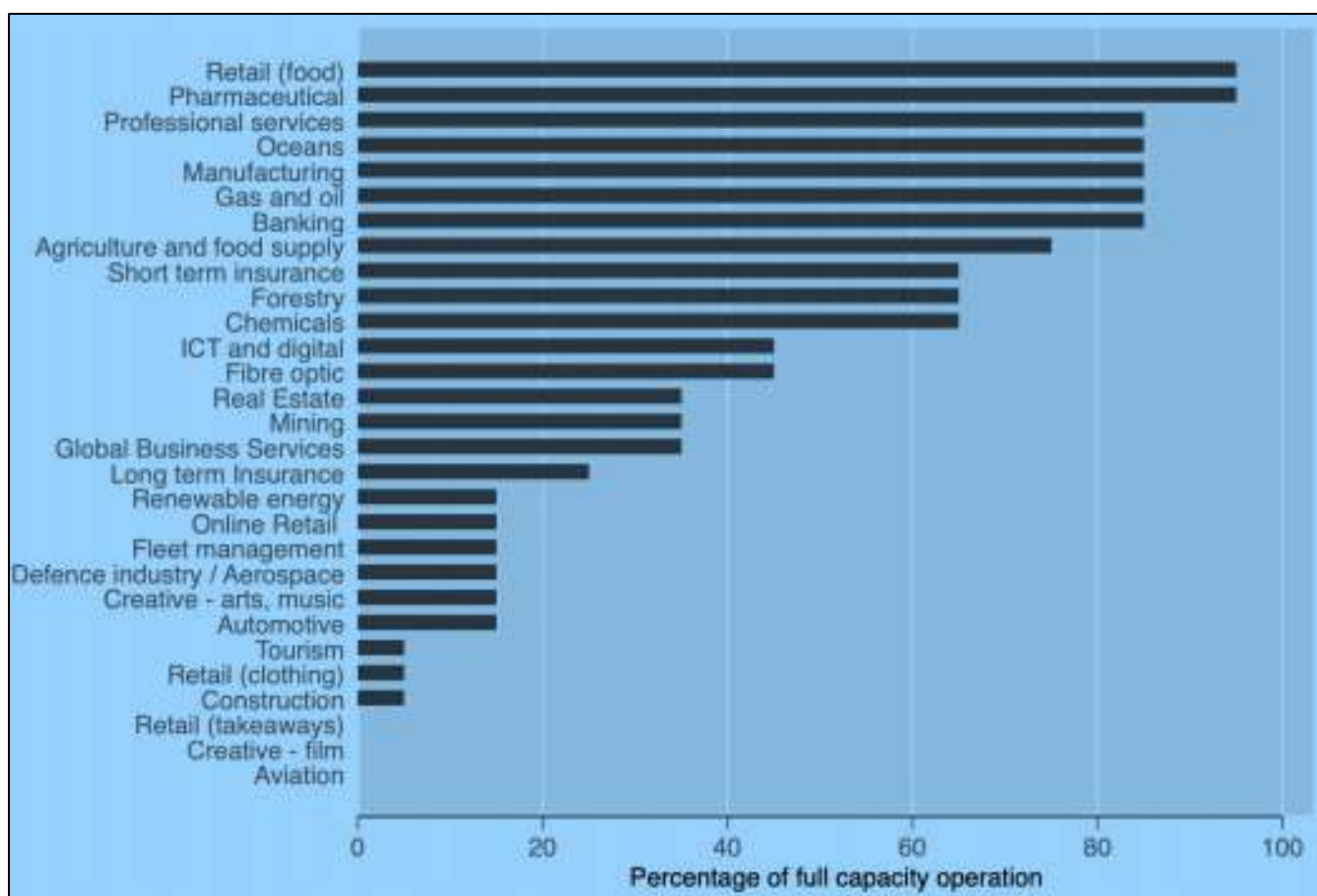


Figure 4.7: Predicted economic effects by sector, 2020  
(Source: Kohler et al., 2020)

Figure 4.7 from Kohler *et al.*, (2020) predicted that many services offering non-essential services would not operate in full capacity, which is what happened in the country as all shops offering takeaways, film and aviation were closed. According to Ozili and Arun (2020), most of the industries which were shut down include hospitality, entertainment travel, and tourism. The GBS, under which the BPO sector falls, were predicted to operate at just under 40%. Most of the contact centres responded by immediately adopting WFH or a blended approach where advisors worked from home or where just a few were on premises. Barnes (2020) argues that the South African BPO sector has shown resilience during Covid-19. There is no BPO FDI company that has been recorded to have closed because of Covid-19.

The lockdown resulted in labour market upset. The NIDS-CRAM (2020) survey shows that there was a significant increase in unemployment, with StatsSA. (2020) reporting that South Africa has lost 2.2 million jobs. The country's focus on job creation shifted



to the emergencies associated with Covid-19 which required deployment of resources, both human and financial, to address the devastating effects of the pandemic.

The way the traditional BPO locations, mainly India and the Philippines responded to the outbreak of Covid-19 opened opportunities for South Africa to lure companies that operate from those locations Barnes (2020,).

#### **4.4 The future of BPO**

The future of BPO can be contextually discussed from two angles: The first context is what Thompson (2020) refers to as reshoring, where some companies are taking advantage of high levels of unemployment in their countries (UK, USA, Australia, and Canada) where labour has become cheaper due to high levels of unemployment, where soft infrastructure is widely accessible and where future patterns of government measures like lockdowns are predictable. Radlo (2016) argued about this paradox of outsourcing, that the future of outsourcing is a vicious cycle, excessive demand for outsourcing services will exert pressure in BPO locations, raising wages to an extent that wages in the source markets will be cheaper than in outsourced locations. In the short term, the researcher envisages that outsourcing will suffer casualties because of the need to adapt to the new requirements for service delivery. Secondly, BPO operators in a location and the location itself need to adopt to changing requirements of outsourcing and align with longer term gains of outsourcing which remote working.

Deloitte (2020) provide operating model considerations post Covid-19 and the future of BPO relationships:

Operating model layers	Typical business-as-usual scenario	COVID-19 on the ground situation		Key considerations for BPO post Covid-19
		Impact	Immediate response	
Channels	Working together in the same location, or via email/phone	High	Weakness around <b>traditional channels</b> exposed, while <b>self-service and collaboration-driven models were resilient</b>	Is your BPO pushing hard to <b>drive self-service</b> , and <b>not revenue maximisation</b> alone?
Customers	Defined set with known needs to be fulfilled and serviced	Medium	<b>Needs around data, forecasts, analysis are amplified</b> , but capabilities are not as developed as they should be	What <b>co-innovation options</b> will be offered to develop <b>enterprise data and analytics</b> ?
Processes	More human-centric and not optimised for automation	Medium	Process <b>hand-offs are not seamless</b> and quality checks are performed remotely; significant <b>focus around critical tasks</b>	Will your Outsourcing Partner propose a <b>time-driven and feasible automation/transformation roadmap</b> ?
Organisation	Leadership onshore, and process activities offshore	High	Lack of local personnel with process knowledge and un-served requests piling up	How will your Outsourcing Partner <b>re-think spans of control</b> within operations?
Location	Single offshore hub and market presence for language/statutory requirements	High	Severe lockdown measures and inadequate infrastructure and practices for work from home came under the spotlight	Will your Outsourcing Partner have the <b>ability to stand up a contingent workforce on demand (onshore/near-shore/offshore)</b> ?
People	Capability-driven full-time employment, working in physical proximity	High	<b>High levels of remote working under virtual supervision and strict social distancing in offices</b> resulting in lower productivity and service levels	When business continuity is threatened, how <b>effective and seamless</b> will be the switch to <b>working from home</b> ? Or will current levels of working from home be continued?
Technology	Fragmented systems using desktops	High	Rapid deployment of secure end-points to access technology remotely	How will your Outsourcing Partner <b>balance full remote working, information security and pricing</b> ?  What is the level of <b>sophistication around virtual working</b> in the provider workforce?

Figure 4.8: Key operation model considerations post Covid-19

Source: Deloitte (2020)

Figure 4.8 shows that all the links of the BPO value chain, the client, the vendor, and the location need new operating models, business flexibility and agility to remain relevant. According to Deloitte (2020), BPO locations need to understand that it may no longer be possible for an investor to have all their operations in one location and economic growth and development will depend on the volume of BPO FDI attracted.

Outsourcing will still be around but in a more transformed state. Ryan (2020) indicates that IPAs should consider the following in their locations:

- Locations which need to attract BPO FDI should ensure that there is availability of sizeable number of employees who are equipped with the right tools to work remotely

- Conditions within a location must align with needs of operators in the new normal
- There must be robust network connectivity, in the future of BPO, locations which are going to grow their BPO sector post Covid-19 are the ones who are able to demonstrate the width and the strength of their internet connectivity.
- Fiscal and financial incentives are still important in attracting BPO FDI
- The transition should be from on premises to WFH.

The success of BPO in prospective locations will depend highly on the country's ability to offer potential BPO investors an agile environment which allows for adaptability.

#### **4.5 Chapter summary**

This chapter discussed the effects of Covid-19 on South Africa's major source market, the UK and its major target market, the USA. Discussion on these major markets showed how Covid-19 has upset the existing market conditions through massive unemployment forcing source markets to consider reshoring. While the outbreak of the virus has strained the ill-equipped health sector in the country, its effect on the BPO sector was minimal. The chapter discussed how the pandemic has forced all BPO companies to transition from on premises (brick and mortar) provision of service to work-from-home models. The chapter also discussed the future of BPO, that countries which have reliable internet connectivity are most likely to get BPO FDI.

## **CHAPTER 5: THEORETICAL AND LEGISLATIVE FRAMEWORK**

### **5.1 Chapter overview**

The chapter firstly discusses work by Mclvor (2010) which provides a framework for choice of location for outsourcing and offshoring which results in BPO growth. Mclvor (2010)'s framework emphasises on infrastructure, political risks, legal matters, culture, Geo-distance, language, government policy, labour issues and general labour quality. This is followed by discussion of Gerbl *et al.*, (2016)'s framework which divides the choice for location factors into firm level and process level. The firm level factors include availability of human capital with foreign languages, labour cost savings, performance evaluation capability and outsourcing experience. Of main interest to the study are the firm level factors. The chapter also outlines Surdea-Blaga (2016)'s factors for choice of location: Cost of labour, infrastructure, availability of a talent pool, accessibility of the city and other factors such as cultural factors. The chapter concludes by classifying sub-elements of factors in all the frameworks into broader categories (variables for BPO growth) as done also by Everest (2018) as infrastructure, lower costs, talent pool and accessibility and legislative framework.

### **5.2 The importance of theoretical framework in research**

Theoretical framework is described by Adom *et al.*, (2016) as the basis upon which current theory in a field of study is related or a framework that reflects the hypotheses of a study. The theoretical framework is the fulcrum upon which research and its constructs are based. In this section, the study discusses the theoretical constructs that form the basis of the study.

### **5.3 Theoretical framework for this study**

The main aim of the study is to develop a structural model for sustainable growth of the South African BPO sector. The theoretical framework is based on work by Surdea-Blaga (2020), Gerbl *et al.*, (2016) and Mclvor (2010)'s, guidelines on factors to consider in the choice of location for a BPO operation. Choice of an offshore location for a BPO operation might be a difficult one. Many companies are faced with challenges when choosing a BPO location as they need to avoid cognitive dissonance that results from locating in an environment that is not conducive to business growth

(Peck, 2017). The choice of location for a BPO operation in the last decade was influenced mainly by factors which, traditionally, were cost driven: Reduction of costs and seeking specialisation of the contracted partner (Ferruzzi et al., 2011). After setting up operations in an offshore or nearshore location, companies get frustrated as what was perceived to be the gain is eroded by hidden costs which were not fully considered during the due diligence exercise (Peck, 2017). In some cases, the costs of training, aligning culture and even the costs associated with initial set up exceed what was budget for. To avoid challenges, the company must ensure that all the hidden costs are examined, and risk calculated. There are a lot of surprises which chosen locations exhibit in the early days of investment: Cultural shocks, ethical challenges, and elongated training times. Some developing BPO locations have what Schermerhorn (2013) refers to as environmental uncertainty, where there is no adequate information available to warrant a choice for location.

However, Mclvor (2010), developed a framework in which he identifies infrastructure, political risk, legal matters, culture, geographic distance, language, government policy, labour issues and general labour quality. The time when this model was developed precedes the 2008 global recession. During this time, companies were looking for cheaper BPO locations to either outsource or offshore their services (Roach, 2003). It is likely that Mclvor (2010)'s framework became a handbook for factors to consider for BPO location choice. Figure 5.1 summarises his framework:

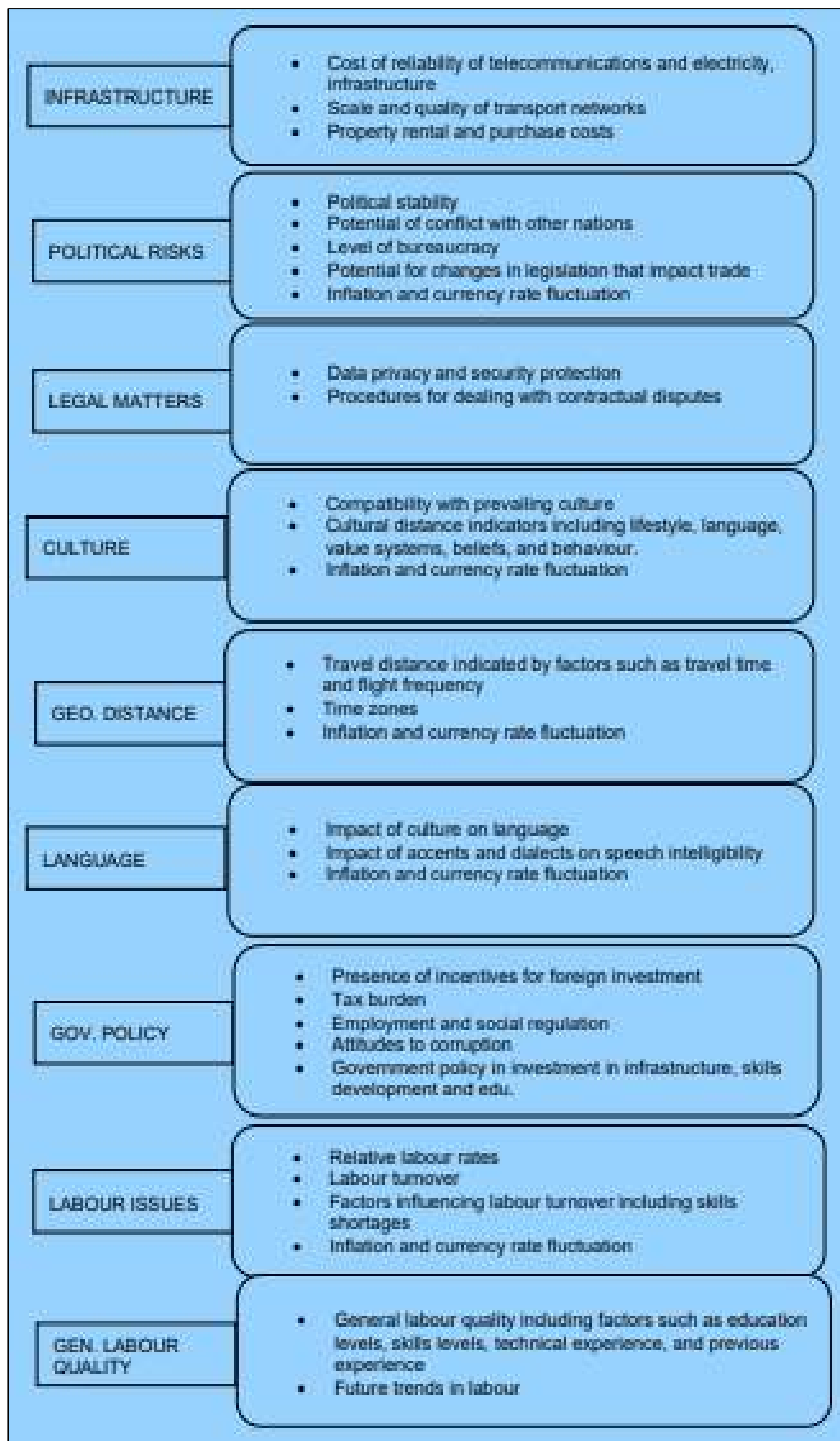


Figure 5.1: Variables affecting choice of location for a BPO operation  
(Source: McIvor, 2010)

While Mclvor (2010)'s framework, on figure 5.1, is very relevant and instrumental in driving BPO FDI in developed markets, it may omit some factors that may be applicable to the South African context. South Africa was under an apartheid system since 1948. Clark and Worger (2011) describe apartheid as a system of separating people based on race. The authors indicate that the racial groups subjected to apartheid were black, coloured, Indian, and Asian. According to Nzima and Duma (2014), the apartheid system conferred white people with privileges and rights at the expense of black people. After independence, laws that specifically addressed this inequality were enacted to redress the situation. The issue of apartheid raises two concerns that are not addressed in Mclvor (2010)'s framework, firstly, the issue of accessibility to infrastructure by citizens. The effects of apartheid have caused unequal access to social and economic opportunities, informal settlements and poor transport networks (du Plessis, 2013). As indicated earlier, the immediate response by companies operating in the BPO sector to lockdown measures was to transition from office working to homeworking. This arrangement requires employees to access soft infrastructure. Ryan (2020) and Thompson (2020) concur that destinations which have capacity to provide employees with uninterrupted internet connectivity, VPN infrastructure and wide broadband coverage are in a better stead to be considered for BPO location. Accessibility is an important factor for consideration.

The second issue pertains to legal matters and government policy in the framework. Mclvor (2010) discusses legal matters in terms of data security and resolutions of contractual conflicts. Peculiar to South Africa, the legislative framework must speak to the inequalities that were caused by apartheid. The laws which were enacted to address these inequalities (like the Black Economic Empowerment Act and the Employment Equity Act (see section 5.3) have not been effective in benefiting poor people in the country (Shava, 2017), Therefore, a model that balances the interests of both investors and the citizens while growing the BPO sector is urgently needed.

The framework developed by Gerbl *et al.*, (2016) splits the location factors into firm level and process level. The model is summarised below:

	Local	Nearshore	Offshore
<i>Firm-level factors</i>			
Presence of human resources with foreign language and culture skills	Lack of human resource with foreign language and culture skills	Moderate levels of human resource with foreign language and culture skills	Significant levels of human resource with foreign language and cultural skills
Pressures for labour cost savings	Limited pressure for labour cost savings in the process	Significant pressures for labour cost savings in the process	Significant pressures for labour cost savings in the process
Capability to monitor performance	Moderate internal capabilities in performance monitoring	Significant internal capabilities in performance monitoring	Significant internal capabilities performance monitoring
Level of prior outsourcing experience	Low levels of prior outsourcing experience	Low levels of prior outsourcing experience	Significant levels of prior outsourcing experience
<i>Process-level factors</i>			
Process modularity	Low process modularity	Highly process modularity	Highly process modularity
Knowledge intensity	High knowledge intensity	High knowledge intensity	Low knowledge intensity
Requirements uncertainty	Moderate levels of requirements uncertainty	Low levels of requirements uncertainty	Low levels of requirements uncertainty
Level of customer contact	High levels of customer contact	Moderate levels of customer contact	Limited customer contact
Strategic value of the process	High strategic value	Low strategic value	Low strategic value
Potential for knowledge loss	High potential for knowledge loss	Limited potential for knowledge loss	Limited potential for knowledge loss

Figure 5.2: Firm and process level factors influencing location distance choice  
(Source: Gerbil, Mclvor & Humphreys, 2016)

The framework on figure 5.2 summarises the firm level factors as follows:

- Availability of an acceptable level of human capital with foreign language capability and cultural skills
- Labour cost savings
- Significant internal capabilities performance monitoring and outsourcing experience

A recent framework developed by Surdea-Blaga (2020) shows the following factors that contribute to location choice for a BPO operation:



- a) *Labour costs* – the cost-saving element is identified as the major driver of offshoring decision. Cost-saving is directly impacted by labour costs, taxes and other fiscal incentives in a location. Other costs related to soft infrastructure can also be considered.
- b) *Labour/talent pool* –Talent refers to employable people who have the right skills and qualifications for the job required. The author believes that a potential BPO location must exhibit its ability to supply the required human resources. There is a relationship between cost saving and the talent pool. As Radlo (2016) argues of the paradox of outsourcing, if the talent pool is low, it pushes the wage bill up and then force companies to reshore to their countries where the wage bill is low.
- c) *Accessibility* – The author posits that the geographic distance between an offshoring location and the source market must short. The argument is that a long geographic distance adds onto the hidden costs. Accessibility is mainly on infrastructure like transport and other aspects of physical infrastructure.
- d) *Infrastructure* – In all research and books regarding offshoring, infrastructure has featured as an important aspect in choice of location for a BPO operation. The infrastructure under consideration includes IT, Power supply, transport and more recently, internet connectivity.
- e) *Other factors* – The other factors enumerated by the author include the following:
  - Business environment
  - Cultural distance/proximity
  - City characteristics

Since all frameworks feature similar variables which may be subjected to different terminology and refinement, the study uses all the frameworks to provide the worldview to support the problem and the subsequent data analysis. Out of the framework, the variables which were constructed are Lower costs, talent pool, infrastructure, legislative framework and accessibility. These variables are discussed in isolation below:

### 5.3.1 Lower costs

According to Peck (2017), the traditional drivers of offshoring and outsourcing are cost driven. The author argues that offshoring has the capability of cutting labour costs by about one or two thirds. If a location offers a BPO company no cost-cutting incentives, the choice of relocation becomes a difficult one. Tomiura (2018) echoes Peck (2017)'s sentiments that the decision for offshoring and offshore outsourcing is a function of costs. In their study of transactional cost by Williamson in 1975, Ferruzzi et al. (2011), concluded that, outsourcing, which might be offshored, is mainly driven by cost savings. Lower costs feature in all the framework by Mclvor (2010), Gerbl et al., (2016) and Surdea-Blaga (2016). To support the lower costs narrative, the following diagram from Everest (2018) shows a cost comparison (using the annual cost of operating and maintaining a seat in terms of both fixed and variable costs) of source markets with nearshore and offshore investment locations.

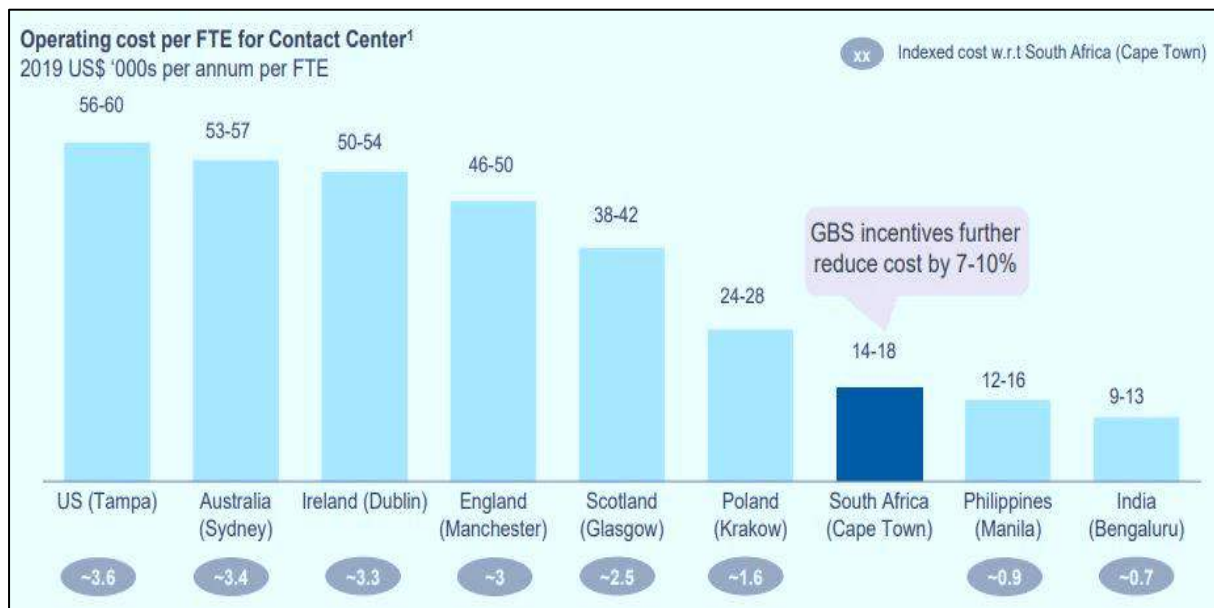


Figure 5.3: Cost comparison with source markets (Source: Everest (2019)).

According to figure 5.3, South Africa's costs of providing BPO services are 60% lower than all the developed countries (Australia, USA, Ireland, England, Scotland, and Poland). The figure 5.3 also shows that India and the Philippines offer much lower costs. The fact that India is almost twice as cheap as South Africa in overall costs of a BPO operation and has 3,96 million (SESEI, 2019) people working in the BPO value chains is evidence that cost may be amongst top considerations for choice of an

operation location. Figure 5.3 also shows that Australia and the US are potential source markets for BPO FDI as the cost of providing service is almost triple the cost in South Africa. Although the costs mentioned here are critical input to decisions of choice of location, there are other considerations which are not linked to costs which will be discussed in this section.

The subject of offshore outsourcing has become quite complex and robust. The main traditional outsourcing cost-cutting driver can no longer be considered alone. Peck (2017) highlights some cognitive dissonance arising from the management of quality of offering, the integrity of the systems put in place, communication challenges arising from accent or fluency, and the coordination of the project. Before a decision of an offshore location is made, cost-cutting considerations are studied in conjunction with other variables. In their 2018 key indicator report, BPESA (2018) surveyed BPO companies operating in South Africa on what mainly influences their contact centre development strategy. The results show that cost is not a top consideration in influencing contact centre development strategy as it is traditionally believed.

Figure 5.4 shows that cost reduction has maintained the third place in 2017 and 2018. The BPO companies are primarily concerned with customer satisfaction, which is a function of the availability of skilled talent pool and quality education.

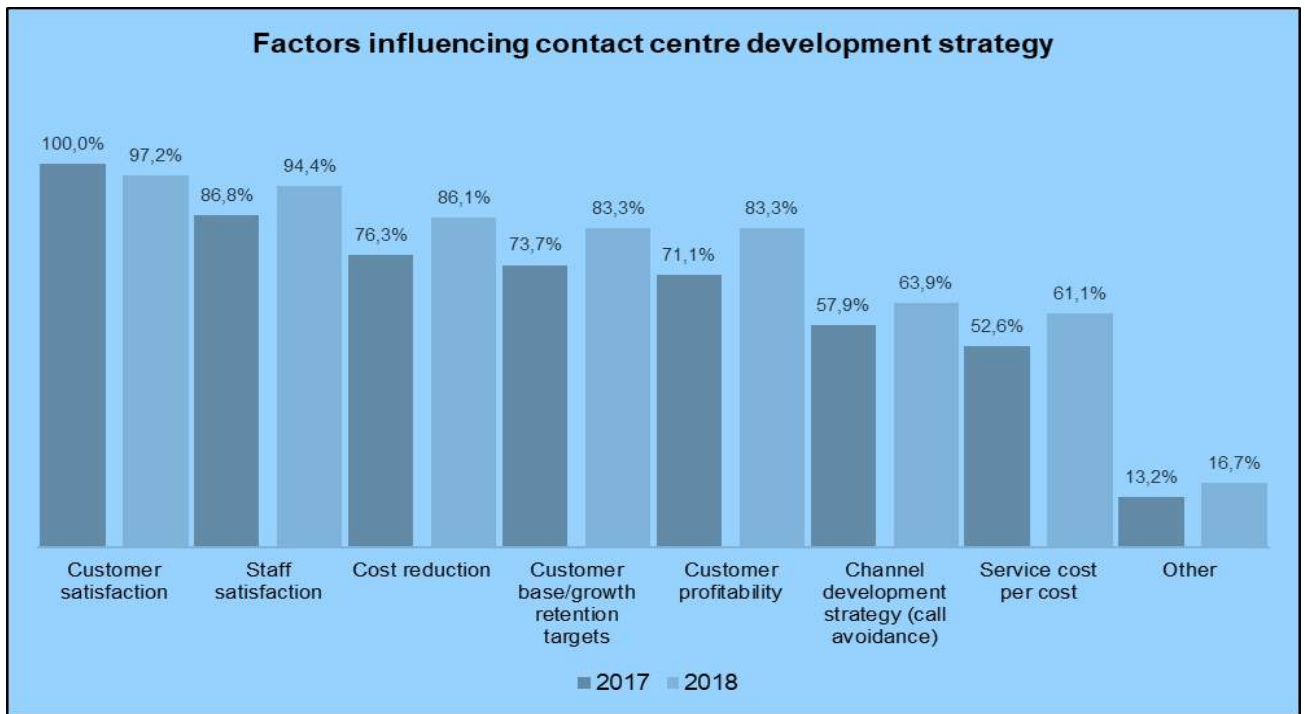


Figure 5.4: Factors influencing contact centre development strategy  
(Source: BPESA,2018)

### 5.3.1.1 Government’s role in lowering costs

One of the major challenges of globalisation to developing countries is the ability to compete effectively for FDI yet at the same time retaining their political and economic sovereignty. Realisation that FDI can stimulate growth and reducing unemployment is forcing these developing countries to abandon socialist ideas which they adopted during the early years of their independence in favour of a free-market economy which catalyses FDI (Spoor, 2004). The adoption of neo-liberal policies is an attempt to compete globally to promote economic growth and job creation but in a way ceding control of their resources. Considering that a government, according to Mclvor (2010) plays a very critical role by facilitating and creating an enabling environment ideal for investment, creation of an ideal environment can be done through the following:

#### a) Formulating policies ideal for FDI

The framework by Mclvor (2010) enumerates investment incentives, tax policies, the government’s attitude towards corruption, labour laws, policies towards infrastructural development, education, and skills development. The indication from the author shows that policies by governments can take place at two levels, nationally and internationally. Nationally, a government can introduce fiscal, financial, and non-

financial incentives. Internationally, government policies are normally embedded in agreement blocks in which the country subscribe, for example, bi-lateral and multi-lateral agreements like the EU, OAU and SADC. Ginevicius and Simelyte (2011) discuss the incentives below:

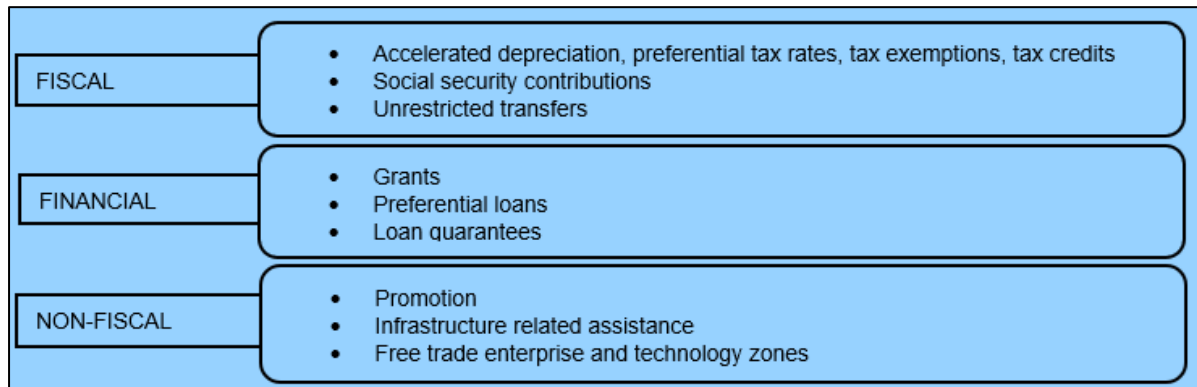


Figure 5.5: Possible government incentives  
(Source: Ginevicius & Simelyte, 2011)

Figure 5.5 shows the types of incentives a government can introduce to attract BPO value chain investment. Each of these classes of incentives have their advantages and disadvantages. While financial grants are the easiest and quickest way of attracting investment, they are prone to abuse. Depending on whether a grant has conditions or not, BPO value chains abuse once off incentives and leave the country. For example, in South Africa, it is suspected that a company called Teletech accessed incentives and left the country at the end of the incentive cycle (Mawson, 2010). A great deal of work done by Pirnial and Morisset (1999) shows that fiscal incentives are good in the short term but in the long run will lead to budget deficit and losses for the government. The non-fiscal incentives are not popular with BPO value chains, they normally want to access them in conjunction with grants. The BPO sector in South Africa is targeting unused government infrastructure especially in the townships to run skills pilot projects. In the Western Cape, Zoe Academy situated in Delft is one such example.

Ginevicius and Simelyte (2011) studied government incentives towards FDI of Central and Eastern Europe. Their concluding remarks indicate that tax deductions are major influencers of FDI and that fiscal incentives are more significant than

financial ones. Many of the popular BPO locations use all the types of incentives to attract foreign direct investment.

Since availability of skills is also a consideration, countries allow for employment of foreigners with the required skills as an incentive as indicated on Table 5.1. It is also important to note that all the expatriate BPO employees with scarce skills in the Philippines can bring with them their spouses and children under the age of 21.

In South Africa, the grant incentives offered by the DTIC are divided into three; for highly complex jobs, for complex jobs and for non-complex jobs BPESA (2018). To access the incentives, the global BPO value chains must satisfy certain conditions; compliance with company registration in South Africa, must also be Broad Based Economic Empowerment compliant, pay a stipulated minimum wage, has signs of organic growth, and has secured a minimum of a three-year fixed contract with an overseas or nearshore client (Ibid).

Table 5.1 summarises the Philippines BPO incentives. The table also shows that the country offers very attractive packages for BPO investors in both fiscal and financial aspects. The country seems to recognise the importance of creative human capital by allowing foreign nationals to be employed in the country and may bring along with them children that are under the age of 21. In most cases, BPO companies have roles that require specialists, so host countries normally do not have those specialists, so allowing foreign skills is a good strategy by the country.

Table 5.1: BPO incentives in the Philippines.

INCENTIVE	BOI (Executive Order No. 226, as amended)	PEZA (Republic Act No. 7916, as amended)	CDC / SBMA (Republic Act No. 7227 – Bases Conversion Devt Authority)
Income Tax Holiday (ITH)	4 – 6 years (max of 8 years)		<ul style="list-style-type: none"> <li>Exempted from all local and national taxes - value-added taxes, franchise taxes, excise, and ad valorem taxes)</li> </ul>
ITH Bonus	3 years provided the firm meets certain conditions		
Special Tax Rate of 5% on Gross Income		Special Tax Rate of 5% on Gross Income	
Importation of Capital Equipment, Spare Parts and Supplies	0% duty-free	Tax and Duty-Free	
Wharfage Dues and Export Tax, Duty, Impost and Fees	Exempted		None
Simplification of Customs Procedures	Available		
Employment of Foreign Nationals	<ul style="list-style-type: none"> <li>Foreign nationals may be employed in supervisory, technical, or advisory positions within 5 years from a project's registration, extendible for limited periods. The positions of president, general manager, and treasurer or their equivalents, of foreign-owned registered firms may be retained by foreign nationals for a longer period.</li> <li>All foreign employees may bring with them their spouses and unmarried children under 21 years of age.</li> </ul>		

(Source: BPESA, 2015)

In South Africa, the government offers incentives for BPO companies. The conditions for accessing incentives in South Africa are difficult for global BPO value chains as they must satisfy conditions. The incentives are broken down as follows:

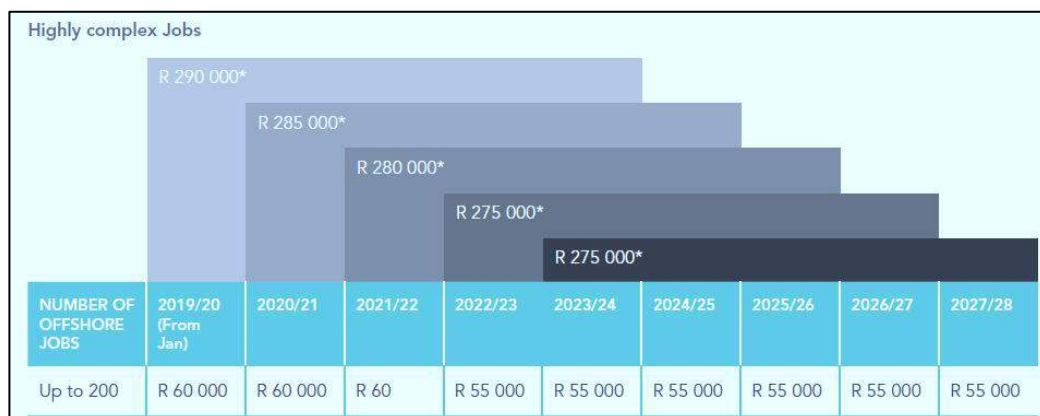


Figure 5.6: Incentives for highly complex jobs in South Africa  
(Source: BPESA (2019)).

Data shown on figure 5.6 shows the grant given to global BPO companies for creating highly complex jobs. The grant is given over a period of five years.

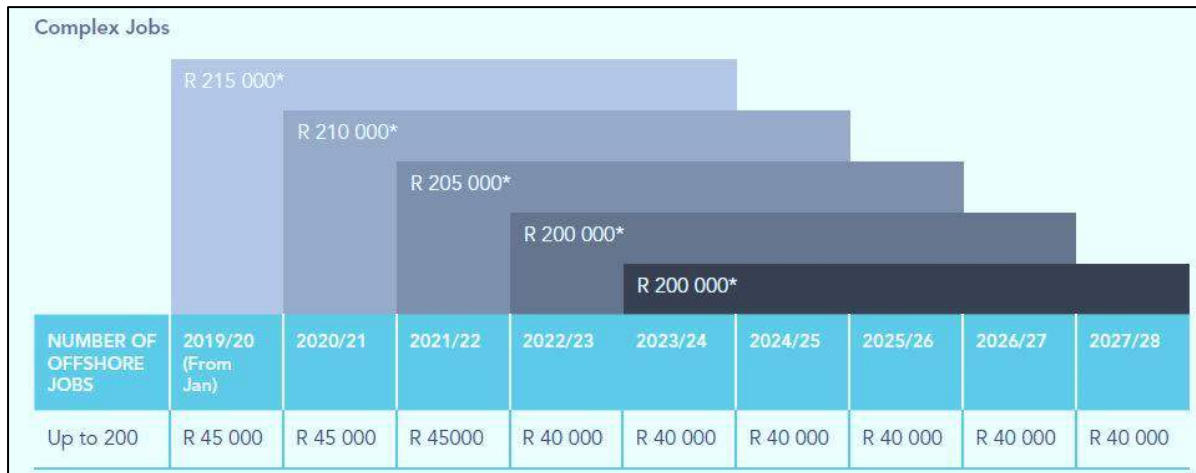


Figure 5.7: Incentives for complex jobs in South Africa  
Source: BPESA, (2019).

Figure 5.7 shows the incentives offered by the DTIC for services that are not highly complex but within the complex verticals. Examples include F & A, IT, Outsourcing, KPO, LPO and other complex verticals.

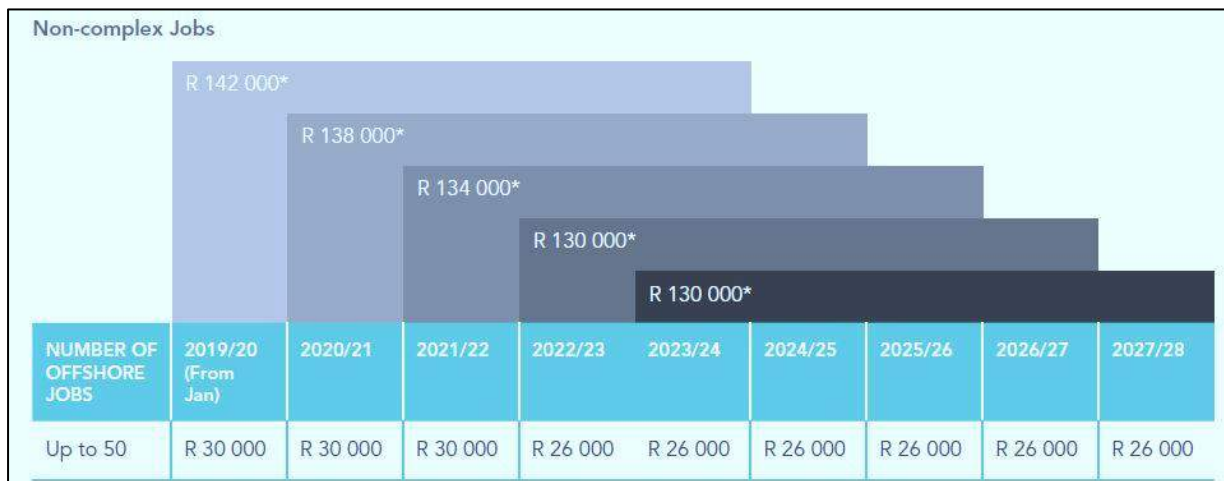


Figure 5.8: Incentives for non-complex jobs in South Africa.  
Source: BPESA (2019).

The diagram (Figure 5.8) shows the non-complex incentives offered to global BPO value chains for jobs they retain for 5 years. Examples of non-complex jobs include inbound voice customer service, outbound sales, and customer service.



## b) Creation of investment promotion agencies

Although McIvor (2010), Gerbl *et al.*, (2016) and Surdea-Blaga (2020) do not explicitly express creation of Investment Promotion Agencies (IPAs) as an important step towards attraction of FDI, Skabic (2015) argues that IPAs function as a single point of reference for investors and are sometimes referred to as the investor one-stop shop. Their purpose is to provide commercial diplomacy for the country. In the process, they build the country brand, disseminate information about the country, on-boarding assistance, and provide after-care. An IPA originates country marketing collateral which creates visibility and positions the country's environment as suitable for FDI.

Table 5.2 from Cass (2006) and Morisset and Andrews-Johnson (2004) provides a summary of the four main functions of IPAs, investment facilitation, image building, investment generation and policy advocacy. This arrangement exhibits institutional support for FDI from government.

Table 5.2: Functions of an Investment Promotion Agency

	Function	Description	Example of means
"Classical IPAs tasks	Investor facilitation and investor service	Assisting an investor to analyse his decision, establish a business and ensure it continues to operate	Provision of information, assistance in getting approvals, assistance with sites, utilities, etc
	Image building	Creating the perception of a country as an attractive site	Advertising and public relations
	Investment generation	Targeting specific sectors and companies in order to create investment leads	Identification of targets, direct contact, forums, seminars, etc.
Policy-related activities	Policy advocacy	Supporting initiatives to improve the investment climate and identifying private sector views	Surveys, participation in task forces, policy proposals, lobbying.

(Source: Cass,2006, Morisset & Andrews-Johnson,2004)

Since IPAs undertake country marketing functions, just like any marketing campaign, it is difficult to attribute FDI inflows to their effort. Considering this complication, Wells and Wint (1990) investigated the impact of IPAs on FDI flows in 50 countries and concluded that there is a direct relationship between investment promotion and FDI inflows. The findings resonate with Beer, *et al.*, (2004) who believe that setting up an

IPA to drive BPO investment and operations in a country is very effective. Morisset (2003) also believes that creation of an IPA has become the strategic core for most developing countries wanting to drive FDI. He surveyed 58 countries and found out that higher investment promotion results in higher FDI inflows.

According to Wells and Wint (2000), investment promotion by an IPA takes many forms which include the following:

- *Advertising* – the IPAs prepare marketing collateral that is used to reposition and market a country
- *Direct mailing* – this is done by use of various technological applications brought by advances in IT. IPAs use LinkedIn, Facebook and or emails to reach out to prospects contained in various CRM databases like Prophet Avidian and Salesforce. The use of email for marketing is becoming obsolete as it does not bring instance responses as social media
- *Investor summit* – involves getting all prospects to a summit in a country being marketed to showcase the country's value proposition. This is a double-barrelled approach where white papers from subject matter experts are released at the summit including expert opinion from Analysts
- *Investment missions* – the strategy involves outward and inward missions. The country's commercial diplomats embark on an offensive to market the country to source markets and likewise, representatives from source markets can be invited to the country for fact finding missions
- *Data information source* – IPAs can be sources of data and information for prospective investors. Investors make decisions on choice of location of their investment based on data and information
- *After care* – Countries find ways of nursing investments once they land them. Countries ensure that investors do not develop cognitive dissonance after investment. After care includes work permit facilitation, seeking approvals from government departments and help with proposals

Evaluation of performance of IPAs is not quite easy, Wells and Wint (2000) provide Table 5.3 as a basis for evaluation of performance

Table 5.3: IPA performance evaluation

Promotional activity	Typical evaluation process
Image building	Ad hoc, project-based evaluations. Evaluation not integrated into management control system of agency. Evaluation conducted by external organisation.
Investment service	Similar to process for image building.
Investment generating activities conducted in-house	Continuous process of evaluation. Evaluation performed by agency and evaluation process highly integrated into management control system of agency.
Investment generating activities contracted out	Evaluation conducted on a project basis by contractor or by independent evaluator hired by organization financing activity. Evaluation process not integrated into management control system of contractor or of agency

(Source: Wells & Winter,2000)

Table 5.3 outlines broader performance evaluation criteria that is used by IPAs to evaluate performance. There are challenges in evaluating a marketing or promotion entity than it is for sales agency. With sales, you can attach sales figures to targets but with investment promotion it is more to do with creation of awareness and support. In South Africa, there is no IPA for BPO. BPESA, a Special Purpose Vehicle (SPV) performs the services of an IPA. The organisation has a national Chief Executive Officers (CEO) who is based in Gauteng and a Regional CEO in the Western Cape. Gauteng and KwaZulu-Natal, where BPO activity is prevalent, do not have a regional CEOs. BPESA Western Cape is funded by the provincial government of the Western Cape and the City of Cape Town. BPESA National is mainly funded by Harambee and per incident by the DTIC. BPESA is both facing and causing a lot of challenges for the sector:

- The organisation is merely an SPV which does not have legitimate power to mobilise meaningful clustering of the BPO sector to achieve its goals. It only depends on cooperation by BPO companies in the ecosystem. Power remains in the hands of the DTIC which distributes incentives to the companies
- The Board of Directors for BPESA are not remunerated. The Board comprises mainly experts from BPO value chain companies. The Board's volunteered services are often punctuated by selfish interest of identifying opportunities for new business development for their companies
- The funding provided to BPESA is not adequate to carry out the responsibilities of an IPA

### 5.3.2 Talent Pool

All the frameworks by Mclvor (2010), Gerbl *et al.*, (2016) and Surdea-Blaga (2020) agree that talent availability is important in BPO location consideration. What features in all the framework is the relationship between cost saving and the availability of talent pool. Mclvor (2010) argues that the talent pool should have foreign language support capability. This view is echoed by both Gerbl *et al.*, (2016) and Surdea-Blaga (2020). The study will assume that the capability pertains to proficiency in language used to support customers. As mentioned earlier, capability in minority foreign languages like German, French or Dutch in South Africa is of little and no consequence as very few South Africans speak to them to benefit from employment.

Survival of global BPO value chains depends on availability of a large skilled talent pool and institutionalised talent management programs in geographies in which they perform their business (Everest, 2019). Schermerhorn (2013) reiterates that companies go global because they are constantly looking for ways to be profitable through cheap raw materials and cheap labour. Velde (2001) feels that the availability of human capital is a critical consideration on choice of location for a global company. Talent pool is one of the critical determinants of FDI (Teixeira & Tavares-Lehmann, 2014). In some cases, FDI companies are at the centre of host country labour dynamics, they upset the demand and supply balance of labour.

The success of a country in attracting FDI is in part affected by availability of people with skills to contribute to innovation, scientific discoveries catalysing economic growth. While the issue of talent development through education is discussed in section 5.3.6, the formal education system alone cannot adequately prepare skills that are enough to attract FDI, countries need to have their own skills development initiatives to supplement the formal schooling system (Kuruvilla, 2007).

In the BPO sector, the skills required are either for basic processes like data capturing, telephone customer services and email support. In South Africa, for these non-complex skills, the BPO sector only requires a matric certificate, an equivalent of Cambridge University advanced level certificate. Since outsourcers perform work on behalf of other companies, they do not have the luxury of investing for skills for the

future but have a “now” philosophy which drives their profit margins through performance payment. As a result, the number of graduates churned out at both high school and University is important for attracting FDI.

Figure 5.9 shows the number of graduates from school and colleges in several countries. Although the numbers are so convincing on the availability of skills, as mentioned earlier on, there is no evidence that they end up in the BPO sector.

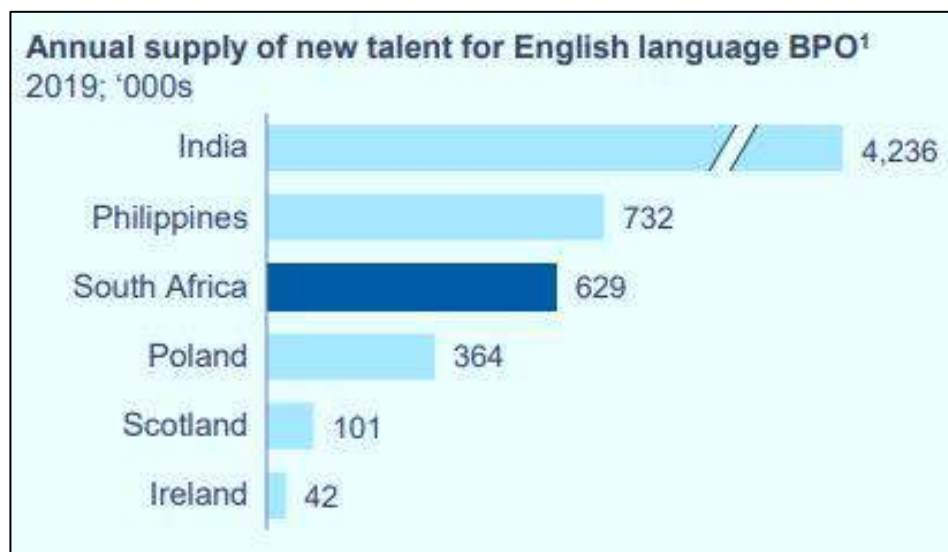


Figure 5.9: Annual supply of graduates from schools and colleges  
(Source: Everest, 2019)

Figure 5.9 shows different annual supplies of fresh talent from schools and colleges. These numbers represent graduates with English speaking capabilities from across multiple disciplines. India has the highest number followed by Philippines then South Africa, at 4,150. This distribution may corroborate the findings of Miningou and Tapsoba (2017) that a country with an adequate supply of talent attracts FDI, India has the highest number of employees working in the BPO sector about 3.9 million (SESEI, 2016).

In an attempt to find out if education broadly contributes to performance, Ng and Feldman (2008) established that education influences performance and that it is positively related to innovation or creativity. The authors argue that educational level refers to the academic qualification obtained at school, college, and University. An individual with a higher level of education has an affinity for innovation and has vast

knowledge of general issues. Although there has been extensive debate on whether education leads to job performance, there is a consensus that education gives employees confidence (Ibid).

### **5.3.2.1 Quality Education helping grow talent pool**

While Nafukho and Bunyi (2013) show that quality education plays a very important role in human development, they argue that the definition of quality education in academic spheres is not exhaustive.

The quality of education is not clearly mentioned in all frameworks by McIvor (2010) and Gerbl et al., (2016) but is mentioned by Surdea-Blaga (2020) when referring to talent pool as people who are educated and having the right skills for the job. Miningou and Tapsoba (2017) argue that the availability of graduates whose skills are able to match requirements of the labour that they must perform attracts FDI inflows.

The quality of an education system is manifested in the education curriculum. What students get to be taught in schools and colleges determines the way they approach their future work life (Daniel & Franklin, 2014). An educated person is believed to be able to carry out basic tasks that are required by his responsibilities (Gottesman & Morey, 2006) but Darmadi (2011) argues that competence results from higher levels of education. These conflicting arguments show that it is quite difficult for developing countries to align FDI skills requirements with their skills development initiatives. The only strategy available to develop skills in line with the structural changes that are taking place globally is to adapt curriculum to produce global human capital (Gough, 1993). Relevant authorities for the development of curriculum should understand that globalisation and the advancement in IT and knowledge intensive deliverables have caused drastic changes in the nature of education and more importantly, its quality.

Globalisation implies that if a country does not align its human capital education in line with these changes, it risks FDI into their countries because they will not be having specific skills that are required to perform international work. UNESCO (2000) reiterates that all the graduates must have a curriculum that endows them with skills

of transnational competencies. In light of this, education is considered to be catalytic to economic development and human development because it facilitates FDI which in turn leads to economic growth. Cavana and Anderson (2002), as quoted in Lindahl, Obaki, and Zhang (2003), concluded in their studies that the failure of Mexico under the North American Free Trade Agreement was mainly due to education and cultural factors, which means that education plays an important part in FDI attraction. Therefore, an ideal curriculum should produce human capital with the following attributes (Schermerhorn (2013):

- *Tech savvy* – should have the ability to use all technological applications for an intensive knowledge economy
- *Globally minded* – should consider making decisions locally but taking into cognisance the interests of other business units globally
- *Team working* – having the ability to work in innovative teams, comprising of people of different personality traits
- *Multiculturalist* – employees that embrace diversity. The ability to understand that globalisation has made it possible for creative capital to migrate across the globe in search of work
- *Critically minded* – the human capital should be able to make use of available technology to innovate simpler and new business models

For post-colonial Africa, curriculum development is influenced from two angles: The traditional approach or the progressive approach (2000). The progressive approach involves adapting curriculum to the dictates of structural changes resulting from globalisation and propagate an outcome-based education system, what the author refers to as the Common World Education (CWE) where a country aiming to attract FDI would align the education curriculum to global trends. The traditional approach is more centred on the teacher's instructional philosophy than what the students can learn. Developing countries are accused by source markets for failing to provide human capital for FDI to flourish, but the debate is deeper than this, former colonies accuse FDI source markets of neo-liberalism, wanting to recolonise them via the back door through globalisation. Although some of the countries are readjusting their curriculum, they have inadequate funding for transformation and globalising education is a long-term project that requires IT gadgets. Most of African countries

do not have access to internet connectivity and where it is available is punctuated by intermittent connections.

The shift from a teacher-centric curriculum to a learner-based one helps in improving the objectives of learning and produces human capital ready for the world of work (Ewell, 2008). For an education curriculum to provide quality of education that prepares graduates for international work, it has to shift from focusing on the input of teachers and lecturers to the outcome of the learning.

One of the challenges of globalisation or conflict between global companies and countries hosting FDI is ethnocentrism, a situation where an investing country believes that its skills level, its way of life and related behaviours are more superior than that of the host country (Schermerhorn, 2013). Supporting this indirectly, is OECD (2002) which affirms the need by hosting countries to design their education system and training in such a way that relevant and technological skills from developed countries become easily transferrable to local market. The same author argues that global companies are doing much as they can to facilitate education in countries which they operate in direct contrast to Schermerhorn (2013), who argues that Multi-national companies are accused of not developing talent or transferring appropriate technology in countries they operate

Mclvor 2010's framework refers to importance of support language proficiency while Surdea-Blaga (2020) clearly mention the foreign language proficiency. Proficiency in support language stems from the languages used at both Schools and tertiary Institutions. A country's choice of medium of instruction also helps in attracting FDI as long as it is the one required by BPO companies. Mohamed (2008) states that choice of language of instruction is normally made as a political one, either to drive patriotism by promoting local languages or promoting a neo-liberal agenda that perpetuates the interests of international capital by using universal languages accepted for commercial transactions. In 1970, in Malaysia, the medium of instruction was changed from English to Malay and in 2003 changed back again to English as a strategy to attract FDI (Ismail, Mustafa, Muda, Abidin, Isa, Zakaria, Azlan, 2011). Phillipson (2007) argues that for successful participation in globalisation, developing



countries have to make sure that they are ready for FDI by equipping their employees with English communication skills, IT, business management and a little bit of some commercial aspects of business knowledge. Doing this requires accumulation of English proficiency capital, which can only be gained by the curriculum and using it as a medium of instruction.

To be ready for FDI is to have employees who speak the source market language of trade proficiently, who understands the culture and attributes of the source markets and behaves almost like a citizen of the FDI source markets. This is paradoxical, as Phillipson (2007) would argue that, developing countries really need FDI and need to prepare their curriculum and medium of instruction in line with dictates of global trends.

Developing countries have limited choice if they have to insert themselves strategically to global value chains, English is the most widely used language for learning, for internet and various search engines and for global trade. The importance of language depends on the country's main source market.

### **5.3.3 Infrastructure**

According to McIvor (2010), the level of infrastructural development, the quality of the infrastructure and the cost of accessing it are very critical elements in considering location choice. BPO work is IT-enabled and intensive, it requires up to date telecommunication systems that are obtainable at cost effective rates (Surdea-Blaga, 2020). The author reiterates the importance of infrastructure in the consistent and efficient provision of energy. Work done by Nijkamp (2000) on infrastructure provides a discussion on how it impacts economic growth through FDI. The author believes that the definition provided by Hirschman in 1958 referring to infrastructure as material component of public capital is not adequate but lays a foundation for a definition which evolves to imply sustainable development. On this view, Nijkamp (2000) agrees with Imran and Imran and Niazi (2011) that infrastructure has both direct and indirect impact on growth of BPO value chain FDI and performance. Azolibe, Okonkwo and Adigwe (2020) hold the view that when foreign companies set up in locations with infrastructure in a condition that is aligned to global standards, it

reduces operational costs because companies do not have to engage in initiatives attempting to avail infrastructure for their operations. Figure 5.10, adapted from Nijkamp (2000), summarises the description of infrastructure from mere material components of public capital to immaterial, which complicates the traditional and popular strategies of attracting FDI.

The suprastructure element of sustainable development by Nijkamp (2000) resonates with what Surdea-Blaga (2020) refers to IT and communication infrastructure. This type of infrastructure is important for the BPO sector as execution of tasks is highly dependent on use of IT and internet connectivity.

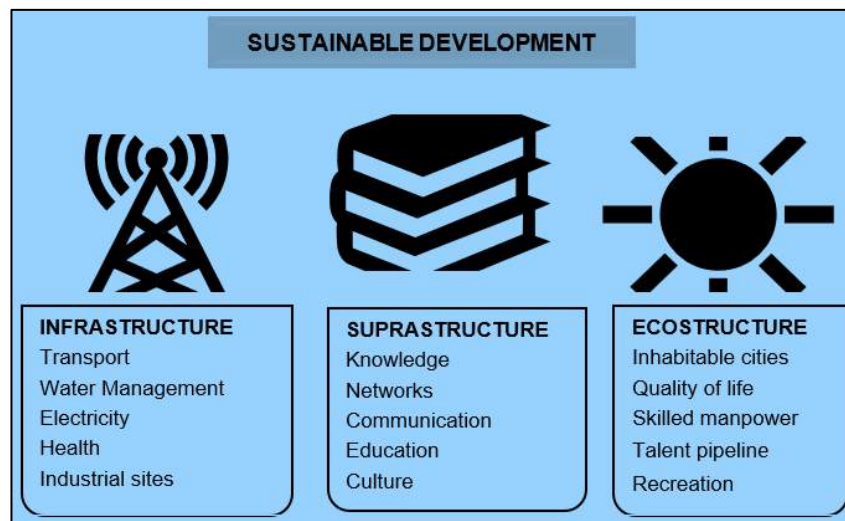


Figure 5.10: Elements of sustainable development  
(Source: Adapted, Nijkamp, 1999.)

Figure 5.10 shows that sustainable development results from a combination of three elements: infrastructure, suprastructure and ecostructure. The physical component of public capital is not enough on its own to attract FDI through BPO value chains, it needs suprastructure and ecostructure nor will these two elements be attractive without infrastructure.

Most of the BPO value chains are outsourced and perform work on behalf of other companies and as a result do not have the luxury of engaging in capital development to avail infrastructure suitable for their work. For them, a plug and play infrastructure is ideal. Contracts which they sign are performance based, any deviation from delivery that cascades to profits is inconceivable because global companies are

driven by the need to accumulate capital without having to develop any infrastructure. Famous brands like Nike are accused of using sweatshops in Bangladesh (Schermerhorn, 2013).

Table 5.4 breaks down the immaterial components of infrastructure vital for BPO value chains consideration. It enumerates culture, knowledge, networks, communication and education as the most important tenets of infrastructure. It shows suprastructure as an important consideration in choice of location for BPO value chains. The suprastructure comprises the intangible elements of infrastructure which provide the level of a locations' environmental certainty.

The cultural affinity between the source markets and services location is likely to yield a better performance due to similar behaviour. The cultural affinity usually results from colonialism. Former colonies tend to identify with the culture of the colonial masters for example, the Philippines were colonised by the Americans hence most of USA businesses are outsourced to the Philippines while the UK accounts for the bulk of offshore business in South Africa. The knowledge acquired through research and data repositories can help BPO companies to make informed decisions about their operations. Knowledge is dependent on the availability talent pool that is produced from educational institutions and the data repositories..

Table 5.4: Suprastructure.

TENET	IMPACT
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<b>Culture</b>	<p>Culture is an important element of international business. The following situation extracted from Schermerhorn (2013:120) shows how cultural misalignment can be detrimental to operations of business: "A U.S. executive goes to meet a business contact in Saudi Arabia. He sits in the office with crossed legs and the sole of his shoe exposed. Both are un-intentional signs of disrespect in the local culture. He passes documents to the host using his left hand, which Muslims consider unclean. He declines when coffee is offered, which suggests criticism of the Saudi's hospitality. Results: A \$10 million contract is lost to a Korean executive better versed in Arab ways."</p> <p>The U.S. executive is convicted that his culture is more superior than that of Saudi Arabia, he is ethnocentric. Differences in cultural alignment often leads to a cultural shock when companies loose out in profitability due challenges of adaptability.</p>
<b>Knowledge</b>	<p>Knowledge obtained from Universities through research and white papers is influential in strategic decision making. Universities provide repository that can be consumed by industry. They also write papers with models and knowledge that disrupt the status quo (Halloran &amp; Friday, 2018). A white paper, "South Africa's BPO Service Advantage Part 1 (London School of Economics) written (Willcocks &amp; Lacity, 2012) contributed in attracting a BPO value chain into South Africa (EXL) as it was presented at a summit in Cape Town when EXL was present (with EXL constantly referring to the white paper during negotiations). Another white paper by the researcher "A case study analysis of South Africa as a BPO delivery location," is being used by BPO value chains with interest in South Africa.</p>
<b>Networks</b>	<p>Integration of networks enable enterprise -wide communication. Since BPO value chains service their clients remotely through use of technology, availability of cost-effective data and internet connectivity at high speed is desirable and at the core of strategy. Slow connectivity leads to long turn-around time for real time problem solving. The impact is ripple, profitability is lost to poor performance, customer effort scores and the average time for problem resolution increases. BPO value chains make use of technology to create "virtual teams" across global locations. These virtual teams depend on efficient and effective connectivity (Schermerhorn 2013). In South Africa, the government is rolling out free-WIFI zones in its major cities.</p>
<b>Communication</b>	<p>Communication infrastructure refers to all technological tools that are used to transmit messages across distances. BPO value chains have destroyed physical boundaries and make use of various computer applications to service their clients from offshore locations. BPESA (2018) reports the convergence of these communication channels to service customers: video, web-chat, telephone, smartphone applications, IVR and Self - help applications. Of late, use of robots and artificial intelligence is taking centre stage. Most of communication in contact centres will soon be done by robots and chat-bots. The country's ability to provide a technological environment that aligns with these dynamics is a factor in attracting foreign direct investment through BPO value chains.</p>
<b>Education</b>	<p>The quality of education and training for a country determines the nature of output of the human capital in country and its attractiveness to FDI. Education will be discussed in detail in section 5.3.2.1 of the research. However, the levels of education of a country shows the quality of human capital.</p>

(Source: Researcher's own work)

### i) Transport

Transport plays an important role in economic development. Regions with an efficient transport system are more competitive with increased output from reduced transport costs and accessibility (Crafts,2009). The importance of transport also features in Mclvor (2020)'s framework. Surdea-Blaga (2020) concurs with Craft (2009) on the

importance of an efficient and effective transport network. Dilapidated and inadequate infrastructure increases the cost of firms operating in global locations (Khadaroo & Seetana, 2009). Viswanatha (2008) reports that Indian BPO value chains spent between 8 and 9% of company operating budget on transport, which is quite high.

For South Africa, differences in time zones between source markets like US and Australia forces employees to work irregular hours and to some extent 24/7 operation. According to BPESA (2016) 25% of workforce in the Western Cape work irregular hours. Working irregular hours require an efficient transport network or you will have employees stranded at the end of the shift placing them in a vulnerable position in terms of safety.

## **ii) Water management**

Water is an essential ingredient to health and dignity. Citizens of any given country need water for consumption while the state requires it for generating power which leads to sustainable development providing access to knowledge and independence (Maestu, 2015). If water is not managed properly, the country will have challenges in providing safe drinking water and make it available to citizens as and when it is required (Daiglesh & Cooper, 2005).

The availability of clean and safe water for the citizens, is dependent on the country's ability to use appropriate technology. If a city does not have the capacity to harness available water, or has suffered a devastating drought, the consequences are far more reaching and dire. Advanced African economies like South Africa are more susceptible to water shortage or drought shocks than poor countries. The consequences of poor water management include:

- Loss of tax revenue
- Restricted FDI
- Down-grading by rating agents

Western Cape experienced severe drought in the 2016/17 season. A day "zero," 12 April 2018, was forecasted when all taps will run dry save for critical usage (Maxmen, 2018). Day Zero had devastating effects especially to the BPO value

chains. It was almost impossible to have a full count of 1,000 employees on sight during water restriction periods. Companies were forced to reduce employees at work at given times or had to come up with other strategic measures to address water challenges leading to hidden costs which were otherwise not factored in original contracts.

### **iii) Energy**

Energy shortages affect productivity output. The country's inability to provide consistent energy supplies shows its failure to attract FDI because it forces investors to find alternative sources of power resulting in hidden costs otherwise not factored in during location considerations (Adams, 2010). The author argues that there is a direct relationship between provision of power and economic growth. Economic growth usually results from FDI.

### **iv) Health system**

A country's health infrastructure is important for ensuring that its citizens live a healthy lifestyle that will not affect economic growth. In recent years, threat to human life has shifted from traditional diseases resulting from infection and sanitation to life-style risk factors and environmental hazards (Frenk, Gómez-Dantés & Moon, 2014). A country's strategic focus will be more on citizen education on disease prevention than cure. This requires a multi-dimensional approach, where all the stakeholders involved in sustainable development of a country agree on the way forward by assessing the health needs of a country, improve all the broader skills in the sector and health awareness in communities. Good health in a country abates poverty, enhances educational performance, increased labour productivity, improves the climate for FDI and stimulates economic growth.

### **v) Industrial sites**

Availability of industrial sites or industrial facilities is important for attracting Foreign Direct Investment (Azizov & Aliyev, 2014). In response to this, some countries have introduced the concept of industrial parks which makes it easier to integrate business in almost similar structures but with vertical services. All the links of the value chain are premised at the same place to shorten lead time. Since the research is on BPO value chains, the industrial parks will be referred to as BPO Parks because they have

a similar effect as industrial parks. BPO Parks offer incentives for BPO value chains to take plug and play facilities. The BPO Parks offer competitive rentals, are located close to residential areas and other amenities.

### c) Ecostructure

Ecostructure refers to capital that pertains to the environment, for example, the quality of life in a country in which a BPO company would like to invest (Nijkamp, 2000). Table 5.5 explains the ecostructure in detail.

Table 5.5: Ecostructure.

ELEMENT	TENETS	IMPACT
Ecostructure	Inhabitable cities & quality of life	According to KPMG, the world cities are home to more than half the world population and are striving to make their cities inhabitable so as to contribute to the attraction of FDI. There are so many organisations which list the most liveable cities in the world and use different calculations to rank them but the main metrics which feature in the categorisation are stability, healthcare, culture and environment, education, crime rates and infrastructure. High scores of cities liveability helps in city's attractiveness to FDI. International investors are not keen to invest in cities with restricted movement due to safety challenges and with high crime rates.
	Talent pool	The ability of a country to provide skills required for work is critical to attracting FDI.

(Source:Nijkamp,2000).

Table 5.5 shows the elements of ecostructure. The emphasis is on inhabitable cities and the quality of life. The availability of talent pool was discussed in section 5.3.3 of the study.

#### 5.3.4 Accessibility

This study approaches the issue of accessibility as an important matter that has not been exhaustively discussed in previous work interrogating the factors to consider in choice of location for a BPO operation. Discussions in McIvor (2010)'s framework are centred on cost of procurement of infrastructure, the nature of transport networks and property costs. Surdea-Blaga (2020) emphasise on the availability of IT and Telecommunication infrastructure. While Surdea-Blaga (2020) talks about accessibility, the reference is on the accessibility of the city in which BPO operations will be potentially located. Penchansky and Thomas (1981) define infrastructure

accessibility in terms of whether the citizens of a country can easily access it or if it is adequate, appropriate, affordable, and available. A country can have good infrastructure but if it is not accessible to citizens, it does not help in economic development. Broad-band coverage and internet connectivity are at the core of success of BPO value chains as they service their stakeholders remotely through use of IT enabled applications which require internet connectivity. Internet speed and frequency of downtime in connectivity determines if a host country is good for international business. How well citizens access information and services that are available on various IT enabled applications determine the level of infrastructure accessibility. Internet connectivity enables citizens to explore job opportunities and widen their choices of services that are available on the world-wide web. The change in operating models by BPO companies from on-premises to remote working has made soft infrastructure important, so its accessibility has also become important.

Transport network is equally important in BPO value chains operations. If the company is offering real-time customer service, the employees have scheduled times that they should get to work to deal with customer issues. Customer service is one of the many ways in which a company can gain competitive advantage by creating customer loyalty through value added services (Schermerhorn, 2013). Employees should be able to access transport which efficiently and effectively gets them to work at the appointed time. Transport infrastructure promotes economic interactions by linking cities, residential areas and growth points that are capable of stimulating production and marketing activities. Transport also provides access to other goods and services. In addition to this, citizen mobility improves employment opportunities as linkage between areas of work is made efficient. Education opportunities open as a result of transport network. Education is important for helping alleviate poverty in developing countries, so access to it is important (Nuramo, & Haupt, 2016). According to Rode, Floater, Thomopoulos, Docherty, Schwinger, Mahendra & Fang, (2017), An efficient transport network enhances productivity, thereby contributing to the GDP. Reduced transport costs are the benefits of infrastructure development. Multinationals cannot operate efficiently in locations with reduced transport of efficiencies (Goetz, 2011). Crafts (2009) argues that economists agree that reduction



in long distance travel and communication has catalyzed globalization and reiterates that efficient transport reduces mean and variance of the journey.

Access to health infrastructure is not only a result of economic growth but an ingredient of sustainable development. Access also reduces poverty, improves educational performance, increases labour productivity, enhances investment climate and stimulates economic growth. As mentioned in earlier sections of the research, threats to human life have shifted from traditional infectious diseases resulting from infection to education (Frenk, Gómez-Dantés & Moon, 2014). The state must ensure that there are enough health care employees, access to education on health and organizational development.

A study done by Olvera et al. (2003) to investigate the impact of lack of access to infrastructure shows some of the findings below:

1. Limited access to job opportunities, slows down economic growth and the GDP gets affected.
2. Affects productivity of employees.
3. Hampers infrastructure development
4. Promotes social exclusion.
5. Hampers infrastructure development.

Infrastructure accessibility is critical to development especially in developing economies. Studies done by Hasan, Wang, Khoo, & Foliente, (2017) to investigate the accessibility and connectivity in human settlements in Australia show a positive relationship between access to infrastructure and economic growth.

### **5.3.5 Legislative framework**

The framework by McIvor (2010) refer to legal matters in terms of ways of resolving contractual disputes and data protection. In the same framework, government policy covers fiscal and financial issues including incentives. As indicated earlier on, it is easy to apply the framework where a country does not have to deal with colonial legacies that affect equality.

The role of government legislation in luring FDI is a focal point for developing economies wanting to promote economic growth (Marenga, 2019). Developing countries are formulating policies that balance the interest of citizens and local companies with those of foreign companies investing in their countries. The World Bank (2017) argues that countries that pursue the strategy of FDI for their development and growth strategy have an array of legislation and approaches which may help in maximising benefits. The South African government is one of the developing countries that have taken FDI as the core of sustainable development and growth and is promulgating policies that help in investment. The commitment of creation of a legislative framework that helps with FDI in the country and balancing the interest of its citizens is reflected in, among other policies, the following: The South African constitution, Protection of Investment Act, 2015 (Act), the Broad-Based Black Economic Empowerment Act, Protection of Personal Information Act, the Employment Equity Act, the Labour Relations Act, and the companies Act.

Unlike other African countries, South Africa is haunted by the past. Soon after independence in 1996, the country has used laws to deal with pre-independence challenges: The Black Economic Empowerment Act, and the Employment Equity Act, (Act 55 of 1998) for transforming the social and economic inequalities resulting from apartheid (Albertyn, 2011). Other Acts promulgated by the government which fall in the legislative framework pertinent to this study include the Companies Act, Labour Relations Act, and the Protection of Personal Information Act, (Act 4 of 13). Each is discussed below:

**a) The Black Economic Empowerment (BEE) Act (Act 53 of 2003)**

BEE is a policy enacted by the South African government as a business means of correcting the socio-economic challenges caused by the apartheid government on blacks. Ponte, Stefano, Roberts, and van Sittert (2007) write that the policy has come as a response to the character of white rule where assistance to poor whites was done at the expense of blacks through interventionist policies which sought strategic use of parastatals to propel Afrikaner nationalism.

The government uses it to promote black economic empowerment and reduce inequality (Ponte, Stefano, Roberts, & van Sittert, 2007). The racial groups expected to benefit are Africans, Coloureds, Indians, and Chinese. The government has published a code of good practice within which companies must operate if they desire to do business with the government. The BEE legislative framework is focused on redressing economic inclusion of black people. The BEE Codes of Good Practice gives an opportunity for multi-national companies to address the company ownership through an Equity Equivalent Investment Programme. The Government has discovered that there are some companies that have global practices which prevents them from complying with the equity element of BEE by conventional means of selling shares to local black South Africans and has since amended the provisions to provide alternatives to measure against this element (mediax, 2018).

Some authors argue that the historical context of BEE is embedded in the causes of the formation of African National Congress (ANC). The ANC was formed to protest over lack of political and economic inclusion of the black petty bourgeoisie through a non-violent persuasion of the British that educated elite Africans be included in the mainstream society (McKinley, 2011). The argument is thinking of the founding fathers of the organisation was aimed at ensuring that blacks also have a share in any existing political ideology. The author argues that Dr Xuma, the ANC secretary general at that time indicated whether capitalism existed or not was not the focus, but that blacks should have a share in any political system that would obtain where blacks would participate.

The following items from Shava (2017) discuss some of the features for BEE:

- **Ownership:** The Code of Good Practice helps outline the right of ownership of the enterprise as prescribed by the BEE compliance regulatory instrument measured through the generic scorecard with a weight of 25% (DTI, 2006).
- **Control:** this code allocates an element of management and evaluates black managerial efficiency in companies.
- **Employment equity:** Aimed at providing an equal chance to employment for people previously excluded from economic participation.

- Procurement: The codes stress out the elements of Preferential Procurement that outlines how a business should closely trade with other BEE firms complying with BEE suppliers and owner of black businesses.
- Skills development: Requires companies to upskill black people previously disadvantaged in strategic positions within the company with a view to managing success planning within the corporate.
- Enterprise development: establishing partnership for developing smaller enterprise for sustainability.

The BEE policy has been a subject of scrutiny by both the supposedly beneficiaries of the policy, the marginalised black people and the multi-national companies themselves. Ponte *et al.*, (2007) argue that only politically well-connected individuals like Cyril Ramaphosa, Patrice Motsepe, Tokyo Sexwale and Saki Macozoma were prominent beneficiaries of empowerment deals throughout BEE. All BEE beneficiaries have formed an elite class of wealthy black people. According to Shava (2017), the government need to revisit and evaluate the BEE policy as its implementation has not benefited the intended recipients and not aligned to other policies such as the National development plan. The BEE policy has also been criticised by multinational companies for counteracting the flow of FDI.

#### **b) Protection of Personal Information Act, (Act 4 of 13)**

Clarke (1989), as quoted in Bruyn (2014), indicates that the first data protection laws were enacted in the 1970s with the first recorded Data Protection Act enacted in West Germany Land of Hesse in 1970 followed by Sweden in 1973. The enacting of this type of legislation followed the advent of technology and computer applications which made it easier to store, retrieve and process information at a faster rate than before (Greenleaf, 2013). The advancement in technology left personal information accessible and at risk of abuse by unintended persons. Since then, global jurisdictions started protecting personal information in their countries and South Africa followed the global initiative by introducing its own Protection of personal information in 2013 as per section 14 of the constitution which accords every citizen the right to privacy. All companies whose business is based on collection, storing and dissemination of information are impacted negatively by this legislation.

The purpose of this act is to ensure that no personal information is accessible by individuals or bodies without consent of the concerned. It also seeks to protect people from unsolicited emails and to prevent any unauthorised exchange of personal information (De Bruyn, 2014). Personal information includes the following:

- Information regarding race, gender, sex, pregnancy, marital status, ethnic origin, sexual orientation, age, physical or mental health, disability, religion, culture, language, and birth (date, place, time, etc.)
- Information regarding education and employment
- Any identifying number, symbol, or address; and
- Biometric information

The enactment of this act will adversely impact corporations that collect, create databases, share and make use personal information as part of their day-to-day activities. Some of the BPO companies work with customers for whom they create databases for repeat communication. In some instances, they send unsolicited emails and text messages. When they operate in South Africa, they are expected to follow all the laws governing protection of private information. The POPI Act will force companies to change the way they store, share and use customer data. Matsubukanye (2014) shows that contact centres will be affected by POPI Act because, firstly, information they log and process must be stored securely, contact centre IT support companies who work on outsourced companies have to be governed by non-disclosure agreements which will help in ensuring that information or data is not abused and that outsourced contact centres are now obliged to use information only for the reasons it has been collected. This means an end to use of customer information for unsolicited marketing activities for which most of local outsourced contact centres thrive on. This Act implies that contact centres are now exposed to legal suits as the risk of transgressing data protection laws is high.

### **c) Employment Equity (EE) Act, (Act 55 of 1998)**

The democratic independence in South Africa in 1994 ushered in new human rights standards that advocated for equity and fairness. Prior to 1994, the apartheid system had conferred white people with privileges and rights at the expense of black people (Nzima & Duma, 2014). The rights and privileges ensured that white people were

considered first in employment and advancement in their careers regardless of whether their qualifications were inferior to those of blacks or not. The EEA of 1998 was enacted as an instrument for catalysing employment equity by ensuring that black people, who were previously excluded from employment opportunities, would have the same chances of employment and career advancement as their white counterparts (Ibid). Addressing the inequalities of the past was not only exclusive to South Africa, Nqcoo and Ladzani (2016) study two countries in which transformation was successfully done: Malaysia where a new economic plan was introduced in 1969 to eradicate poverty and deal with inequalities in the Malay society. The second one was in the United States in America in the 1970s where empowerment and eradication of poverty and inequalities especially for black people.

The employment equity was also designed to address employment challenges associated with the glass-ceiling effect against women (Nzima & Duma, 2014). Horwitz and Jain (2002) share the same sentiments as Nzima and Duma 2014 that the act was promulgated to deal with unfair work ethics that would promote discrimination, in any form, at workplaces to allow for recruitment and development of black managers. This implies that some positions are reserved for black manager development. This has an impact on companies as whether an EE employee delivers according to expected standard remains an issue to be tested.

The seven codes of the EEA which help in the monitoring and evaluation of the EEA are listed below:

- The Preparation, Implementation and Monitoring of Employment Equity Plans
- The Key aspects of HIV and AIDS and Employment
- The Employment of People with Disabilities
- The Integration of Employment Equity into Human Resource Policies and Practices
- The Code of Good Practice for the Basic Conditions of Employment and Pregnancy
- The Code of Good Practice on the Handling of Sexual Harassment Cases; and
- The Code of Good Practice on the Arrangement of working time

The enactment if this act was expected to address the challenges faced by blacks in terms of employment opportunities, but a report by Head (2020) shows that there are still challenges in ensuring employment equity. The following statistics show why:

- The employment demographics in the country black Africans constitute 78.9% of the national 'economically active population,' Coloured at 9.7%, Whites at 8.7%, and Indians at 2.7%
- The research shows, whites occupy 65.6% of senior management roles, reduced by 2.1% from 2017
- Indians occupy 10.3% of senior management roles, an increase of 1% in 2019
- Coloureds in 2019 occupied 5.6% of the senior management roles, up by just 0.5% from 2017
- Despite being the majority, Black South Africans occupy only 15.2% of senior management roles, a number which has not changed in the last 12-month period

The stats show that there are challenges in terms of transformation. Booysen (2007) argues that there are so many barriers to the implementation of the EEA. Among other reasons the author cites include the absence of commitment to top management, uncertainty on progress around EE progress, black people are selected for statistical purposes and not for what EE stands for, lack of cultural awareness and sometimes lack of black role models that are committed to the development of other black. The Black Management Forum is a pressure group that was formed in 1976 to exert pressure on transforming is working hard but corporates seem to betray their cause.

In the BPO sector, may FDI companies do not have the luxury of empowering and training black managers for employment equity because their Service Level Agreements are on very strict deliverables which are performance based. In addition, since the concept of outsourcing is a fairly new concept to South Africa, there are not enough skills to occupy roles in top management, so BPO companies come with their own human resource to occupy critical top positions.

**d) Labour Relations Act (LRA) (Act 66 of 1995)**

The objective of the labour law is to provide the employees, employers, and labour unions with the legal framework under which they interact to formulate industrial policy. LRA also helps to govern the fundamental rights of the employees, labour unions and employers as enshrined in section 23 of the constitution (van Eck, 2010). All the BPO GVCs are required to comply with LRA, failure to do so will result in them being taken to courts by either the employees or the trade unions.

**e) Companies Act (Act 71 of 2008)**

The purpose of the Act is ensuring that all the companies that operate in South Africa are legalised as legal entities and abide by the laws governing operation of companies in the country (Department of Justice, 2011).

Consequently, the following theoretical model was developed:



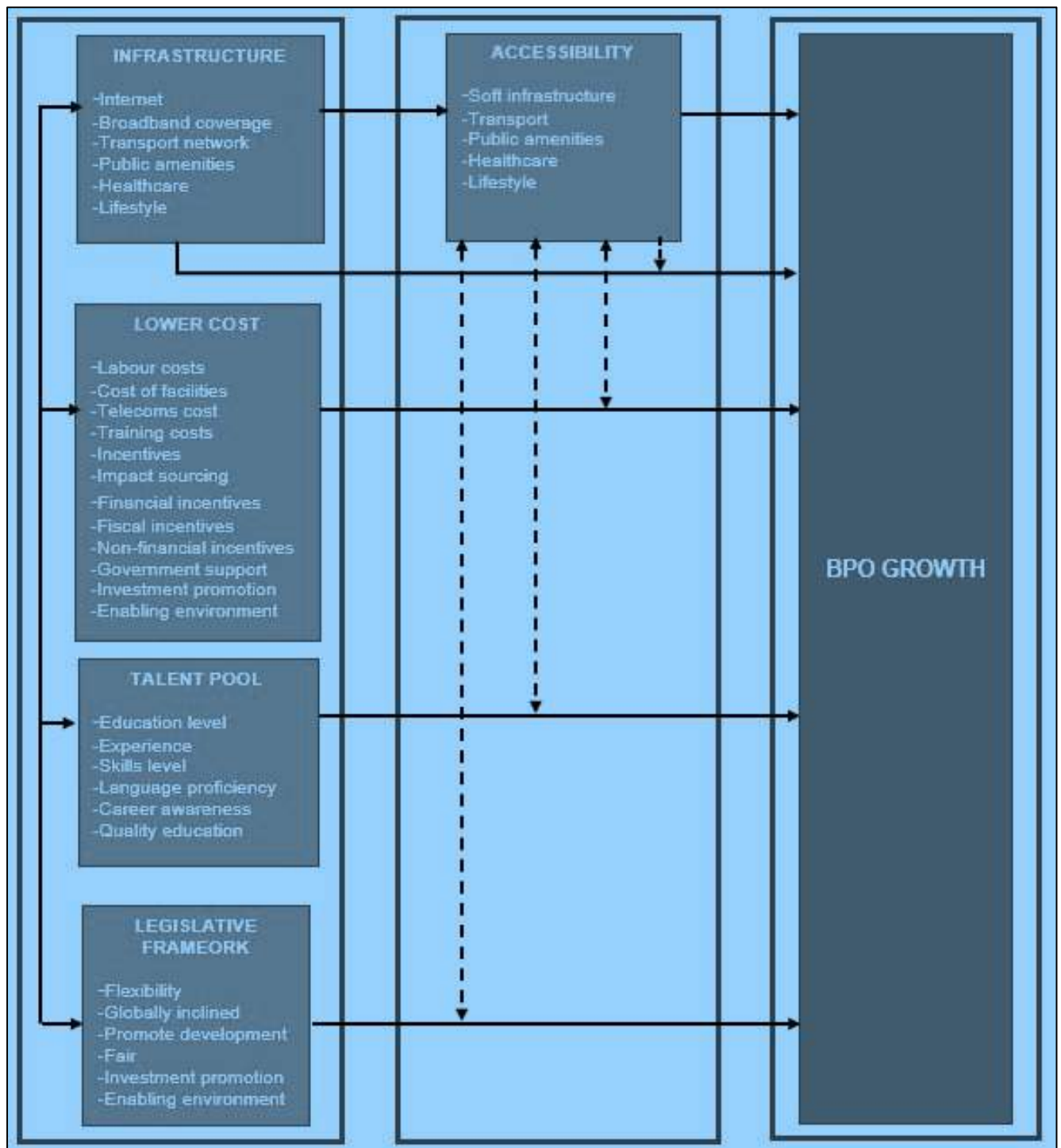


Figure 5.11: A proposed theoretical framework for BPO growth.

#### 5.4 Chapter summary

The chapter discussed work by McIvor (2010) which provides a framework for choice of location for outsourcing and offshoring which emphasises on infrastructure, political risks, legal matters, culture, Geo-distance, language, government policy,

labour issues and general labour quality. This was followed by Gerbl *et al.*, (2016)'s framework which divides the choice for location factors into firm level and process level. The firm level factors include availability of human capital with foreign languages, labour cost savings, performance evaluation capability and outsourcing experience. Of main interest to the study are the firm level factors. The chapter also outlined Surdea-Blaga (2016)'s factors for choice of location: Cost of labour, infrastructure, availability of a talent pool, accessibility of the city and other factors such as cultural factors. The chapter concluded by classifying sub-elements of factors in all the frameworks into broader categories (variables for BPO growth: Government policy, quality education, infrastructure, lower costs, talent pool and accessibility and legislative framework.

## **CHAPTER 6: RESEARCH METHODOLOGY**

### **6.1 Chapter overview**

This chapter details the underlying philosophical assumptions underpinning the study. The variables for BPO growth identified in the literature reviewed and the theoretical framework developed in Chapter five have influenced the suitable research method for the development of the structural model for sustainable growth of the BPO sector and the generation of new knowledge in the study. This is followed by discussion on why the deductive research strategy was preferred out of the four research strategies as indicated by Blaikie (2010), namely, deductive, inductive, deductive, retroductive and abductive. The chapter also discusses the dimensions of the research process as outlined by Terreblanche and Durrheim (1999): Ontology, epistemology and method. The existing theoretical assumptions and propositions led to the development of hypotheses that needed to be tested, therefore, a paradigm with a scientific approach where measurement techniques are used is appropriate for the study (Bryman,2012). In light of this, a positivist paradigm was adopted where a quantitative research approach was used to give scientific evidence of why and how phenomena occur using measurements. The chapter also shows how the differences in quantitative and qualitative research paradigms are rooted in different beliefs and worldviews (Mujiks, 2010). It is in this chapter that the research process and the sampling procedures are discussed. The chapter also describes the research process in which a web-based questionnaire will be used as a data collection instrument.

### **6.2 The research philosophy**

Research philosophy encompasses the expansion of knowledge and the nature of that knowledge (Suanders & Thornhill, 2009). The development and acquisition of knowledge is done through a scientific inquiry which originates from assumptions. This means that researchers are likely to have different assumptions on what the nature of truth and knowledge is and how it can be acquired (Babbie, 2011). According to Saunders and Thornhill (2009), the researcher's perception about what the link is between knowledge and how it is acquired influences the research philosophy that the researcher will adopt. Any research that is undertaken is deemed

to establish the truth that provides a solution to challenges that society faces at that particular time. According to (Cohen, Manion & Morrison, 2002), the only way to know the truth is through a scientific inquiry which proves whether the results of a scientific research are acceptable or through experiential learning. In the current study, research is expected to establish why the South African BPO sector is not growing and once the reasons are established, then solutions are provided in the form of a structural model. The means to the development of the model will be a function of assumptions underpinning the research strategy. Figure 6.1 below shows the research philosophy:

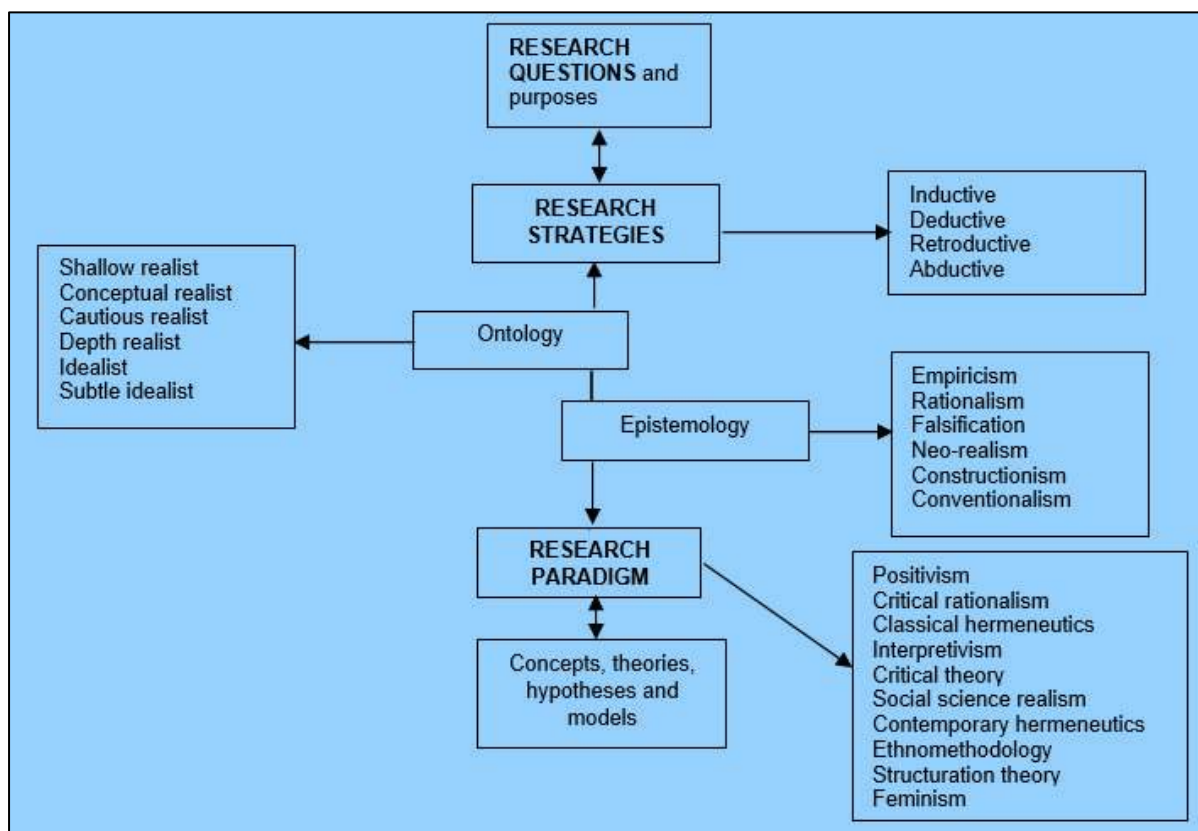


Figure 6.1: Research strategies and paradigm  
(Source: Blaikie, 2010)

Figure 6.1 above shows two major ways of categorising research philosophy: ontology and epistemology. The figure also shows deductive, inductive, retroductive and abductive the research strategies.

### 6.3 The research strategy

These research strategies set the basis upon which research questions such as what and why are addressed (Blaikie, 2010). Table 6.1 attempts to differentiate the research strategies in terms of their aim, ontological assumptions, epistemological assumptions, how research is started and how it is finished.

Table 6.1: Research strategies.

	<b>Inductive</b>	<b>Deductive</b>	<b>Retroductive</b>	<b>Abductive</b>
<b>Aim</b>	To establish descriptions of characteristics patterns	To test theories, to eliminate false ones and corroborate the survivor	To discover underlying mechanisms to explain observed regulations	To describe and understand social life in terms of social factors meanings and motives
<b>Ontology</b>	Cautious, depth or subtle realist	Cautious, depth or subtle realist	Depth or subtle realist	Idealist and subtle realist
<b>Epistemology</b>	Conventionalism	Falsification and conventionalism	Non-realism	Constructionism
<b>Start</b>	Collect data on characteristics and or patterns Produce descriptions	Identify regularity that needs to be explained	Document and model a regularity and motives	Discover very lay concepts, meanings
<b>Finish</b>	Relate these to research questions	Test hypotheses by matching them with data explanation in that context	Establish which mechanisms provide the best	Develop a theory and elaborate it

(Source: Blaikie, 2010)

In the current study, a deductive research strategy was adopted. The deductive research strategy is the most popular approach in social sciences where existing phenomenon provides the basis of explanation and allow for anticipation of phenomena (Saunders & Thornhill, 2009). The deductive research strategy was adopted because of the following reasons:

- It seeks to establish the links between concepts by revisiting theory, which can be tested. In the current study, the variables between BPO growth were established in theory reviewed and the association of these variables led to the development of hypotheses which needed to be tested.
- The explanations on the variables for BPO growth in South Africa are tentative and provide a possibility for adjustment and replacement.
- According to Robson (2002), the strategy allows for development of hypotheses from theory. In the study, eleven hypotheses were developed from existing theory.

As indicated in the earlier sections of this chapter, there are two major ways of examining research philosophy: Ontology and epistemology. These two major ways will be discussed in isolation below.

### **6.3.1 Epistemology**

Epistemology is a means of understanding knowledge and explaining how we have known the knowledge that we know (Crotty, 2003). The means of understanding what we know is important because what we have established to be justified true belief will constitute what will be considered acceptable knowledge in a field of study (Saunders & Thornhill, 2009). When analysing knowledge, epistemologists seek to understand what constitutes knowledge (Moser, 2002). The author further states that what has been set as the standard for analysing knowledge originates from Plato's Theaetetus, which indicates that knowledge is justified true belief. Blaikie (2009) identifies six epistemological assumptions which are important in placing the researcher's position in what is being studied. Six classes of epistemological assumptions are identified by Blaikie (2009), and the details of these assumptions are discussed on table 6.2 below.

In the current study, empiricism was adopted. Empiricism is an epistemological assumption which holds that what we consider to be justified true belief is through experimentation and from our sensory experience. What is experienced and what is observed, or sense data constitute the most credible means of knowledge acquisition (Hjorland, 2005). The justification for the choice of this epistemological assumption is discussed in section 6.3.2.

Table 6.2: Epistemology assumptions.

Viewpoint	Key principles	Strength (S) /Weakness (W)
Empiricism	Knowledge and ideas are derived from sense experience (a posteriori). Characterised by induction, sense perception. Reject innate knowledge principle	Strength- use approving or disapproving theories. Weakness-over-reliance on sense experience poses a problem as human perception is undependable.
Rationalism	Knowledge is acquired through reason. Characterised by deduction, innate ideas and maths. Logic and maths used to arrive at conclusions (a priori)	Strength- Explains well knowledge attained without any foundation in evidence. Weakness- rationalists tend to disregard facts.
Falsificationism	Hypothetico-deduction (Popper, 2010; Hjørland, 2005) for knowledge attainment. Rejects absolutism knowledge. Researcher's ontology is more of a cautious realist (Blaikie, 2009).	Strength- Reduced bias as researchers attempt to negate what is known. Weakness-Demarcation on what is or what is not theory without measurement or observation is suspect (Chalmers, 1999)
Neo-realism	Behaviour is determined by physical or organisational mechanisms. Depth realist ontology shapes neo-realist researchers.	Strength- provides all possible alternatives (empirical, real and actual domain)
Constructionism	Meaning is constructed instead of being discovered and is not inherent with the object (Crotty, 1998, Blaikie, 2009). Suggests multiplicity of interpretations to the same phenomenon, rejects absolutism or deterministic thinking.	Strength-best explains theory developed through constructivist grounded theory. Weakness-Constructionism falls short in explaining natural science.
Conventionalism	Theories do not equate to reality except in the minds of scientists (Blaikie, 2009). Associated with idealist ontology.	Strength: Offers alternative explanations to theories not only. Weakness: Over-reliance on social setting in interpretations

(Source: Dzvapatsva, 2020)

### 6.3.2 Justification for use of empiricism in the study

The choice of a research assumption from the categories provided by Blaikie (2010) on Table 6.2 is a difficult one. Firstly, the assumptions do not seem to be as different in practice as they appear to be in theory. For example, empiricism and rationalism both make use of deduction research strategy, which is more inclined to a quantitative research approach used in the study (Hjørland, 2005). Secondly, at face value, all the assumptions seem appropriate for the study, falsification makes use of hypothetico-deduction where a hypothesis is formulated in a form that is falsifiable but

demarcation on what is or what is not theory without measurement or observation is not credible (Chalmers, 1999).

The study adopted empiricism on the basis that all facts and phenomena should be empirical or scientifically based, implying that the assumption is more inclined towards quantitative research (Kivunja and Kuyini, 2017). The study developed a set of hypotheses which needed to be tested through quantitative data, so empiricism was appropriate for the exercise. The authors further argue that the process of investigating a research problem involves collection of verifiable data which supports a research problem.

Criticism of empiricism by some scholars like Russell (1935) argue that the definition of the concept is contestable. If the definition of empiricism is universally accepted as the belief that knowledge is derived from sensory experience, then valid questions on what constitute knowledge, what do researchers mean by “derived from” and what is sensory experience. The argument gets some researchers to a conclusion that what is considered as knowledge or perception is not the same to all people and that perception or knowledge is influenced by external factors. To deal with these challenges, researchers undertaking a quantitative study normally use questionnaires that are easy to understand and designed in a way that gives no room for open ended discussions, which is the case with this study.

### **6.3.3 Ontology**

According to Crotty (2003), ontology is the investigation of being. The concept is primarily concerned with what reality is. It is also concerned with questions relating to the assumptions that researchers have on how the world operates and researcher’s subscription to a particular view (Saunders et al., 2009). The concept is concerned with issues pertaining to whether there is a real world that researchers are not aware of (Guarino, Oberle & Staab, 2009). The underlying assumption by researchers is that the world in which they carry out research is populated by people who think independently and interpret and place meanings on phenomena the way they perceive it.



There are two aspects of ontology, namely, objectivism and subjectivism. The concept of objectivism is premised on the grounds that social objects exist in reality external players (Saunders, 2009). The basis of objectivism is that reality exists irrespective of what individuals or society experience. Underlying this principle is that reason is the only valid way knowledge is attained through concepts. Objectivism believe that researchers are detached from the research (Ibid).

The concept of subjectivism states that social phenomenon results from perceptions and actions of social actors (Dzvpatsva, 2020). The fundamental aspect of subjectivism is that it is difficult to separate the researcher from their research (Saunders et al., 2009). Subjectivism is more inclined to an interpretivist research paradigm. In the context of this study, the researcher believes that there is a reality out there which can be known through probability. The use of measurements to test hypothesis to develop a structural model for BPO growth in South Africa shows use of probability to predict outcomes of the relationships between variables and BPO growth shows adoption of a realist ontological stance.

#### **6.4 Research paradigms**

The study adopted a positivist paradigm. A research paradigm is defined by Chilisa and Kawulich (2012) as a shared world view representing what people believe and their value systems which determine how problems are solved. A world view is shaped by philosophical assumptions about the nature of truth with regards to what people believe or take to be the nature of reality (ontology), the means to knowledge (epistemological) and what we believe to be true (axiology). A paradigm, therefore, becomes instrumental in making inquiries about the nature of knowledge and ways of acquiring that knowledge or the methods we should use to understand the world around us. Concurring with Chilisa and Kawulich (2012), Rehman (2016) states that a paradigm is a research philosophy and theoretical framework that forms any inquiry. All the definitions above agree with Kamal (2019) that a research paradigm is basically the perceptions of the researcher about the world in terms of their beliefs and values. All the research methods are linked to the researcher's world view on linkages of different standpoints on how social reality must be studied.

The positivist paradigm was considered for the study because epistemological considerations in research are rooted in the doctrine of positivism which believes that common and objective reality exists but can only be confirmed by scientific research to test them (Newman & Benz 1998). Muijs (2010) concurs this assertion by reiterating that the fixed laws of cause and effect with which the world works, can only be verified and tested mathematically. Epistemology is, therefore, concerned with examining knowledge and the ways of ensuring its validity Rehman (2016). Table 6.3 from Chilisa (2011) shows the research paradigms and the differences in approach.

Table 6.3 from Chilisa (2011) shows that a research with a positivist paradigm is undertaken to establish laws that enable researchers to generalise the results. It also shows that the nature of knowledge is objective. The author argues that the truth out there is based on observation and measurement.

Table 6.3: Research paradigms.

	<b>POSITIVIST/ POSTPOSITIVIST PARADIGM</b>	<b>CONSTRUCTIVIST/ INTERPRETATIVE PARADIGM</b>	<b>TRANSFORMATIVE/ EMANCIPATORY PARADIGM</b>	<b>POSTCOLONIAL/ INDIGENOUS RESEARCH PARADIGM</b>
Reason for doing the research	To discover laws that are generalizable and govern the universe	To understand and describe human nature	To destroy myths and empower people to change society radically	To challenge deficit thinking and pathological descriptions of the former colonized and reconstruct a body of knowledge that carries hope and promotes transformation and social change among the historically oppressed
Philosophical underpinnings	Informed mainly by realism, idealism and critical realism	Informed by hermeneutics and phenomenology	Informed by critical theory, postcolonial discourses, feminist theories, race specific theories and neo-Marxist theories	Informed by indigenous knowledge systems, critical theory, postcolonial discourses, feminist theories, critical race- 6 specific theories and neo-Marxist theories
Ontological assumptions	One reality, knowable within probability	Multiple socially constructed realities	Multiple realities shaped by social, political, cultural, economic, race, ethnic, gender and disability values	Socially constructed multiple realities shaped by the set of multiple connections that human beings have with the environment, the cosmos, the living and the non-living
Place of values in the research process	Science is value free, and values have no place except when choosing a topic	Values are an integral part of social life; no group's values are wrong, only different	All science must begin with a value position; some positions are right, some are wrong	All research must be guided by a relational accountability that promotes respectful representation, reciprocity and rights of the researched
Nature of knowledge	Objective	Subjective; idiographic	Dialectical understanding aimed at critical praxis	Knowledge is relational and is all the indigenous knowledge systems built on relations
What counts as truth	Based on precise observation and measurement that is verifiable	Truth is context dependent	It is informed by a theory that unveils illusions	It is informed by the set of multiple relations that one has with the universe
Methodology	Quantitative; correlational; quasi-experimental; experimental; causal comparative; survey	Qualitative; phenomenology; ethnographic; symbolic interaction; naturalistic	Combination of quantitative and qualitative action research; participatory research	Participatory, liberating, and transformative research approaches and methodologies that draw from indigenous knowledge systems
Techniques of gathering data	Mainly questionnaires, observations, tests and experiments	Mainly interviews, participant observation, pictures, photographs, diaries and documents	A combination of techniques in the other two paradigms	Techniques based on philosophic sagacity, ethno- philosophy, language frameworks, indigenous knowledge systems and talk stories and talk circles

(Source: Chilisa, 2011)

Table 6.3 compares the different paradigms for each type of research and their influence on the methodology and methods chosen for the study. Since the research adopted a positivist paradigm, it will be discussed in detail below.

#### **6.4.1 Positivist paradigm**

Positivism is premised on the fact that truth and objective reality can only be established through scientific study. Bryman (2012) argues that positivism deals with scientific evidence of cause and effect of phenomena through measurement. Chilisa (2011) further argues that a researcher can only understand the social world through scientific evidence. Consequently, a quantitative research is best suited for testing hypotheses in the process of developing a structural model for sustainable development of the South African BPO sector. The study is influenced by theoretical assumptions and propositions, therefore, takes a deductive approach to relationship between theory and research.

The following factors have influenced the choice of the positivist paradigm:

- Assumptions about the nature of reality – what does the researcher believe about the nature of reality?
- Theoretical framework, literature and research practice – how does the researcher interpret, choose the literature and what drives his understanding and research practice?
- Value systems and ethical principles – what influences the researcher's value systems and ethics?

Positivists argue that if the subject under study comprises a constant reality, then researchers become objective in their stance and will believe that respondents' perceptions and assertions can neither be true nor false and neither correct nor wrong because knowledge consists of hard facts which can be known through a scientific inquiry (Bryman, 2012). The positivists also believe that what influences human beings is external to them, as a result the external environment plays an important part. This argument corroborates with the view that the positivist is detached from the inquiry (Wickman & Freeman, 1998).

Post-positivists argue that reality cannot be known with absolute certainty, an inclusion of probability into the nature of scientific inquiry would create more meaningful conclusions of objective reality. Guba and Lincoln (1994), as quoted by (Chilisa, 2011:8) give an example where absolute certainty poses challenges, “a million white Swans cannot prove that all Swans are white” but “one black Swan can disprove this point.”

#### **6.4.2 Justification for selecting a positivist paradigm.**

Positivist paradigm has been selected for the study due to the following considerations:

- The paradigm is rooted in the natural sciences which are appropriate for inquiry into understanding of the social world, therefore, an approach that uses statistical measurement to ascertain reality and probability is desirable for this study. Babbie (2011) supports this assertion that people are a phenomenon that requires a scientific study. A scientific study gives evidence of how and why things happen through a quantitative measurement Bryman (2012). In this study, hypotheses which needed to be tested were developed, which means that this paradigm is appropriate to prove or disprove theory
- The research paradigm enables researchers to make generalisations that are replicable in conditions that are similar and having similar characteristics. Countries with emerging economies like South Africa and have an apartheid or related experience should be able to make use of the results of the study
- In positivism, scientific rules of formal logic help to do away with the researcher’s subjective bias through logical deduction and exposition of propositions that are not grounded to any theoretical connection. Lee (1991) argue that positivists manipulate theoretical propositions using the rules of formal logic and hypothetico-deductive logic to deal with issues relating to falsifiability, logical consistency, relative explanatory power, and survival
- Although Muijs (2010) argues that it is inconceivable for a researcher to completely separate themselves from the research process because they live in the same world with the society they research, Chilisa (2011), maintains that in positivist paradigm, the researcher is completely detached from the research. Although the researcher is currently working in the sector, extra

caution will be exercised to maintain objectivity as much as possible using experience gained in producing similar articles which are still in use by the sector

- In order to deal with one of the most prominent shortcomings of scientific propositions in positivism that they cannot be tested through direct observation since they test relationships that are not observable, researchers use what Lee (1991) refers to as hypothetico-deductive logic that theorised variables to have consequences that are observable even if the variables themselves are not. In the current study, the consequences of theorised variables are observed in economic growth that is measured in GDP terms and job creation that is measured in headcount of new jobs created in each measurable period

## **6.5 Hypotheses development**

The purpose of hypotheses is to narrow the problem statement to predictions about what will be addressed in the study. They reflect predictions that a study makes on anticipated results of relationship about variables (Creswell, 2017).

### **Infrastructure and BPO growth**

A detailed and critical discussion on the importance of infrastructure to BPO growth has already been done on section 5.3.3 of this study. However, it is imperative to mention that the status, quality and the cost of infrastructure plays a critical role in choice of location for a BPO operation (McIvor, 2010, Gerbl *et al.*, 2016, Surdea-Blaga, 2020). Mat and Harun (2012) undertook a study to examine the role of infrastructure in influencing FDI inflows in Malaysia. Their findings indicate a significant and positive effect on FDI inflows. In addition, Azolibe, Okonkwo and Adigwe (2020) argue that when companies set up in locations with good infrastructure, they will not waste time in trying to construct infrastructure which is suitable for their operations. In the BPO sector, advancement in technology and the impact of Covid-19 has, in some way, transformed the nature of infrastructure required for successful operations. According to ABS Resources (2020), the infrastructure required for BPO growth has evolved from hard infrastructure to soft infrastructure which includes Broadband coverage and internet connectivity, network firewalls, standard operating procedures (SOPs), virtual private networks (VPN),

laptops and desktops. Thompson (2020) also highlights that a location which shows high levels of internet connectivity has the chances of attracting BPO investment.

Based on the above discussion, the hypothesis can be formulated as follows ( $H_1$ ):

*H<sub>1</sub>: There is a statistical significant positive relationship between infrastructure and BPO growth.*

### **Infrastructure and accessibility**

If citizens of a country do not have access to infrastructure, they will have limited access to job opportunity and hinders infrastructural development itself or promotes exclusion of other citizens in the economy and affects productivity (Olvera, Plat, & Pochet, 2003). Robust infrastructure which is not accessible to citizens, does not help in economic development. Infrastructure accessibility can be described in terms of whether the citizens of a country can easily access it or if it is adequate, appropriate, affordable, and available (Penchansky & Thomas, 1981).

Based on the above discussion, the hypothesis was formulated as follows ( $H_2$ ):

*H<sub>2</sub>: There is a statistical significant positive relationship between infrastructure and accessibility.*

### **Accessibility and BPO growth.**

Accessibility in this study is used to describe access to lower costs, favourable legislation, infrastructure and talent pool. Access to infrastructure enables BPO growth (ABS Resources, 2020), access to government support lowers the costs of operation for BPO companies (Ginevicius & Simelyte, 2011) and access to education creates a talent pool which promotes BPO growth (Miningou & Tapsoba, 2017).

In light of the above, the hypothesis was formulated as follows ( $H_3$ ):

*H<sub>3</sub>: There is a statistical significant positive relationship between accessibility and BPO growth.*

### **Lower costs and BPO growth.**

The lower costs that result from government incentives in form of fiscal, financial and non-fiscal/financial incentives help a country to FDI (Ginevicius & Simelyte, 2011). These incentives are capable of attracting BPO companies as choice of location for a BPO operation is mainly a function of cost (Tomiura, 2018). Peck (2017) believes that traditional influencers of choice of location for BPO companies are cost driven, so lower costs are likely to result in BPO growth.

Based on the above, the hypothesis was formulated as follows ( $H_4$ ):

*H<sub>4</sub>: There is a statistical significant positive relationship between lower costs and BPO growth.*

### **Talent pool and BPO growth.**

Companies that invest in offshore locations or which invest at a global scale will be looking for cheap talent among other reasons (Schermerhorn Jnr, 2013). BPO companies also consider the availability of talent pool before making a choice of investing in a location (Everest, 2019). A country that is a large talent pool which allows expansion of operations at cheap prices whenever necessary is a candidate for BPO investment. It is likely that availability of a wide talent tool results in BPO growth.

Consequently, the hypothesis was formulated as follows ( $H_5$ ):

*H<sub>5</sub>: There is a statistical significant positive relationship between talent pool and BPO growth.*

### **Legislative framework and BPO growth**

Any country intending to attract investment should model their policies in line with global policies to allow for investment. Marenga (2019) believes that governments, especially in developing economies, should make it their priority that legislation attracts investment. The World Bank (2017) agrees with Marenga (2019) that countries that have prioritised FDI have an array of policies that promote investment. The arguments of Marenga (2019) and the World Bank (2017) have led to the formulation of the hypothesis as follows ( $H_6$ )



*H<sub>6</sub>: There is a statistical significant positive relationship between legislative framework and BPO growth.*

**Correlation between infrastructure, lower costs, talent pool, and legislative framework.**

The availability of talent pool in international investment lowers down the costs of labour (Schermerhorn Jnr, 2013). Growth of FDI is supported by a highly skilled talent pool, infrastructure development and enacting rules that promote investment (Marenga, 2019). Infrastructure development enables skills development through creation of an enabling environment for learning.

Based on the above, hypothesis was formulated as follows (*H<sub>7</sub>*):

*H<sub>7</sub>: There is a significant statistical correlation between infrastructure, lower costs, talent pool, and legislative framework..*

**Accessibility mediates the relationship between legislative framework and BPO growth.**

The legislation enacted by a country aimed at facilitating growth of BPO companies should be easily applied and accessible to all BPO companies. The Department of Science and Innovation (2018) indicated that companies fail to access incentives resulting from government policies because the process is either onerous or is fraught with administrative glitches. Accessibility is explained in terms of how the enacted laws and regulation that facilitate BPO FDI can easily be accessible to investors. In South Africa, some Acts enacted by the government to redress the inequalities during apartheid conflict with investor interests, for example, the access to the DTIC requires international companies to have a party of their equity ceded to South Africans (Shava, 2017).

In light of the above, the hypothesis was developed as follows (*H<sub>8</sub>*)

*H<sub>8</sub>: Accessibility mediates the relationship between legislative framework and BPO growth.*

### **Accessibility mediates the relationship between infrastructure and BPO growth.**

Countries that have a robust infrastructure suitable for BPO work are likely to attract BPO companies in their location (Peck, 2017). In order for country to attract FDI flows, it must have an efficient transport network, good water management, stable electricity supply, public health systems and industrial sites. This is complemented by knowledge, networks, communication, education, and culture. ABS Resources (2020), in the knowledge economy under which the BPO sector falls, recent changes have fuelled changes of infrastructure required for BPO work; Broadband coverage and internet connectivity, network firewalls, standard operating procedures (SOPs), Virtual Private Networks (VPN), laptops and desktops. Accessibility to this type of infrastructure by the citizens is important for BPO growth (McIvor, 2010).

Based on the above, the hypothesis was formulated as follows ( $H_9$ ):

*H<sub>9</sub>: Accessibility mediates the relationship between infrastructure and BPO growth.*

### **Accessibility mediates relationship between lower costs and BPO growth.**

The most common pull-factors that influence a company to choose a location for offshoring and outsourcing or investment are cost-driven (Peck, 2017). It is important for a potential BPO location to facilitate access of BPO FDI to support through various incentive schemes which are fiscal, financial or non-financial/fiscal (Ginevicius & Simelyte, 2011). The government can also avail access to services of IPAs and shoulder the marketing budgets of BPO companies by institutionalising commercial diplomacy in target markets (Skabic, 2015). Access to free marketing collateral, free talent pool and infrastructure makes it easier for BPO companies in terms of cost saving. Accessibility mediates relationship between lower costs and BPO growth.

Following the above arguments, the hypothesis was formulated as follows ( $H_{10}$ ):

*H<sub>10</sub>: Accessibility mediates the relationship between lower costs and BPO growth.*

### **Accessibility mediates the relationship talent pool and BPO growth.**

Access to a large skilled talent pool in an investment location is considered as one of the critical determinants of FDI (Teixeira & Tavares-Lehmann, 2014). When investors invest in a location, one of the pull-factors is access and availability of cheap labour

(Schermerhorn, 2013). In their study of human capital and FDI flows, Noorbakhsh, Paloni and Youssef (2001) concluded that human capital is a statistically significant determinant of FDI inflows. It is the responsibility of government to ensure that a country has an accessible wide talent pipeline that will meet labour demands of both domestic and foreign investment.)

Following the discussions above, the hypothesis was, therefore, formulated as follows ( $H_{11}$ )

$H_{11}$ : Accessibility mediates the relationship between talent pool and BPO growth.

Figure 6.2 shows hypotheses development:

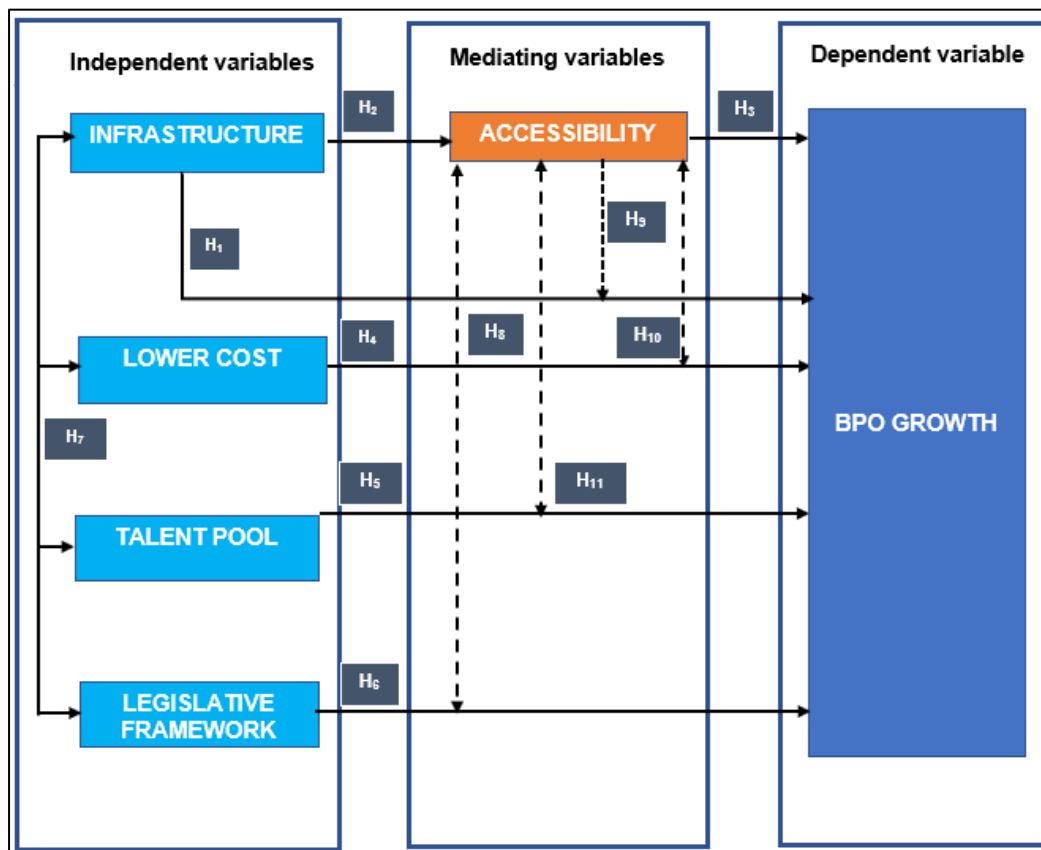


Figure 6.2: Hypotheses development  
(Source: Researcher's own work)

## 6.6 Context of study and selection of research area

Over the past decade, South Africa has been facing challenges of unemployment and slowed economic growth (Oluwajodu *et al.*, 2015). The key economic sectors of South Africa face a hostile economic environment resulting from intense competition from

global products (IDC, 2019). South Africa is flooded with cheap product alternatives from China and making it hard for economic sectors like manufacturing, wholesale and retail trade, financial services, transport, mining, agriculture, and tourism to stimulate growth and reduce unemployment. To deal with the challenge of unemployment, the South African national and provincial governments have identified the BPO sector as a key growth sector because of low capital requirements. The sector has potential to compete favourably with other countries because the country has an annual supply of fresh talent of more than 600,000 from Universities and Tertiary Institution (Everest, 2019), a critical consideration when a BPO GVC makes a choice for an investment location for their operation (McIvor, 2010, Gerbl et al., 2016, Surdea-Blaga,2020).

This research was carried out in South Africa across the country's nine provinces. In South Africa, all provinces have laxity to economic creativity which can stimulate job growth and economic development. The research could have been undertaken in any developing economy which has identified BPO as a key growth sector and likely to yield the same results, but South Africa was chosen because it meets the requirements of the study area as outlined below:

- South Africa has a history of inequality dating back to the time of apartheid (Ponte et al., 2007). After independence, the country enacted laws to address these challenges but some of these laws conflict with the interests of BPO FDI and do not serve the purpose for which they were enacted (Shava, 2017). Models for BPO growth in other countries are not likely to be a good fit
- Level of maturity of the BPO sector in South Africa that is able to compete at global scale (Everest, 2019)
- South Africa already has some international BPO companies operating in the country already (Nelson Hall, 2015)
- The country's alignment to the fourth industrial revolution and its ability to host knowledge and IT intense investment (Everest, 2019)

In addition to the above, the Researcher is a Research analyst for the BPO sector in South Africa and has established relationships with the BPO GVCs.

## **6.7 Research approach**

The research approach can distinctively be divided into two:

- a. How data is collected
- b. How data is interpreted and analysed

According to Chetty (2016), data can be collected either quantitatively or qualitatively depending on the nature of the study. The data collected can either be analysed deductively or inductively, also dependent on the how the data has been collected. All the research methods are linked to the researcher's opinion on linkages of different standpoints on how social reality must be studied and construed. The choice of the research approach, coupled with the researcher's assumptions and views on how research should be conducted, influence the process that is followed throughout the research process. Martin Trow, an American scholar on British higher education in the 1960s, as quoted in Bryman (1984), argued that the problem which the researcher wishes to investigate normally forces them on the appropriate research method. A quantitative research approach has been chosen for the study.

According to Creswell (2012), a quantitative approach relies on testing and examining relationships among variables or determining the cause and effect. On the other hand, a qualitative approach explores and understands the meaning people ascribe to a problem. While the two approaches seem to be as different in practice as they appear to be in theory, Newman & Benz (1998) argue that the two research approaches represent two ends of the continuum to an extent that a research can only be referred to as more quantitative than qualitative. The choice of the quantitative approach has been largely influenced by the research statement which, in a way, seeks to establish factors that influence the growth of BPO. For such studies, a quantitative research is suitable for testing the relationships.

### **6.7.1 Rationale for selecting the quantitative approach.**

In line with arguments by Terrell (2012), the researcher has selected a quantitative approach due to the following arguments:

- Literature reviewed led to the development of hypotheses which need to be tested. The numerical data collected will be used to test and show relationships

between variables initially identified and BPO growth. A quantitative approach uses statistical measurements to determine cause and effect

- The research type has an objective nature of knowledge
  - The research type will also allow the researcher to examine degrees of variations in related variables. Any activity in one variable triggers a form of some activity in another variable (Castro, Kellison, Boyd & Kopak, 2010)
- Trends and relationship between variables are easy to describe quantitatively

## **6.8 Research process**

The research process is in two phases, the first phase involves review or interrogation of existing literature on BPO value chains. The second phase involves a quantitative survey.

The first phase of literature review is important because all current theories or new scientific discoveries rest on the shoulders of theories or discoveries that were made before them. Examination of existing literature becomes necessary to ensure that development of the model is done using reliable research that has been done in the past. Literature review helps to avoid duplication of research, identify gaps that exist in literature and formulate the problem statement and hypothesis (Cooper, 1998). The literature reviewed provided a contextual view of the problem under study, this placed the research appropriately to link it with previous studies.

The second phase involved a quantitative survey. This stage involved scientific testing of hypothesis and quantitative measurement of relationships between variables that were identified in the literature review. In this phase, the population, sample, sampling procedures and the research instruments were determined. Details of how these elements of the research design were determined will be discussed in detail in the ensuing sections of the research.

### **6.8.1 Research population and population units**

A research population refers to universe units on whom a scientific study can be conducted (Levy & Lemeshow, 2008). The units are also referred to as objects of study. The population units do not necessarily refer to humans, they may be units

representing countries, towns, or companies Bryman (2012). The population suitable for the study comprises all links in the global BPO value chains. The research population units include the following:

Table 6.4:Units of population characteristics.

Unit of population	Characteristics making unit suitable for the study
Executives of international and domestic BPO companies	International BPO companies are the ones that do extensive research or due diligence before they make a choice of location for a BPO operation. Domestic companies are conversant with location characteristics.
Executives of international and domestic BPO service providers	Service providers, both domestic or international are conversant with location characteristics and provide BPO companies with support service required. They also make extensive research making them good candidates respondents for the study.
Executives of relevant national and local government officials in South Africa	Government officials, especially in the Department of Economic Development, are the ones that are mainly tasked with attraction of investment and promoting sustainability. This makes them suitable for the study.
Investment Promotion Agencies	Have data repository for investment and are also tasked to do destination marketing.
Special Purpose Vehicles	They are responsible for clustering the sector. This is a BPO SPV.

(Source: Researcher's own work, 2018)

The population units listed above are considered global BPO subject matter experts whose input will be deemed important and would positively influence the outcome of the research.

### 6.8.2 Sampling and sampling procedure

Carrying out a survey on the entire population of interest will involve too many respondents, as such, a statistically representative group must be selected from the entire population (Majid, 2018). The sample selected must reflect similar demographic characteristics as the population such that it becomes easier and feasible to generalise the outcomes of the research from the sample to the entire population (Thompson, 2012). The procedure or strategy of selecting a study sample varies from one study to the other, dependent on the characteristics of the research population and the research problem. Table 6.4 shows the sampling strategies that studies can use for sampling:

Table 6.5: Sampling strategy.

Strategy	Description
Convenience	The most accessible or available participants
Simple Random	Everyone in the population of interest has equal chance to being selected as a research participant
Stratified Random	Simple random sampling but within predefined subgroups (e.g., nationality)
Cluster	Simple random sampling but within naturally occurring subgroups (e.g., patients admitted to different department of one hospital)

(Source: Majid, 2018)

The population of interest comprises strata or subgroups from which a representative sample from each subgroup must be selected, a stratified probability sampling method has been chosen for the study. Using a simple random sampling method is likely to result in sampling error because the sampling frame has units which have different totals of respondents in different strata. This method bases its concept on randomisation. According to Terrell (2012), a probability method is one in which each member of the sample has equal chances of being selected which allows the researcher to compute an estimate of the accuracy of the sample even before the



study is done. A stratified random sampling method ensures that sample is reflective of or represents the strata distribution in the population.

### 6.8.2.1 Sample size

The number of participants that are required for a particular study are the sample size (Creswell, 2017). The objective of having a sample size is mainly to enable the researcher to make inferences about the entire population of interest from a sample (Taherdoost, 2017). The author further argues that in the sampling procedure, what is critical is the absolute size of the sample that gets selected, the research objectives and the type of statistical analysis that will be used in the study. Although researchers generally agree that bigger samples provide more representation in a research, the decision on the sample size is largely influenced by the sampling error margin, the time, costs, and the likelihood of non-response. While a larger sample comes with a small sampling error it carries a lot of costs and elongated time of research Bryman (2012). Taherdoost (2017) Cost consideration, feasibility of using a bigger sample and time constraints were all considered during selection of the sample. Sampling guidelines from and Qualtrics.com were adopted for sampling decisions.

The researcher used sampling procedure guidelines as provided by Qualtrics.com and Majid (2018). Qualtrics .com provides an online calculator which was used to calculate the sample size. With a confidence level of 95% and an error margin of 5% for population sizes of the strata, the following sample has been computed:

Table 6.6: Population and sample size.

<b>Units of Population</b>	<b>Population</b>	<b>Stratified Sample</b>
Executives of domestic and international BPO companies	101	80
Executives of support service providers	70	60
Government officials	15	15
Executives of Investment Promotion Agencies and Special Purpose Vehicles	10	10
<b>Total</b>	<b>196</b>	<b>165</b>

(Source: Researcher's own work, 2021)

Table 6.6 Shows strata of units of population considered for the research totalling 196 with a selected stratified sample of 165 respondents. The domestic and international BPO companies had the highest number of respondents that were selected, followed by government officials and support service providers.

### **6.8.3 Measurements constructs**

In the process of developing the structural model for BPO growth in South Africa, common method variance (CMV) can significantly affect the relationship between the dependent and independent variables. Buckley, Cote and Comstock (1990) define CMV as the amount of spurious covariances among variables due to the common method used in data collection. Malhotra, Kim and Patil (2006) argue that this type of method bias causes challenges as the actual subject under study becomes difficult to separate from measurement artifacts. The study used a self-administered Likert scale questionnaire in which the respondent responded to all questions at once making it susceptible to CMV (Podsakoff, MacKenzie, & Podsakoff, 2003). In line with the authors argument, the study was susceptible to CMV through the following:

- Common rater effects
- Item characteristics effects
- Item content effects
- Measurement content effects

If these effects were not addressed, it would have resulted in measurement error which would have threatened or distorted the validity of the conclusion about measures. To deal with challenges of CMV, the study adopted the following recommendations from Maholtra et al., (2006):

1. Protected respondent anonymity and reduced evaluation apprehension - the respondents were informed that their responses will be kept anonymous and that there is no right or wrong answer in the questionnaire. This helped in preventing the respondents from aligning their responses to the expectations of the researcher.
2. Improved the scale items – Using guidelines from Tourangeau, Couper, and Conrad (2007), the study defined terms which were otherwise not familiar to the respondents, did not make use of unclear concepts and kept the questions clear and understandable with no double-barrelled questions.

3. Use of Herman's single factor test – determined if the majority of the variance can be accounted for in one general factor

#### **6.8.4 Data collection instrument: Questionnaire**

The researcher used a web-based self-completion five-point Likert scale questionnaire to collect data for validation and testing relationships between variables of the model: Talent pool, talent pool, infrastructure, accessibility, lower costs, legislative framework and BPO growth. Rea and Parker (2014) describe a web-based questionnaire as one where respondents get a questionnaire via email to complete a survey using a computer or mobile applications through internet. The authors use the following reasons to justify use of a Likert Scale:

- Easy to administer – since the questionnaire is completed on a computer or mobile phone, respondents can complete it in any geography and even in the comfort of their own homes
- Faster – data can be collected and analysed within a short space of time
- Cheap – since administering a web-based questionnaire does not involve travelling and postage, this method of data collection method is cheap

Although web-based questionnaires have all the advantages mentioned above, they discriminate computer illiterate people and favour those who have computers and access to internet (Rea & Parker 2014). People also get sceptical about web-based surveys. Suitably, the sample selected for the research are knowledge workers who use computers, mobile phones and have access to internet.

The five-point Likert scale ranged from strongly disagree, disagree, neutral/indifferent, agree to strongly agree. The five-point Likert scale was chosen because the answer options are not confusing resulting in reliable scores and response accuracies (Colman, Norris, & Preston 1997).

##### **6.8.4.1 Research instrument validity**

Quantitative validity refers to a situation where responses obtained from the sample are meaningful measures of the concept under study (Delpont & Roestenburg, 2011).

Bryman (2012) enumerates different types of validity as face validity, content validity, construct validity and criterion validity.

Valid mainly centres on the ability of the questionnaire to test or measure concepts for which it has been designed to measure. Therefore, the way the research instruments are designed is important as researchers draw conclusions from information obtained using these research instruments (Fraenkel, Hyun, & Wallen, 2012). Considering these factors, the researcher ascertained or established validity using the following strategies:

- Face validity – was achieved through use of a qualified statistician together with subject matter experts to determine if the research instrument measures will reflect the concept concerned
- Construct validity – The researcher developed hypotheses through literature interrogated. The research instrument tested theoretical deduction by examining the relationship between antecedents established in literature review
- Piloting and pretesting – Piloting and pretesting of the questionnaire helped the research to assess validity through initial assessment of the responses in relation to the hypotheses being tested. The Questionnaire used for the research was new

#### **6.8.4.2 Instrument reliability**

Reliability can be considered as the ability of a research instrument to yield results that are consistent and predictable over time. Reliability is possible if the research instrument measures the same things once and the same results are realised (Delpont & Roestenburg, 2011). Cronbach -Alpha was used as a coefficient of reliability to analyse the relationships among a set of variables identified in theory interrogation. The instrument reliability tests enabled the questionnaire to yield the same results if independently administered to different subjects within the same sample (Bryman, 2012). Although high reliability of the questionnaire cannot ascertain valid results, it will be difficult to get credible results without some degree of reliability. The following section of the study summarises the measurement variables in the study:

As suggested by Neuman (2013), the researcher adopted the following procedures to increase reliability:

- Each antecedent or variable is covered by two or more questions;
- Avoiding equivocation or punning in the phraseology of the questionnaire;
- The questionnaire will be made neither too easy nor difficult to understand to moderate the effect;
- The instructions will be made standard to all the respondents;
- Piloting and pretesting will be an essential component of the research to ascertain validity;
- The reliability of the research instrument was measured using Cronbach's Alpha coefficient using statistical packages. The measurement resulted in a scale reliability coefficient of 0.9689, implying that it is reliable and has internal consistencies. Delpont and Roestenburg (2011) provide the following guidelines that indicate how Cronbach's Alpha coefficient should be interpreted:
  - a. 0.90 - High reliability;
  - b. 0.80 - Moderate Reliability;
  - c. 0.70 - Low Reliability.

### **6.8.5 The pilot study**

A pilot study determines if a study should go ahead or not and if the study is going ahead, it provides a guideline of the roadmap (In, 2017). Van Teijlingen and Hundley (2001) define a pilot study as a miniature version of full study which seeks to pre-test the suitability of the chosen study research instrument and to assess the practicality of the choice of instrument distribution channel. The authors argue that a pilot study is not a quality assurance guarantor but helps with early warning signs of where the study is likely to fail.

The pilot testing of the research questionnaire happened concurrently with the pilot study. The pilot was executed on 10 respondents who are subject matter experts and BPO companies, to help in determining the accuracy and adequacy of instructions given to the respondents. The respondents for the pilot study were executives (who are chiefs of the roles of either marketing or operation) of both international and

domestic companies, executives of both international and domestic service providers. The executives for both units of population under study have at least five years of experience in BPO operations and marketing. This requirement makes the pilot study respondents suitable. In order to qualify for the pilot study, government officials needed to have at least five years of experience in the Department of Economic Development preferably as Sector Support Specialist. Investment Promotion Agencies, like Wesgro in the Western Cape, and BPO SPVs qualified for the pilot study by virtue of being associated with investment promotion.

In the piloting and pretesting of the questionnaire, a qualified statistician performed a reliability test, and the result was a Cronbach alpha scale reliability coefficient of 0.9689 which showed that the questionnaire had internal consistency. Since the respondents were part of the research sample, the pilot data was included in the main survey data analysis.

#### **6.8.6 SEM**

SEM is a causal inference method that accepts three inputs (I) and produces three outputs (o) (Pearl, 2012). The author lists the outputs below:

1. A structural equation model represents a set of qualitative causal hypotheses based on theory or empirical study results. The hypotheses are usually founded on assumptions, with only a portion of them being able to be validated or evaluated with facts.
2. What is the size of the direct effect of X on Y (expressed as  $X \rightarrow Y$ ) when all other supposed sources of Y are controlled for? All inquiries are based on the model specification.
3. The majority of SEM uses are in nonexperimental designs, however data from experimental or quasi-experimental designs can also be analysed.

The outputs are also indicated below:

1. Given the data, numerical estimates of model parameters for hypothesized effects such as  $X \rightarrow Y$ .

2. A set of logical implications of the model that may not directly correspond to a specific parameter but that still can be tested in the data. For example, a model may imply that variables W and Y are unrelated, controlling for certain other variables in the model
3. The extent to which the testable implications of the model are supported by the data

The study considered Analysis of variance(ANOVA), multiple linear regression and path analysis. All these methods were not able to test the relationship between latent variables such as those assessed in this thesis. As a result, the author chose to use SEM because it integrates the strengths of correlation, multiple linear regression, path analysis and ANOVA. Although both ANOVA and multiple regression analysis can account for multiple dependent variables, they are limited in the way the relationships between these variables are stated. Also, a variable can be an independent or dependent variable, but not both. SEM can take both analysis situations into account. For example, a set of variables could be used to predict a pair of outcomes that are correlated, uncorrelated, or related in a way that traces one back to the other.

#### **6.8.7 SEM conceptual models underpinning the study**

To model very complex relationships between indicator variables, SEM framework is appropriate for the exercise (Stein, Morris & Nock, 2012). According to Dragan and Topolsek (2014), SEM is a combination of confirmatory factor analysis (CFA) and the multiple regression analysis and measures relationships between observable variables and latent factors. Exploratory factor analysis (EFA) provides relationships between the measured variables and the latent factors (Ibid). The structural part of the model enables causal relations of constructs to be studied. Figure 6.3 summarises how SEM will be modelled during the analysis of data:

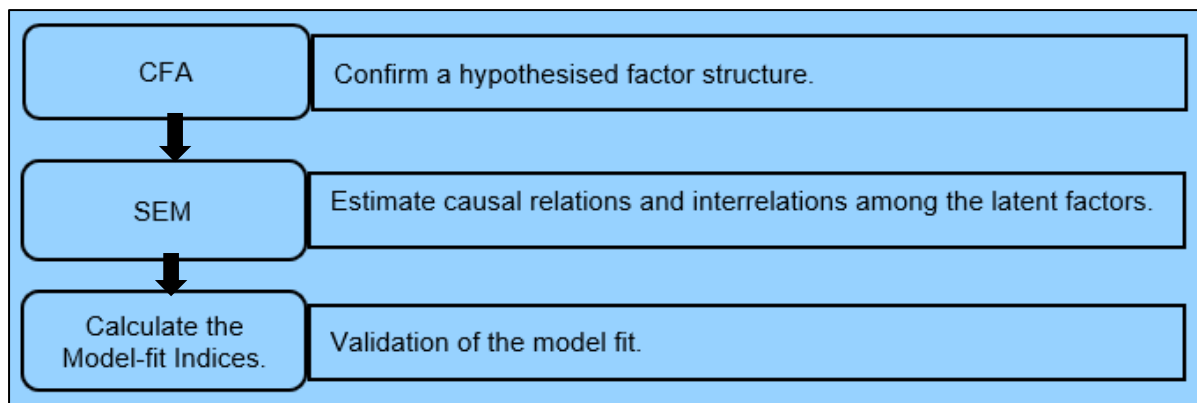


Figure 6.3: SEM modelling design  
(Source: Researcher's own work)

### 6.8.8 Data analysis

The first step in the data analysis involved the preparation of raw data into meaningful computer-readable format (Babbie & Mouton, 2001). According to O'Gorman & MacIntosh (2015), there are four main steps in the preparation of data: editing, coding, entry, and cleaning. Data editing was not necessary in this research because the responses are automated. Data was coded and entered into SPSS for analysis. To analyse relationships, the study used SPSS Amos V25 using SEM to determine the relationships among the variables hypothesised in the literature reviewed. SEM analysis was used to establish the degree to which the theoretical model is supported by sample data as indicated by Schumacker and Lomax (2016).

The following techniques were used to establish the fitness of variables from the proposed model:

- Confirmatory factor analysis – for testing hypotheses about commonality among variables (Hooper, Coughlan, & Mullen, 2008)
- Multiple regression analysis- for estimating relationship among variables which have reason and result relationship (Uyanik & Guler, 2013)
- Standardised Root Mean Square Residual (SRMR) – to measure the difference between the observed correlation and the predicted correlation. (Hooper, Coughlan, & Mullen, 2008)
- Comparative Fit Index (CIF)- for analysis of the model fit through study of the inconsistencies between the data and the hypothesized model (Hooper, Coughlan, & Mullen, 2008)



- CMIN/DF (Chi-Square divided by degrees of freedom)- for showing an acceptable fit between model from hypothesis and data from the sample (Kline, 2008)

### 6.8.9 Managing the research quality

According to Lanati (2018), the means of obtaining data in research are increasingly becoming easier due to the knowledge economy and the availability of data and information on the internet. However, researchers have become cautious and are more concerned with the quality of research, whether it is reliable and reproducible. Failure to rely on and to reproduce a research could be a function of improper data management and processing. Use of quality management in research is gaining popularity (Kelly *et al.*, 2003). Figure 6.4 shows the levels of reliability and the levels of objective achievement in research:

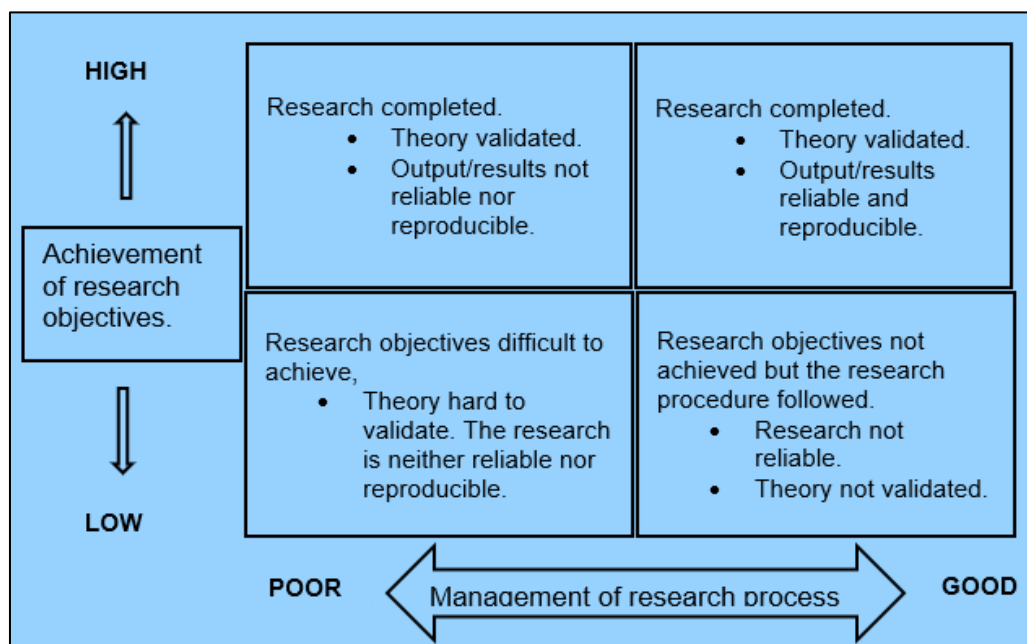


Figure 6.4: Research quality.  
(Source: (adapted) Kelly *et al.*, 2003).

Figure 6.4 shows that the way a research process is managed affects the quality of output. Ideally, the management of research process must be good and the achievement of research objectives high.

In light of the above discussion and in line with guidelines from Kelly (2003), the researcher did the following to ensure that Total Quality Management is adopted throughout the research process:

- Designing a clearly outlined research procedure
- Production of an understandable research instrument with appropriate language registers
- Clear instructions on how to administer the questionnaire on the part of the respondent
- Rigorous training for research assistants

Consequently, choice of an appropriate research instrument is a very important consideration in a quantitative research.

## **6.9 Chapter summary**

The chapter described the research paradigms, methodology and the methods that the researcher used for the study. Epistemology, theoretical concepts, methods, and methodology were discussed as key elements. The chapter also discussed how existing theoretical assumptions in the Literature reviewed led to the development of hypotheses that needed to be tested and why an epistemological consideration was appropriate for a scientific approach where measurement techniques are useful for the exercise Bryman (2012). Consequently, quantitative research approach was chosen for the study, adopting a positivist stance in order to give scientific evidence of why and how things occur using measurements. The chapter also showed how the differences in quantitative and qualitative research paradigms are rooted in beliefs and worldviews of the researcher about them; quantitative having a realist or positivist approach while qualitative being considered subjective Muijs (2010). It is in this chapter that the research process and the sampling procedures were discussed. The sample was drawn out of a population comprising Executives of international and domestic operators, international and domestic service providers, analysts, local and national government executives. A discussion of the shortcomings of the chosen methodology was made. The chapter also described the research process in which a web-based questionnaire was used as an instrument of data collection to test

hypothesis. The reliability of the research instrument was measured using Cronbach's Alpha coefficient and scale reliability coefficient of 0.9689 was obtained.

## **CHAPTER 7: PRESENTATION AND ANALYSIS OF DATA**

### **7.1 Chapter overview**

This research was motivated by the need to develop a structural model for sustainable growth of the South African BPO sector to deal with challenges of high unemployment. It was carried out in two phases: The first phase involved review of related literature while the second phase collected data from respondents using a questionnaire. This chapter presents and analyses quantitative data collected to measure the relationship between variables and latent factors, assess the impact of variables on BPO growth, and to make recommendations for BPO growth. The chapter also discusses the following techniques used to establish the fitness of variables from the proposed model: Multiple Regression Analysis, SRMR, CFI and CMIN/DF.

### **7.2 Findings from literature review**

The findings from the theoretical framework on figure 1.2 in section 1.10 from literature review shows lower costs, talent pool, infrastructure, accessibility and legislative framework as variables that are catalytic to BPO growth.

### **7.3 Participation and response rate**

According to Baruch and Holtom (2008), the rate of response for a survey determines whether the results of a survey are credible or not, with a low response rate likely to cause statistical distortions. Despite data collection being done at a time when all South African BPO companies were grappling with the devastating effects of Covid-19 and adapting to Work-From Home (WFH) Models, none of the response rates of the sample strata was below 70%, with the overall response rate at 71.5%. Although Baruch and Holtom (2008) argue that there has not been any consensus amongst academics on what constitutes an acceptable response rate, this research adopts recommendations by Mangione (1995) who, as quoted in Bryman (2012), categorises the response rate as follows: Below 50% the response rate is not acceptable, 50-59% barely acceptable, 60-69% acceptable, 70-85% very good while over 85% is very excellent. It can then safely be concluded that the overall response rate and the

response rates within the strata are credible for the purposes of the study. Table 7.1 details the response rate in the sample strata:

Table: 7.1: Response rate.

Units of population	Population	Sample	Frequency	Response rate
Executives of BPO companies	101	80	58	72.5%
Support service providers	70	60	42	70.0%
Government entities	15	15	11	73.3%
Executive of IPAs and SPVs	10	10	7	70.0%
<b>Grand Total</b>	<b>196</b>	<b>165</b>	<b>118</b>	<b>71.5%</b>

(Source: Researcher's own work)

Table 7.1 shows the units of population that comprise the South African BPO ecosystem, the sample strata, and the response rate. BPO companies, which include local and international operations, were the biggest unit of study, followed by support service providers also at domestic and international level. The highest response rate was recorded among government entities at 73.3%, followed by the BPO companies at 70.0%. The reason for the high response rate from government entities could be attributed to the fact that they are keen to participate on surveys that would help with any model that would grow the BPO sector in South Africa.

## 7.4 Data presentation and analysis

The first section of the questionnaire required profiles of both companies and executives under study (see annexure 1) in terms of operation, markets, experience, and services. The results are presented below:

### 7.4.1 Type of operation

The type of operation refers to the nature of the organisation of the respondent. This question was important to ascertain whether the respondent's company is operating in South Africa as a result of FDI or it is a local establishment. Most of the companies in the BPO value chain are represented in the sample. Any change in one of the links of the value chain causes some changes in other sectors.

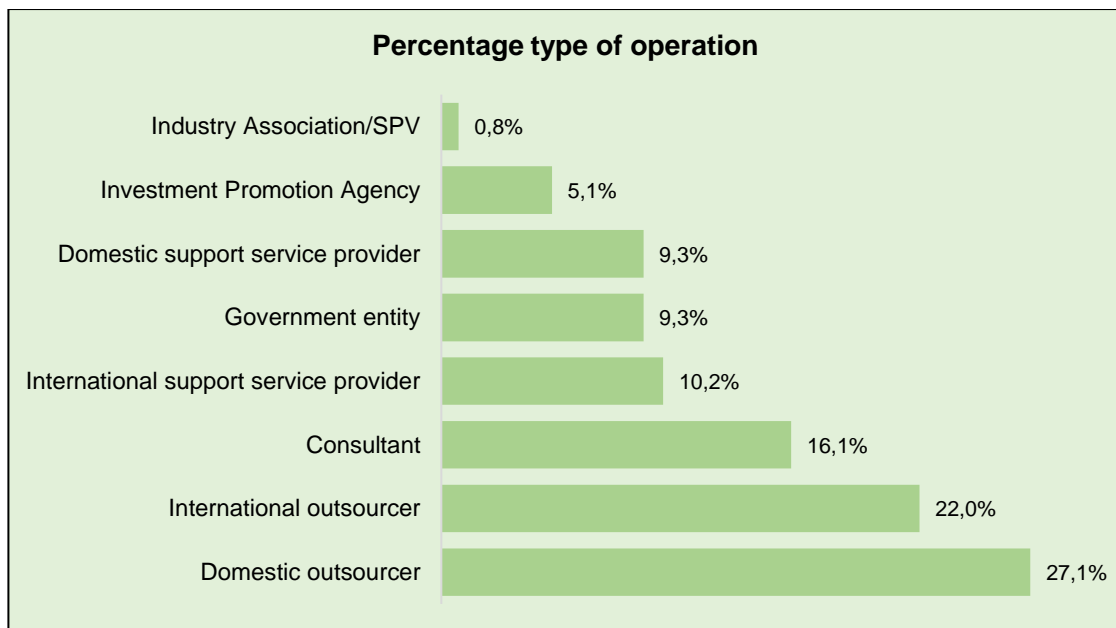


Figure 7.1: Type of operation.  
(Source: Researcher's own work)

Figure 7.1 shows that domestic outsourcers are more than international outsourcers at 27.1% and 22% respectively. These results are consistent with the report published by BPESA which shows that international outsourcers are fewer than domestic operators, with international outsourcers accounting for only about 30% of the outsourcing market in South Africa (BPESA,2018). The reason for fewer international outsourcers could be attributed to fierce global market competition to attract BPO FDI which is dominated by India and the Philippines which are more mature markets than South Africa. A high number of outsourcer respondents raises some confidence level because other types of operations are indirectly influenced by actions in the outsourcing environment. As indicated by Castro, Kellison, Boyd and Kopak ( 2010), any economic or social activity in BPO triggers change in other elements of the ecosystem such as support service providers.

In terms of support service providers, there are more international service providers than domestic ones at 10.2% and 9.3% respectively. It is more likely that since BPO is fairly a new concept to South Africa, international companies procure services from their own service providers for continuity of their best practice and now also expanding into local space or that domestic companies are also providing support service to international companies.

### 7.4.2 Markets or environment serviced

Figure 7.2 shows markets that are being serviced out of South Africa by BPO companies:

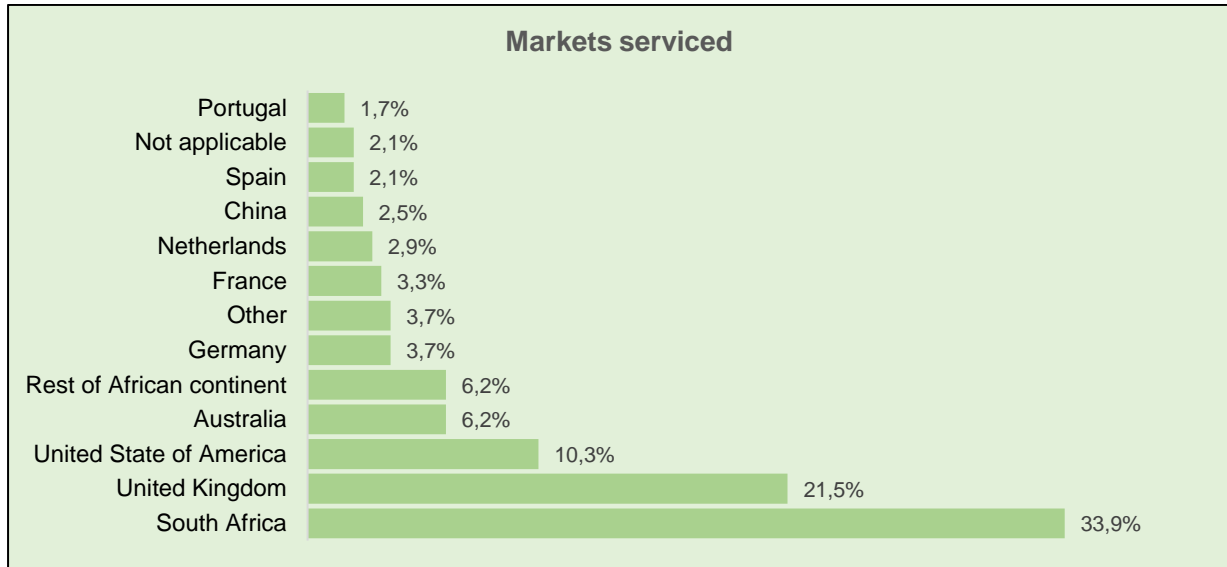


Figure 7.2: Markets or environment serviced.  
(Source: Researcher's own work)

According to figure 7.2, the respondents show that most of their BPO activities operate out of South Africa, at 33.9%. The reasons can be attributed to the fact that since domestic outsourcers constitute the highest number of BPO operations in the country. Figure 7.2 also shows that the UK is the biggest market for international business, followed by America and Australia at 21.5%, 10.3% and 6.2%. The data from the research seems not consistent with data from Everest (2018) report which gives higher percentages of market share as follows: UK 77.6%, Australia 10.9% and the United States 1.2% and other markets 10.3%. The discrepancies in the figures might be arising from the fact that Everest data is from the entire population yet for this study a sample was used. Regardless of the differences, the message remains the same that UK is a major source of South African BPO business.

The other markets like Portugal, Spain, China, Netherlands, France, Germany, and Other markets account for smaller market shares partly due to absence of capability to service markets in foreign languages as agents employed in that capacity come at an extra cost.

### 7.4.3 Number of years of operation in South Africa

Figure 7.3 shows the number of years all the companies in the BPO ecosystem have been operating in the country.

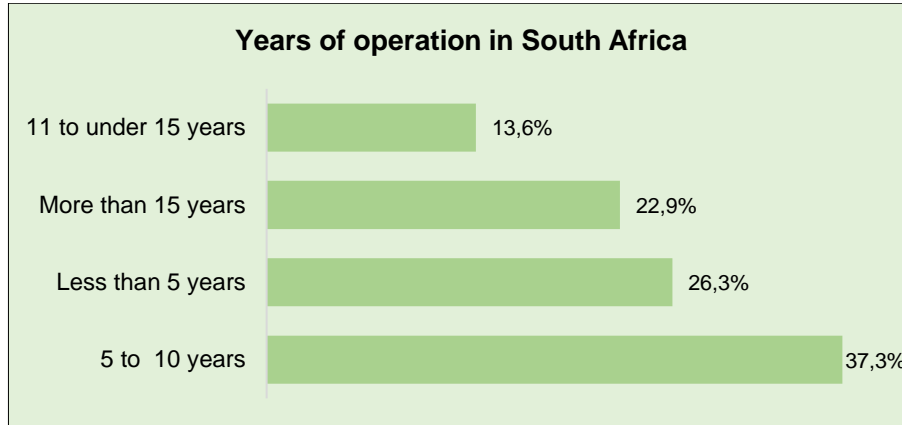


Figure 7.3: Years of operation in South Africa.  
(Source: Researcher's own work)

According to figure 7.3, the South African BPO sector is maturing, with over 20% of operations at both domestic and international level having been in operation for more than 15 years. Although the growth of years in operation does not translate to growth of the sector itself, its potential is shown by the number of operators between 1 and 10 years who are all fairly new market entrants at 63.6%. The data shows that companies still have confidence in the sector as those of less than five years are at 26.3%. Although the growth potential of the sector is exhibited in the figures, the actual growth of the sector in absolute numbers remains constricted. The lower percentages of companies which have operated for more than fifteen years in the country could mean two things; firstly, when companies stay long enough to exhaust all the incentives available and when their salary bill balloons through escalation, they disinvest and change location. Secondly, mergers and acquisitions happen to disrupt or enhance the growth process. Examples, which have been given earlier, include Teletch, a large American IT company which exited the South African market partly due to management blunders and partly due to exhaustion of incentives from the government (Mawson, 2010). In 2012, Fusion Outsourcing Services (Pty) Ltd was acquired by WNS. The years of operation of BPO companies have been further broken down as follows:



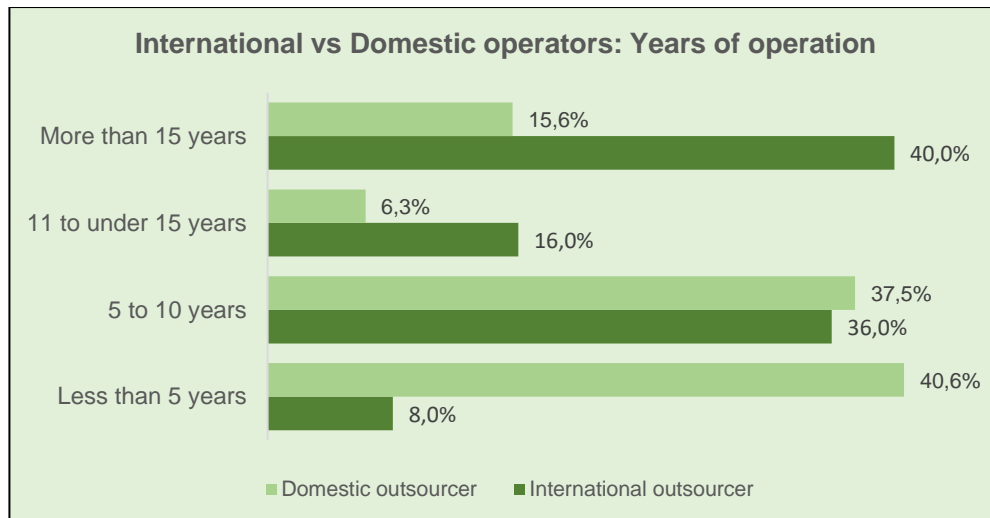


Figure 7.4: International vs domestic years of operation in South Africa.  
(Source: Researcher’s own work)

Data on figure 7.4 shows that international BPO companies are more mature than domestic ones, 40% having operated in the country for more than fifteen years while only 15.6% domestic ones have done so. The data on figure 7.4 corroborates with data on Figure 3.15 (investment timelines) that bulk of BPO FDI in South Africa has taken place between 2010 and 2015. Interestingly, there was only about 8% of BPO new FDI in the past five years. This implies that growth that has taken place on the international market is primarily organic growth. Conversely, the bulky of the domestic market has seen opportunities in the BPO sector and having started their businesses less than five years ago, at 40%. Coincidentally, the percentage of international companies that have operated over fifteen years is equal to the number of domestic companies that have operated for less than five years. The distribution of the data, in terms of years of operation, may imply that international companies will always have a competitive advantage over local ones as long as there are no policy interventions. Most of the local companies lack experience to bid favourably against international ones for both local and international outsourcing opportunities.

#### 7.4.4 Level of processes

Data shown on figure 7.5 shows the level of processes in South African BPO as complex, non-complex and highly complex.

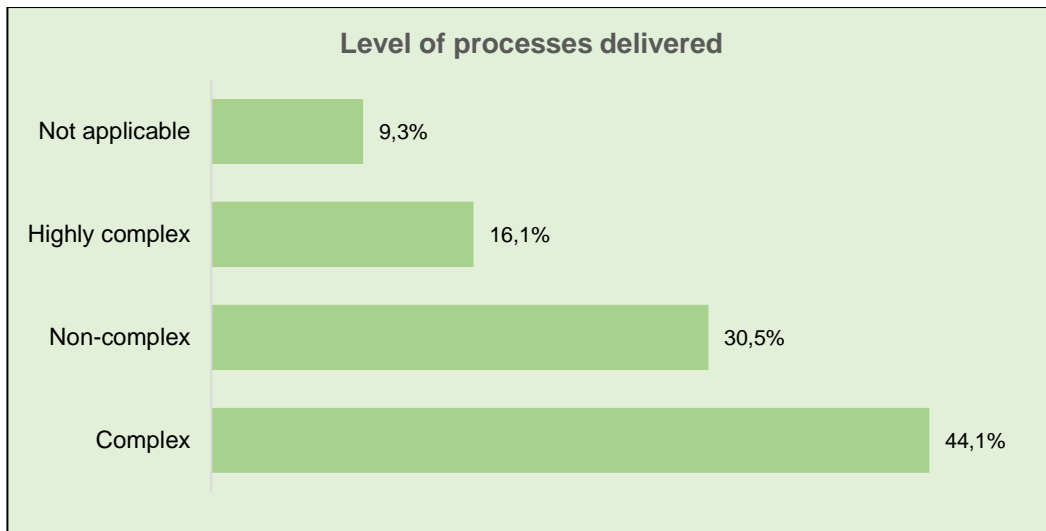


Figure 7.5: Level of processes.  
 (Source: Researcher's own work)

Figure 7.5 shows that South Africa mainly delivers complex services, at 44.1%, followed by non-complex processes at 30.5% and highly complex processes at 16.1%. Other respondents in non-contact centre operations account for 9.3%. These findings are not consistent with data contained in the BPESA 2018 key indicator report. The report indicates that the voice, which is a non-complex delivery, constitute about 80% of South Africa's delivery in contact centres. The discrepancies in these findings might have been as a result of two things: Data used by BPESA is from the entire population and complexities arising from differences of what constitutes a highly complex or a complex work. The complexities of processes might differ from one establishment to another depending on the type of operation, service rendered and the qualifications of the person rendering the service. Differences in these definitions might be regarded as sources of inconsistencies. The processes for the contact centre operations have been broken down by type of operation below:

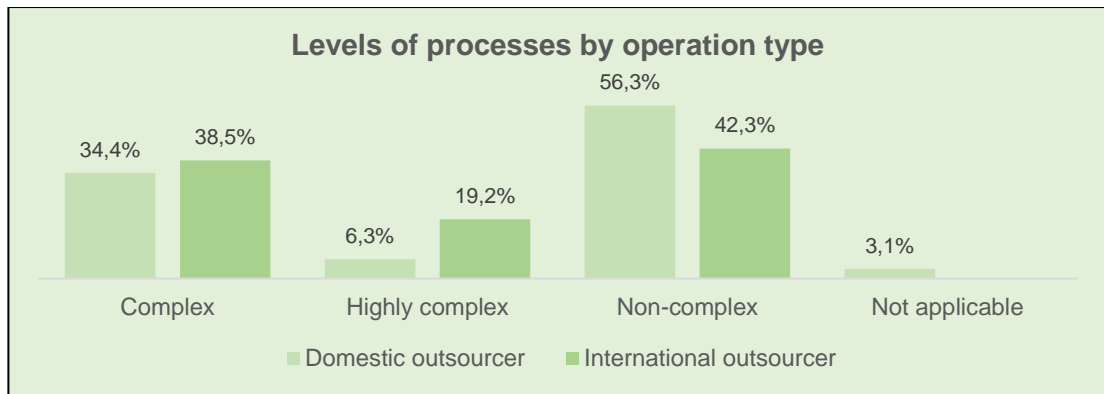


Figure 7.6. Level of processes by operation type.  
(Source: Researcher's own work)

According to figure 7.6, international companies deliver more on complex and highly complex processes at 19.2% and 38.5% respectively. Although data inconsistencies noted on figure 7.2 explanation is applicable here, it is imperative to mention that international companies might be bringing into South Africa BPO best practice capability which enables them to perform processes requiring these skills. It is also noteworthy from figure 7.6 that domestic outsourcers are high on non-complex processes, at 56.3% compared to 42.3% of international outsourcers.

#### 7.4.5 Profession of respondents

The profiles of the people that participated in the survey are shown on the graph below.

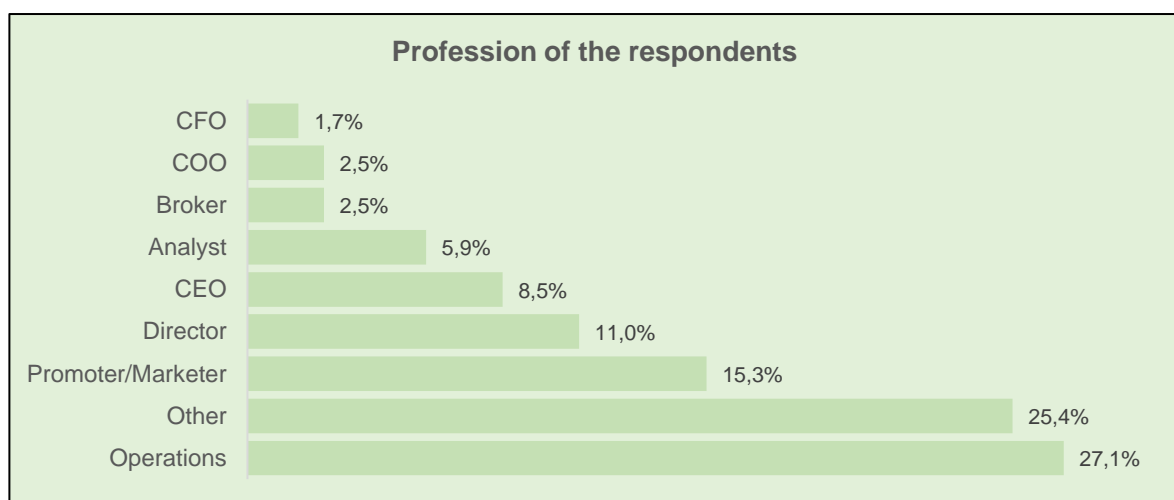


Figure 7.7: Profession of responses.  
(Source: Researcher's own work)

Figure 7.7 shows various occupations of respondents involved in the survey. The profile of respondents includes people involved in the organisation's planning (at strategic, tactical, and operational level), organising, leading, and controlling functions, so a balanced view of the sector is likely to be obtained from the responses. In addition to this balanced array of respondents, figure 7.8 below shows their years of experience in BPO. The years of experience in BPO are important because experience may be essential in determining what works and what does not work in a BPO strategy.

#### 7.4.6 Experience

Figure 7.8 shows the years of experience of the respondents. The more the number of years, the more they are likely to respond to the survey with confidence and from a knowledge point of view

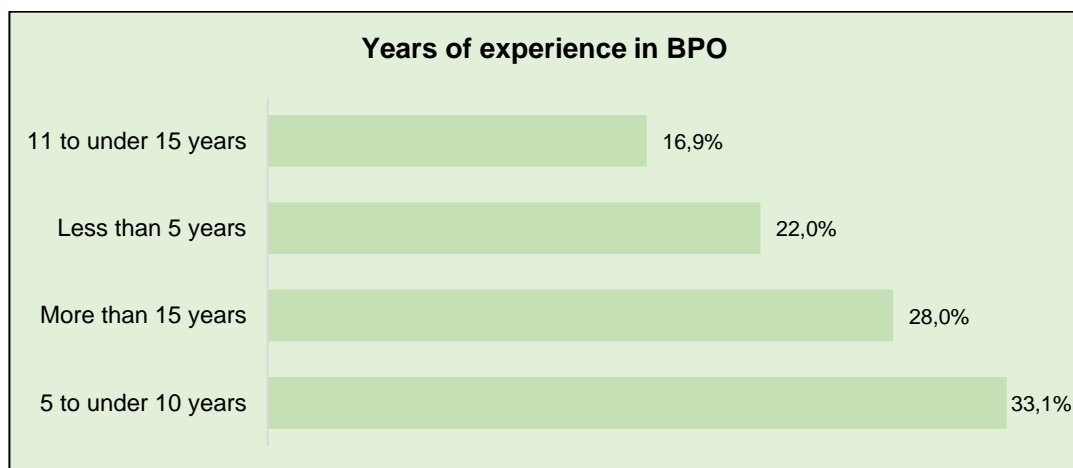


Figure 7.8: Respondents' years of experience in BPO.  
(Source: Researcher's own work)

According to figure 7.8, at least 88% of the respondents have more than five years' experience, a period which might be adequate to understand the company's macro-environmental variables and BPO location dynamics. The data also shows that most of the respondents have five to under ten years of experience which is credible for responding to BPO questions raising the credibility levels of the research.

## **7.5 Results from SEM**

The primary aim of the study was to develop a structural model for the sustainable growth of the South African BPO sector. The model was statistically tested for its suitability to promote growth of the BPO sector in the country. The variables in the model include infrastructure, lower costs, talent pool, legislative framework and accessibility. The relationships among the variables were tested and analysed through Confirmatory Factor Analysis (CFA) to assess the latent variables that affect BPO growth. The items in the questionnaire were grouped according to the hypothesis they were designed to answer. Each hypothesis is analysed separately using a confirmatory factor analysis. In addition, the overall model supporting BPO growth is assessed. The relationships among these variables were tested using SPSS Amos V25 using Structural Equation Modelling (SEM) to determine the correlations among the variables hypothesised in the literature reviewed.

### **7.5.1 Use of Confirmatory Factor Analysis**

CFA was chosen to validate factor structure founded on the literature that guided its construction. According to Prudon (2014), CFA has become the preferred measurement because it shows the inconsistencies between the predicted structure and of the statistical structure and the goodness of fit indices. The following model fit measurements were performed to assess the suitability of the model to promote BPO growth in South Africa.

### **7.5.2 Variable questions retained and reliability: (Source: SPSS, Amos)**

During the process of data analysis, some of the questions which were initially part of the analysis for each variable were discarded while others were retained. Table 7.2 shows the questions retained out of the initial questions which were under analysis:

Table 7.2: Questions retained in the study

Variable	Initial number of items	Items carried forward
Talent pool	6	3
Lower costs	12	3
Infrastructure	13	4
Legislative framework	7	3
Accessibility	8	3

(Source: SPSS, Amos)

Table 7.3: Cronbach's alpha coefficients for variables.

Variable	Cronbach's Alpha	Reliability
Talent pool	0.792	Acceptable3
Lower costs	0.922	Acceptable3
Infrastructure	0.958	Acceptable4
Legislative framework	0.922	Acceptable4
Accessibility	0.915	Acceptable4
BPO growth	0.656	Acceptable

(Source: SPSS, Amos)

Table 7.3 shows that the Cronbach's alpha coefficients for variables in the study range from 0.656 to 0.958 which is acceptable.

### 7.5.3 Model fit indices for structural model for BPO growth in South Africa

Goodness-of-fit indices are used in SEM to assess the fit of a model to data (Mulaik, James, Van Alstine, Bennett, Lind & Stilwell, 1989). The authors further argue that the index must not only show if a tested model fit but also how close it is to the data. In line with recommendations from Hair, Black, Babin, Anderson, and Tatham (2006) that at least three indices must be used to test a model, the following goodness of fit indices on Table 7.4 were used in the study.

Table 7.4: Cut-off criteria.

Measure	Terrible	Acceptable	Excellent
CMIN/DF	> 5	> 3	> 1
CFI	<0.90	<0.95	>0.95
SRMR	>0.10	>0.08	<0.08

(Source: Gaskin and Lim, 2016)

The results of the tests are shown below:

Table 7.5: Model fit indices

Measure	Estimate	Threshold	Interpretation
CMIN	269.763	--	--
DF	134.000	--	--
CMIN/DF	2.013	Between 1 and 3	Excellent
CFI	0.929	>0.95	Acceptable
SRMR	0.067	<0.08	Excellent

(Source: Gaskin and Lim, 2016)

#### a) CMIN/DF

The acceptable CMIN/DF value for this measure is anything between 1.0 and 3.0. The results show that the CMIN/DF value is 2.013 which shows that the model is an excellent fit.

#### b) CFI

The CFI values range from 0 to 1, with higher numbers reflective of a good fit. According to Gaskin and Lim (2016), CFI values that are <0.90 are terrible and as a result any values  $\geq 0.90$  may be considered as acceptable fit as .90 is interpreted as a cut-off. In this study, the model CFI value is 0.929 indicating an acceptable fit.

### c) SRMR

The cut-off for a good fit model is <0.08. The study results show that the SRMR value is 0.067 indicating an excellent fit.

## 7.6 Standardised regression weights for BPO structural model

Table 7.6: Standardised regression weights.

Predictor	Outcome	Std Beta	Label
Infrastructure	Accessibility	.515 ***	Significant
Lower costs	Accessibility	.056	Not significant
Talent pool	Accessibility	-.080	Not significant
Legislative framework	Accessibility	.362 ***	Significant
Infrastructure	BPO_Growth	-.408 **	Significant
Accessibility	BPO_Growth	.551 ***	Significant
Talent pool	BPO_Growth	.843 ***	Significant
Legislative framework	BPO_Growth	-.266 †	Significant
Lower costs	BPO_Growth	-.015	Not significant

(Source: SPSS, Amos)

Significance of Estimates (Gaskin, & Lim, 2016):

\*\*\*  $p < 0.001$

\*\*  $p < 0.010$

\*  $p < 0.050$

†  $p < 0.100$

The p value should be <0.05 as any larger p value suggests that any alterations on the predictor are not linked to changes in the response.

### 7.6.1 Relationship estimates

In order to establish the existence, the direction, extent, and statistical significance of association among variables, researchers need to make an analysis of variable



association (Kultar, 2007). Table 7.7 shows the results of the correlations tests performed to establish variable association.

Table 7.7: correlation.

Correlation			Estimate	S.E.	P	Label
Legislative framework	↔	Lower costs	-0,329	0,108	0,002	Significant
Talent pool	↔	Lower costs	0,24	0,072	***	Significant
Infrastructure	↔	Lower costs	-0,303	0,101	0,003	Significant
Infrastructure	↔	Legislative framework	1,126	0,213	***	Significant
Talent pool	↔	Legislative framework	-0,126	0,115	0,274	Not significant
Infrastructure	↔	Talent pool	-0,018	0,109	0,867	Not significant

(Source: SPSS, Amos)

Significance of Estimates (Gaskin, & Lim, 2016):

\*\*\*  $p < 0.001$

\*\*  $p < 0.010$

\*  $p < 0.050$

†  $p < 0.100$

### 7.6.1.1 Mediating variable effect.

Using guidelines from Preacher and Hays (2008), a Sobel test was performed to establish the mediating effect of the mediating variable. Table 7.8 shows the whether the effect of the mediating variable is significant:

Table 7.8: Mediating variable effect.

Independent	Mediating	Dependent	P-value	Label
Legislative framework	Accessibility	BPO growth	0.014	Significant
Infrastructure	Accessibility	BPO growth	0.004	Significant
Lower costs	Accessibility	BPO growth	0.463	Not significant
Talent pool	Accessibility	BPO growth	0.320	Not significant

(Source: Sobel test)

Significance of Estimates (Gaskin, & Lim, 2016):

\*\*\*  $p < 0.001$

\*\*  $p < 0.010$

\*  $p < 0.050$

†  $p < 0.100$

Based on the results shown on Table 7.6, the following BPO structural model was constructed using the variables supported by data: Infrastructure, talent pool, accessibility, legislative framework and lower costs. The strengths of these relationships were examined as negligible, weak, moderate, strong and very strong using guidelines from Schober, Boer, and Schwarte (2018) as per Table 7.9:

Table 7.9: Relationship coefficients.

			<b>Estimate</b>	<b>Interpretation</b>
Accessibility	←	Infrastructure	0,515	Moderate
Accessibility	←	Lower costs	0,056	Negligible
Accessibility	←	Talent pool	-0,08	Negligible
Accessibility	←	Legislative framework	0,362	Weak
BPO Growth	←	Infrastructure	-0,408	Weak
BPO Growth	←	Accessibility	0,551	Moderate
BPO Growth	←	Talent pool	0,843	Very strong
BPO Growth	←	Legislative framework	-0,266	Weak
BPO Growth	←	Lower costs	-0,015	Negligible

(Source: SPSS, Amos)

## 7.7 A structural model for sustainable growth of the South African BPO sector

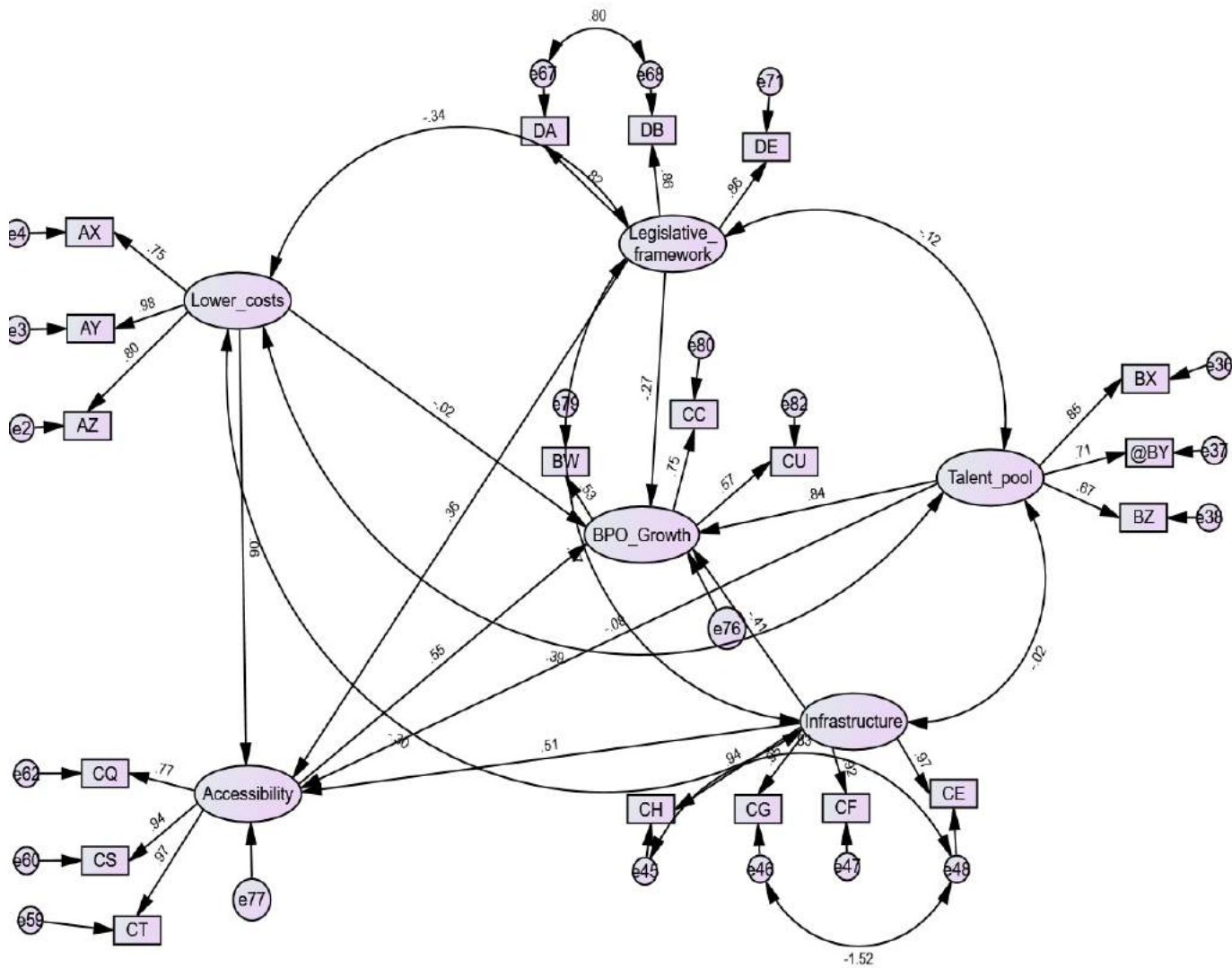


Figure 7.9: A structural model for sustainable growth of the South African BPO sector

(Source: Researcher's own work using SPSS, Amos)

## 7.8 Hypothesis validation

Table 7.10: Hypotheses testing results.

Confirmed hypotheses	Rejected hypotheses
H <sub>1</sub>	H <sub>4</sub>
H <sub>2</sub>	H <sub>10</sub>
H <sub>3</sub>	H <sub>11</sub>
H <sub>5</sub>	
H <sub>6</sub>	
H <sub>7</sub>	
H <sub>8</sub>	
H <sub>9</sub>	

(Source: SPSS, Amos)

**H<sub>1</sub>: There is a statistically significant positive relationship between infrastructure and BPO growth.**

Data supports theory that there is a statistical significant relationship between infrastructure and BPO growth. The results reflect a statistically significant p-value:  $P < 0.010$ . However, the relationship is negative.

The statistical significance of the relationship might be because apart from level of infrastructural development, the quality of the infrastructure and the cost of accessing it are very critical elements in considering location choice (McIvor, 2010). Nijkamp (2000) argues that a location for FDI must have at least efficient transport network, good water management, stable electricity supply, public health systems and industrial sites. The author further breaks down infrastructure into sub-elements that help in sustainable development, these are suprastructure and ecostructure. Suprastructure are elements such as knowledge, networks, communication, education, and culture. The ecostructure is more to do with inhabitable cities, quality of life, skilled manpower, talent pipeline and recreation. BPO work is IT-enabled and intensive, it requires up to date telecommunication systems that are obtainable at cost effective rates. According to ABS Resources (2020), businesses have transformed from on premise to virtual or remote operations due to the development

of mobile and computer applications and the devastating effects of Covid-19. The nature of infrastructure requirement for BPO growth for some operations (which have adopted pure WFH models) has evolved from physical hard infrastructure to soft infrastructure. The following is amongst the soft infrastructure requirement added to the hard infrastructure.

- Broadband coverage and internet connectivity
- Network firewalls
- Standard operating procedures (SOPs)
- Virtual Private Networks (VPN)
- Laptops
- Desktops

The advent of the 4IR, coupled with the complications resulting from the outbreak of Covid-19 propelled work from home models which requires employees to have suitable infrastructure. Prior to the outbreak of Covid-19, the belief among businesses was that employees needed to be physically at work but currently anyone can work from any point as long as there is infrastructure to support it.

**H2: There is a statistical significant positive relationship between infrastructure and accessibility.**

Data supports theory that there is a statistical significant relationship between infrastructure and accessibility with a p-value of  $p < 0.001$ .

The new WFH models that have resulted from Covid-19 require employees working remotely to have access to soft infrastructure:

- Broadband coverage and internet connectivity
- Network firewalls
- Standard operating procedures (SOPs)
- Virtual Private Networks (VPN)
- Laptops
- Desktops

Countries with capacity to make citizens access soft infrastructure are on a better stead to get BPO FDI (Ryan, 2020).

In instances where companies operate a hybrid model, where they both have employees in a physical office and others at home, access to efficient transport network, good water management, stable electricity supply, public health systems, communication and industrial sites remain important.

This conclusion corroborates with findings of studies done by Hasan, Wang, Khoo, & Foliente, (2017) to investigate the accessibility and connectivity in human settlements in Australia which showed a positive relationship between access to infrastructure and economic growth. Almost two decades before this study was conducted, Olvera et al., (2003) investigating the impact of lack of access to infrastructure, concluded that lack of access to infrastructure limits opportunities and promotes social exclusion.

**H<sub>3</sub>: There is a statistical significant positive relationship between accessibility and BPO growth.**

The p-value of  $p < 0.001$  from the results shows that there is a statistical significant positive relationship accessibility and BPO growth.

Having a robust infrastructure which is inaccessible by the citizens does not help in BPO growth. Infrastructure accessibility is described in terms of whether the citizens of a country can easily access it or if it is adequate, appropriate, affordable, and available (Penchansky & Thomas, 1981). The adoption of the WFH models, partly due to Covid-19 and the fourth industrial revolution, has shifted infrastructure requirements for the BPO sector from physical infrastructure to soft infrastructure (ABS Resources, 2020). Access to internet connection and all elements soft infrastructure related to remote work increases the size of workforce available for deployment. Accessibility of infrastructure is not limited to soft infrastructure as some of the companies operating a blended model would require, in addition to soft infrastructure, access to efficient transport networks, effective communication modes and access to public amenities.

For South Africa, accessibility is important because the apartheid has caused unequal access to social and economic opportunities, informal settlements and poor transport networks (du Plessis, 2013). In addition governments may have attractive incentives but if they are not accessible to investors, it will not help with investment.

**H<sub>5</sub>: There is a statistical significant positive relationship between talent pool and BPO growth.**

Data supports theory that there is a statistical significant positive relationship between talent pool and BPO growth. The hypothesis test results show a p-value of  $p < 0.001$ .

This finding implies that the availability of a talent pool helps with BPO growth. In the BPO frameworks by (2010), Gerbl et al., (2016) and Surdea-Blaga (2020), skilled talent pool is an important variable for choice of location for a BPO operation. Velde (2001) believes that FDI companies assess the availability of talent before choosing a location for operation. Similar sentiments are echoed by Everest (2019) that of the popular BPO destination, India has the highest number of fresh talent pipeline at 4,236,000, a number which helps to explain why the country has 3,863,000 (Ceicdata.com, 2018) people employed in the BPO sector when compared to South Africa with 629,000 fresh talent pipeline and with only 228,642 people employed. (BPESA, 2018) .The availability of a large skilled talent pool helps to deal with prevalent issues of labour turnover in the sector and help with fast ramp-up.

**H<sub>6</sub>: There is a statistical significant positive relationship between legislative framework and BPO growth.**

The hypothesis test results show that there is a statistical negative relationship between legislative framework and BPO growth with a p-value of  $p < 0.001$ . shows that data supports theory there is a relationship between legislative framework and BPO growth albeit with a negative magnitude.

Governments which are primarily focused on attracting FDI should model their policy framework around global trends aimed at attracting investment. The relationship could be positive because too much legislation stifles BPO growth. This assertion resonates with Marenga (2019), who believes that government legislation in luring FDI is a focal point for developing economies wanting to promote economic growth. The World Bank (2017) had earlier highlighted Marenga (2019)'s views that countries that pursue the strategy of FDI for their development and growth strategy have an array of legislation and approaches which may help in maximising benefits. Government legislation must balance the interest of diverging views of FDI

companies and its citizens. According to Schermerhorn (2012), FDI companies are accused by host countries of exploiting resources, excessive profits, interference with local politics and monopolising the local economy resulting in governments introducing laws that prohibit investment. In turn host countries are accused of charging excessive taxes and royalty, charging excessively for resources and failing to honour contracts. Legislation which seeks to balance the interest of these stakeholders is likely to facilitate flow of FDI effectively. For South Africa, the balancing act is not easy, the country has a history that was characterised by discrimination between blacks and whites which extended to employment and all other opportunities. The introduction of the BEE Act and the EEA was aimed at addressing the exclusion of blacks from economic participation (Ponte, Stefano, Roberts, & van Sittert, 2007).

Government can also look at policies that help with attraction of FDI which are directly linked to finance. These include fiscal and non-fiscal incentives. The DTIC requires that BPO FDI companies cede part of their equity to black South Africans (to earn BEE points) for them to access BPO incentives, but companies are not happy with this requirement because majority of them are listed in global stock exchanges. In such situations, the government on one hand wants to empower its citizens and on one hand wants to attract investment. Consequently, the BEE policy has been criticised for failing to benefit its intended recipients and its failure to align with other policies such as the National Development Plan (Marenga, 2019). In cases like this, careful consideration of legislation is requirement.

**H7: There is a significant statistical correlation between infrastructure, lower costs, talent pool, and legislative framework.**

Data supports theory that there is a statistical significant relationship between infrastructure, lower costs, talent pool and legislative framework although at varying degrees. The interpretation is done as guided by Schober, Boer, and Schwarte (2018):



Table 7.11: Correlation coefficient interpretation.

Correlation coefficient	Interpretation
0.00 – 0.10	Negligible
0.10 – 0.39	Weak
0.40 – 0.69	Moderate
0.70 – 0.89	Strong
0.90 – 1.00	Very strong

(Source: Schober et al., 2018)

The correlation coefficient interpretation in the study is shown on Table 7:12:

Table 7.12: Correlationships

		Estimate	Interpretation
Legislative framework	↔ Lower costs	-0,329	Weak
Talent pool	↔ Lower costs	0,24	Weak
Infrastructure	↔ Lower costs	-0,303	Weak
Infrastructure	↔ Legislative framework	1,126	Very strong
Talent pool	↔ Legislative framework	-0,126	Negligible
Infrastructure	↔ Talent pool	-0,018	Negligible

(Source: SPSS, Amos)

### **H<sub>8</sub>: Accessibility mediates the relationship between legislative framework and BPO growth**

The mediating impact of accessibility in the relationship between legislative framework and BPO growth is statistically significant, with a p-value of  $p < 0.050$ .

It is possible that accessibility of benefits resulting from legislation may lead to BPO growth. In South Africa, the DTIC incentives are accessed by BPO companies as a result of BEE legislation.

**H<sub>9</sub>: Accessibility mediates the relationship between infrastructure and BPO growth.**

Data supports theory that accessibility mediates the relationship between infrastructure and BPO growth. The hypothesis tests results show a statistically significant p-value of < 0.050.

An outsourcing or offshoring location that is able to grant access to the following elements of infrastructure are likely to attract BPO FDI:

- Broadband coverage and internet connectivity
- Network firewalls
- Standard operating procedures (SOPs)
- Virtual Private Networks (VPN)
- Laptops
- Desktops

In South Africa the situation is quite challenging currently. The effects of apartheid have resulted in unequal access to social and economic opportunities, informal settlements and poor transport networks (du Plessis, 2013). The majority of South Africans country's citizens who live in these informal and poor areas find it difficult to access infrastructure, especially the soft infrastructure required for BPO growth (Ryan, 2020).

Statistical data did not support the following hypotheses:

*H<sub>4</sub>: There is a statistical significant positive relationship between lower costs and BPO growth.*

*H<sub>10</sub>: Accessibility mediates the relationship between lower costs and BPO growth.*

*H<sub>11</sub>: Accessibility mediates the relationship between talent pool and BPO growth.*

## 7.9 Enhanced model

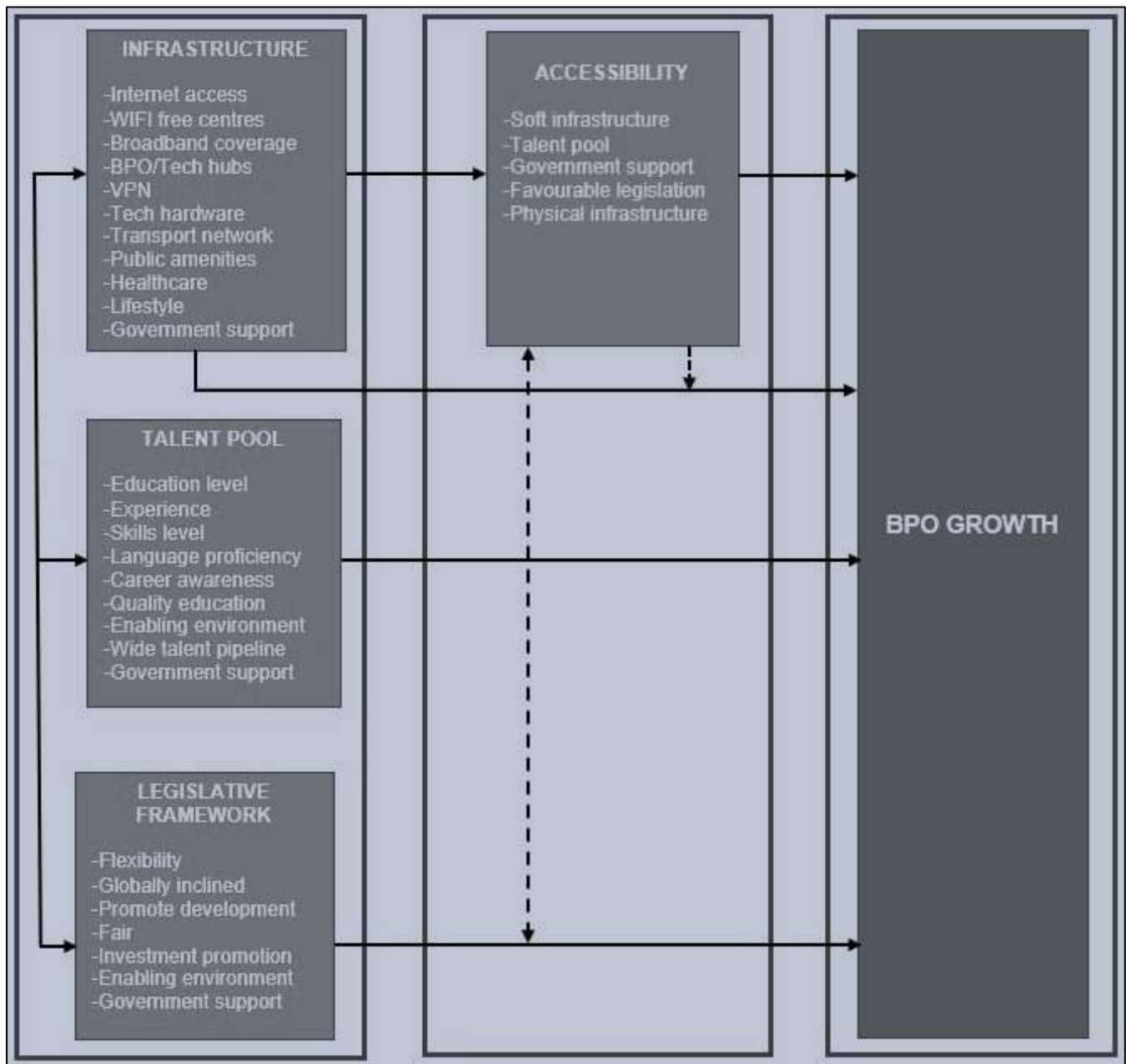


Figure 7.10: Enhanced structural model for sustainable growth of the South African Business Process Outsourcing Sector.

(Source: Researcher's own work)

Figure 7.10 shows how the variables will interact with each other to facilitate BPO growth. Infrastructure has a direct impact on BPO growth. Infrastructure is also mediated by accessibility to facilitate BPO growth. Talent pool also has a direct impact on BPO growth. Talent pool is influenced by infrastructure and its accessibility. Legislative framework has a direct impact on BPO growth, the laws and regulations

governing how business is done or how a particular sector should comply with government requirement.

### **7.10 Chapter summary**

This chapter presented and analysed quantitative data collected to measure the relationship between variables and latent factors, assess the impact of the mediating variable, accessibility, on BPO growth. The chapter also discussed the following techniques used to establish the fitness of variables from the proposed model: confirmatory factor analysis, multiple regression analysis, SRMR, CMIN/DF and CFI. A structural model for BPO growth was developed in the chapter.

## **CHAPTER 8: SUMMARY, FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **8.1 Chapter overview**

This chapter presents the study summary, conclusion, and recommendations. The chapter begins by summarising the purpose of the research, the study objectives and then presents the research summary, findings, conclusions, and recommendations.

### **8.2 Overview of the study**

The research was primarily aimed at developing a structural model that would promote sustainable growth for the South African BPO sector. Lack of an IPA, development of the structural model for BPO growth was motivated the current challenges that the BPO sector in South Africa. The advent of IT and automation and the 2008 global recession forced companies to find ways of making profit for their shareholders. IT and automation reshaped manufacturing as IT-enabled production allowed companies to undertake any production process in any part of the world through aid of technology. Companies began to explore offshore or outsourcing centres for their processes and as a result BPO started. The first global beneficiaries of BPO investment were India and the Philippines who, to date, have the highest number of employees in the BPO sector. BPO opened opportunities for emerging countries like South Africa to deal with economic growth challenges and high levels of unemployment, particularly among the youth. South Africa is attracting interests from companies in source markets like the UK, USA and Australia but the size of the country's BPO size remains smaller compared to market other BPO markets.

The South African apartheid experience, a policy which deliberately segregated people along racial lines, makes the application of frameworks for BPO growth difficult to execute. The inequalities and spatial planning by the apartheid government makes access to infrastructure difficult for non-whites as a result, most of the laws that were enacted at independence were meant to redress the evils of apartheid. Some of these laws include the BEE Act and the EE Act. They are in direct conflict with investor interest. The research, therefore, sought to achieve the following objectives:

1. To identify and interrogate variables that affect the growth of the BPO sector in South Africa.
2. To measure the relationships between observable variables identified as catalytic enablers for BPO growth.
3. To assess the mediating effect of the mediating variables.
4. To develop a structural model for sustainable growth of the South African BPO sector.

A study of literature on BPO growth identified lower costs, legislative framework, talent pool, infrastructure and accessibility as variables that affect its growth. Initial consultation with subject matter experts in the piloting of the study revealed that the factors listed above affect BPO growth and this position was supported by SEM through CFA. The details of the statistics produced through SEM are found in chapter 7 of the study. In order to test the relationship among the variables, 11 hypotheses were developed of which nine were validated.

A review of the theoretical and legislative framework led to the development of the measurement constructs which were used to collect data for testing the relationships of the hypothesised structural model for sustainable growth of the South African BPO sector. Since the study involved testing hypothesis, a research philosophy that deals with scientific evidence of cause and effect of phenomena through measurement is ideal. A positivist paradigm was chosen for the exercise where a quantitative research approach was applied. A web based self-administered Likert scale questionnaire was designed (see annexure 2). A pilot study was executed on 10 respondents who are industry gurus and subject matter experts. The research instrument showed a Cronbach's alpha scale reliability coefficient of 0.9689 which was acceptable. The results of the pilot study were included in the main study. After the pilot study, the research instrument was sent to all the respondents in the sample.

### **8.3 Summary of major findings**

The relevance of this study was its ability to develop a structural model for the sustainable growth of the BPO sector in South Africa as shown on figure 7.10 in section 7.9 of the study. The structural model for the sustainable growth of the South

African BPO sector is a good fit model whose variables have statistical significance for BPO growth:

### **8.3.1 Confirmation of variables**

Through CFA, lower costs was excluded from the final model because its relationship with BPO growth is not statistically insignificant. The variables which were confirmed include legislative framework, talent pool, infrastructure and the mediating variable, accessibility.

### **8.3.2 Reliability of the research instrument**

The reliability test performed on the variables showed Cronbach's alpha scale reliability coefficient of at least 0.7 which is acceptable. The reliability coefficient of all the variables ranged from 0.656 to 0.958.

### **8.3.3 Confirmation of the model**

With the validation of only nine hypotheses, the initially proposed model was adjusted. The hypotheses validated include H<sub>1</sub>, H<sub>2</sub> H<sub>3</sub> H<sub>5</sub> H<sub>6</sub> H<sub>7</sub> H<sub>8</sub> and H<sub>9</sub> .

## **8.4 Ancillary findings**

Development of a structural model for sustainable growth of the South African BPO sector was central to the research but some important underlying issues were inherent in the findings:

- International BPO operations in South Africa will only concentrate mostly in Tier 1 cities, namely, Cape Town, Johannesburg, and KwaZulu-Natal.
- Citizens' safety is also an important consideration for choice of location for a BPO operation.
- Access to infrastructure has shifted from physical infrastructure to soft infrastructure.

## **8.5 Conclusions from the study**

Without empirical research, the South African government is likely to pay attention to variables that do not have any statistical significance towards BPO growth. The study makes the following conclusions:

### **8.5.1 Lower costs are no longer the most important consideration for choice of location for an offshoring and outsourcing operation.**

Contrary to popular belief that offshoring and outsourcing decisions are made primarily on costs, the results of the research show otherwise. The relationship between lower costs and BPO growth is not statistically significant and also has a negative negligible coefficient of -0.015. Other factors seem to have overtaken lower costs as the traditional driver of offshoring and outsourcing location choice decisions. Offshoring or outsourcing is now being driven by other factors such as the availability of skills in the country they want to operate. This conclusion has a bearing on the DTIC's strategy on lowering BPO operating costs by financially incentivising investors. If other factors such as skills and quality output are in place, companies have internal capabilities to implement cost cutting measures which can make them profitable.

### **8.5.2 Talent pool is the most important variable for BPO growth in South Africa.**

Talent pool is the most important variable to consider for an offshoring and outsourcing location. The relationship between talent pool and BPO growth is statistically significant, with a p-value of  $p < 0.001$  and a very strong relationship coefficient of 0,843. Talent pool is the only variable with a very strong relationship coefficient. BPO companies choose locations with availability of a talent pool that allows them to increase employee numbers within a short period.

### **Accessibility is an important driver for BPO growth**

The relationship between accessibility and BPO growth is statistically significant, with a p-value of  $p < 0.001$ . With the physical location of an agent providing service becoming immaterial, cloud computing and Covid-19, accessibility to soft infrastructure (internet, broadband, VPN, Firewalls and computer hardware) is increasingly becoming important as contact centre agents are now working from home. Countries with an ability to get its citizens accessible through secure internet connection are in a better stead to promote BPO growth.



In the current study accessibility is also viewed in terms of access to talent pool. A country can churn out many graduates from universities but if the graduates are not accessible to the BPO sector, then there will be a skills challenge. Coupled with access to talent is access to government support. Some of the services offered by the government are not accessible by investors either due to tedious and onerous requirements or because of prohibitive legislation.

### **8.5.3 Legislative framework drives BPO growth**

There is a statistically significant negative relationship between legislative framework and BPO growth, with a p-value of  $p < 0.010$ . Too much legislative requirements affect BPO investment. The government should model its legislation to balance the interest of both the investors and the South African citizens. The current BEE legislation in place to access incentives by international BPO companies is in conflict with investors as it requires companies to restructure equity to include locals, paradoxically, it only benefits a handful and not the majority of South Africans.

## **8.6 Implications of the findings**

The findings will have an impact on South African BPO FDI, South African economy and international companies operating in South Africa:

- The findings of the research imply a shift in government policy towards GBS incentives scheme. The government might have to redirect funds used for incentives to skills development as skills availability has been proved to be a major pull factor in choice of location for a GBS operation.
- International and domestic companies have to cooperate with and participate in government-initiated skills development projects. This will help in mitigating typically high attrition prevalent in call centres.
- The government must revisit their legislative framework on BPO FDI as some of their policies may be in direct conflict with investors.

## **8.7 Recommendations relating to the research**

The conclusions from the study suggest applied approaches in the South African government can adopt to improve the attractiveness of the country as a BPO location. Some of these approaches need inclusion in policy enactment and worthwhile

bringing to the attention of concerned ministries and government departments. These policy approaches or recommendations are enumerated below

- The DTIC should consider ending financial incentives to international BPO companies as a strategy for lowering costs since lower costs are no longer the most important driver of BPO location choice. The department should consider channelling funds used for incentives to skills development as availability of talent pool has become the most important driver of BPO investment and growth
- The BEE compliance requirement for accessing any form of support from government by international BPO companies should be reconsidered in lieu of partnerships/joint ventures with BPO SMEs in the country. Instead of benefiting individuals through the BEE strategy, partnerships with SMEs will help create employment and enable domestic capability for BPO companies
- The government should avail internet access to areas previously excluded from economic participation as the majority of BPO workers come from these areas. Due to Covid-19, most of the BPO employees in the sector are now working from home which require access to soft infrastructure
- The government should increase free WIFI zones in cities and in all identifiable resource bases (growth points) that can stimulate establishment of BPO satellite centres or BPO hubs in areas disadvantaged by apartheid
- The government should introduce BPO curriculum into the formal high school education system
- The government should fund introduction of a BPO department at a university to stimulate research and skills development
- Government should incentivise investment into other cities and towns of the country as BPO investors will only opt for tier 1 cities

## **8.8 Conclusion**

If results that have statistical significance can be used as a basis for academic discourse and conclusions, I conclude that my findings are primarily on developing a structural model for sustainable growth of the South African Business Process Outsourcing sector.

South Africa, as a BPO location, has better chances of growing its BPO sector if it pays attention to the following variables that will help in BPO growth: infrastructure, accessibility, talent pool and the legislative framework. These variables should be prioritised in relation to their significance to BPO growth.

### **8.9 Contribution to knowledge**

The contribution of this research is based on the structural model for sustainable growth of the South African BPO sector. Development of the model is important for the growth of the BPO sector in South Africa to deal with high levels of unemployment in the country. Literature reviewed showed that the size of the BPO sector in South Africa is not growing comparatively like other BPO markets and that the challenges can be solved by development of a model that will basically help with that. Adoption of the model by the country would help with its potential to expand the sector in South Africa. This is because the government is expected pay attention to variables that show statistical significance for BPO growth. For example,

The following contributions to knowledge were made:

#### **Theoretical**

- A structural model for sustainable growth of the South African BPO sector was developed.
- Lower costs are no longer any important consideration in the choice of location for an offshore or outsourcing operation. This finding overrides the popular traditional belief and theories that offshoring and outsourcing companies choose a BPO location on the basis of costs.
- Accessibility to soft infrastructure, talent pool and government support facilitates BPO growth. The legacy of apartheid has resulted in unequal access to social and economic opportunities, informal settlements and poor transport networks (du Plessis, 2013). The country's citizens who live in these informal and poor areas find it difficult to access infrastructure, especially the soft infrastructure required for BPO growth. Ryan (2020) and Thompson (2020) both argue that a country that provides access to internet connectivity for its citizens is likely to attract BPO investment. Governments may have

attractive incentives, but if they are not accessible to investors, it will not help with investment. According to the Department of Science and Innovation (2018), there are challenges in accessing incentives offered by the government due to onerous processes and red tape. Access is also applicable to talent search. The consideration of accessibility and legislative framework will be an addition to the existing knowledge with respect to variables that affect BPO investment.

### **Practical**

- The development of a structural model for sustainable growth of the South African BPO sector will help the government of South Africa to focus on important variables that will help to grow the sector and will also help to deploy financial resources where they are needed most. The economic and political conditions in India and the Philippines, the world's BPO popular locations, are not the same as South Africa, tests done in these countries may not be replicable in South Africa.

### **Methodological**

- This study has added contributions to quantitative methods by analysing BPO growth in a country that experienced apartheid. The variables for BPO growth have been scientifically tested for a country that has conditions different from where previous research has been undertaken. Measurement of the relationships of independent and dependent variables, addition of accessibility and the legislative framework to variables catalytic to BPO growth led to the development of a model for BPO growth in South Africa.

### **8.10 Limitations of the study and recommendations for further research**

The research was prompted by the need to develop a structural model for the BPO value chains in South Africa, so naturally new concepts such as Edu-tourism and Medi-tourism would have been part of the research. However, the study did not include these new BPO concepts due to the following reasons:

- These new BPO concepts constitute a study on their own and would have expanded or widened the scope of research. The structural model is being developed specifically for South Africa, including Edu-

tourism and Medi-tourism would mean transcending the borders for records of travellers with their specific home offices which is tedious and problematic

- Doctors are bound by the Hippocratic Oath which guides their ethical behaviour in disclosure of patient information. Obtaining data under this circumstance is difficult.

The Study developed a model for BPO growth. BPO is just a component of GBS. South Africa's current offering is mainly on BPO since the country does not have advanced skills required for GBS.. A further research is needed for development of a model to help with sustainable growth of the GBS sector in the country.

### **8.11 Recommendations for further research**

The primary aim of the study was to develop a structural model for the sustainable growth of the South African BPO sector. The study population comprise executives in the BPO value chain only. The following recommendations are made for further research:

- Operationalisation of the model
- The study can be expanded to companies that provide their customer service in-house as their propensity to outsource would result in BPO growth.
- The study can also be extended to include new BPO concepts such as Medi-tourism and Edu-tourism.

### **8.12 Chapter summary**

The chapter discussed the major findings of the study which showed the structural model for sustainable growth of the South African model is a good fit model. Data supports theory that the relationships between accessibility, legislative framework, infrastructure and talent pool are statistically significant with varying degrees of relationship magnitude. Data also supported theory for H<sub>1</sub>, H<sub>2</sub>, H<sub>3</sub>, H<sub>5</sub>, H<sub>6</sub>, H<sub>7</sub>, H<sub>8</sub> and H<sub>9</sub>. The data did not support H<sub>4</sub>, H<sub>10</sub> and H<sub>11</sub>. The chapter discussed the conclusions made from each research objective: Development of structural model for growth of the BPO sector in the country, measurement of the strength of the relationships among variables and recommendations. A summary of the quantitative research approach

was given. The chapter also discussed contribution of research to knowledge, mainly through accessibility and legislative framework. The chapter also provided recommendations and ancillary recommendations. Recommendations for further studies were made to expand on the current sample population to include companies that provide in-house customer support and to also study exhaustively, other pieces of legislation in relation to BPO growth.

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## LIST OF ANNEXURES

### Annexure 1: Invitation to participate



#### Faculty of Engineering

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E-mail Faculty Chairperson: [annelise.duPreez@mandela.ac.za](mailto:annelise.duPreez@mandela.ac.za)

Dear Sir/Madam,

**Re:** Invitation to participate in a research study.

**Contact person:** Dr. Karl van Der Merwe, +27 (0)41 504 3431, [Karl.vanderMerwe@mandela.ac.za](mailto:Karl.vanderMerwe@mandela.ac.za)

My name is Edmore Chinhamo, I am a PhD Candidate at Nelson Mandela University in the Faculty of Engineering, Built Environment, and Information Technology. My student number is 221355510. I am conducting research on the South African Business Process Outsourcing Sector (BPO) now popularly referred to as Global Business Services (GBS). The purpose of my study is to develop a structural model for sustainable growth of the South African Business Process Outsourcing sector. You are, therefore, being asked to participate in the research study. I am hoping that as a BPO expert, you can provide information that will help with the development of the model. The results of the study will be shared with you.

It is important that you know the ethical integrity of the study has been approved by the Research Ethics Committee (Human) of the university. The REC-H consists of a group of independent experts that has the responsibility to ensure that the rights and welfare of participants in research are protected and that studies are conducted in an ethical manner. Studies cannot be conducted without REC-H's approval. Queries about your rights as a research subject can be directed to the Research Ethics Committee (Human), Department of Research Capacity Development, PO Box 77000, Nelson Mandela University, Port Elizabeth, 6031.

Participation in research is completely voluntary. If you do partake, you have the right to withdraw at any given time. To complete the survey, please [click here](#). If we could get the questionnaire completed by 30 April 2020, I would very much appreciate it.

Although your identity will always remain confidential, the results of the research study may be presented at scientific conferences or in specialist publications.

Yours sincerely

**Edmore Chinhamo**  
**078 547 8626**  
**RESEARCHER**

## Annexure 2: The research questionnaire

### PRIMARY RESEARCH QUESTIONNAIRE

#### SECTION 1

#### DEMOGRAPHIC DATA

Please select the most appropriate option

No.			
1	<b>What type of operation are you? (please select that apply)</b>		
	<i>(Please select only one)</i>		
	VARIABLE CODE	OPTIONS	
	1.1	BPO Client to an Outsourcer	
	1.2	International Outsourcer	
	1.3	Domestic Outsourcer	
	1.4	International Captive	
	1.5	Domestic Captive	
	1,6	International support service provider	
	1,7	Domestic support service provider	
	1,8	Government entity	
	1,9	Investment Promotion Agency	
	1,10	Industry Association/Special Purpose Vehicle	
	1,11	Consultant	
	1,12	Other	
2	<b>Which markets or environment do you service? (please select that apply)</b>		
	<i>(You can select multiple markets serviced)</i>		
	VARIABLE CODE	OPTIONS	
	2.1	United Kingdom	
	2.2	United States of America	
	2.3	Australia	
	2.4	France	
	2.5	Netherlands	
	2.6	Portugal	
	2.7	China	
	2.8	Spain	
	2.9	Germany	
	2.10	South Africa	
	2.11	Rest of African continent	
	2,12	Other	
	2,13	Not applicable	
3	<b>How many years have you been operating in South Africa? (supporting BPO, as a vendor or operator)? (please select that apply)</b>		
	<i>(Please select only one)</i>		



	VARIABLE CODE	OPTIONS	
	3.1	Less than 5 years	
	3.2	5 to under 10 years	
	3.3	11 to under 15 years	
	3.5	More than 15 years	

4 **Classify the level of your processes as (please select that apply)**  
*(Please select only one)*

	VARIABLE CODE	OPTIONS	
	4.1	Non-complex	
	4.2	Complex	
	4.3	Highly complex	
	4.4	Not applicable	

5 **In which country is your company headquartered? (Please select one)**  
*(Please select only one)*

	VARIABLE CODE	OPTIONS	
	5.1	United Kingdom	
	5.2	United States of America	
	5.3	Australia	
	5.4	France	
	5.5	Netherlands	
	5.6	Portugal	
	5.7	China	
	5.8	Spain	
	5.9	Germany	
	5.10	South Africa	
	5.11	India	
	5.12	Other	

6 **Apart from South Africa, in which other country does your company operate? (Please select that apply)**  
*(Please select only one)*

	VARIABLE CODE	OPTIONS	
	6.1	India	
	6.2	Philippines	
	6.3	Brazil	
	6.4	Fiji	
	6.5	Malaysia	
	6.6	United Kingdom	
	6.7	United States	
	6.8	Ireland	
	6.9	Poland	
	6.10	Honduras	
	6.11	Other	
	6.12	None	

7 **What is your profession?**  
*(Please select only one)*

	VARIABLE CODE	OPTIONS	
--	---------------	---------	--

	7,1	CEO	
	7,2	CFO	
	7,3	COO	
	7,4	Analyst	
	7,5	Promoter/Marketer	
	7,6	Director	
	7,7	Broker	
	7,8	Operations	
	7,9	Other	

8 **How many years of experience do you have in BPO? (Please select that apply)**

(Please select only one)

VARIABLE CODE	OPTIONS
8,1	Less than 5 years
8,2	5 to under 10 years
8,3	11 to under 15 years
8,4	More than 15 years

**SECTION 2**

In this section, choose your level of agreement with the stated statement from the rating below

Rating

1	Strongly disagree
2	Disagree
3	Neutral/Indifferent
4	Agree
5	Strongly agree

VARIABLE CODE	STATEMENT	LIKERT SCALE				
		1	2	3	4	5
9 <b>AH</b>	Fiscal incentives (tax exemptions, unrestricted transfers, tax credits, preferential tax rates etc.) lower operational costs for a BPO operation (Source: Ginevicius & Simelyte, 2011, Pirnial & Morisset, 1999, Everest, 2019, Mclvor, 2010, Gerbl et al., 2016).	1	2	3	4	5
10 <b>AI</b>	Financial incentives (grants, preferential loans, loan guaranteed) lower operational costs for a BPO operation (Source: Ginevicius & Simelyte, 2011, Pirnial & Morisset, 1999, Everest, 2019, Mclvor, 2010, Gerbl et al., 2016).	1	2	3	4	5
11 <b>AJ</b>	Non- financial incentives (promotion, infrastructure assistance, free trade and enterprise zones) lower operational costs for a BPO operation. (Source: Ginevicius & Simelyte, 2011).	1	2	3	4	5
12 <b>AN</b>	Efficient transport network lowers operational costs for a BPO operation. (Source: Mclvor, 2010, Nijkamp, 2000).	1	2	3	4	5
13 <b>AO</b>	Availability of an Investment Promotion Agency lowers cost of marketing for a BPO location. (Source: Skabic, 2015).	1	2	3	4	5
14 <b>AQ</b>	Lower costs of labour attract BPO investment (Source: Everest, 2019).	1	2	3	4	5
15 <b>AR</b>	Lower costs of property attract BPO investment. (Source: Mclvor, 2010, Nijkamp, 2000).	1	2	3	4	5
16 <b>AS</b>	Lower costs of transport attract BPO investment. (Source: Mclvor, 2010, Nijkamp, 2000).	1	2	3	4	5
17 <b>AU</b>	Lower costs of living in a BPO location attract BPO investment. (Source: Mclvor, 2010, Surdea-Blaga, 2020).	1	2	3	4	5

18	<b>AX</b>	Lower costs of Telcoms attract BPO investment. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al., 2016)	1	2	3	4	5
19	<b>AY</b>	Lower costs of transactions in a BPO attract BPO investment. (Source: Ginevicius & Simelyte, 2011).	1	2	3	4	5
20	<b>AZ</b>	Lower costs of contracts in a BPO location attract BPO investment. (Source: Ginevicius & Simelyte, 2011).	1	2	3	4	5
21	<b>BR</b>	The availability of a skilled talent pool in a BPO location attracts BPO investment (Source: Mclvor, 2010), Gerbl et al., 2016 & Surdea-Blaga, 2020).	1	2	3	4	5
22	<b>BS</b>	Higher level of education of the talent pool in a BPO location attracts BPO investment. (Source: Miningou & Tapsoba (2017).	1	2	3	4	5
23	<b>BT</b>	Customer support language proficiency attracts BPO investment. (Source: Surdea-Blaga, 2020, Mclvor, 2020, Gerbl et al., 2016).	1	2	3	4	5
24	<b>BX</b>	Good quality of education attracts BPO investment . (Source: Miningou & Tapsoba (2017).	1	2	3	4	5
25	<b>BY</b>	Quality of delivery by lecturers and teachers at schools and tertiary institutions attracts BPO investment. (Source: Miningou & Tapsoba (2017).	1	2	3	4	5
26	<b>BZ</b>	Education curricula that embrace globalisation attracts BPO investment. (Source: Gough, 1993).	1	2	3	4	5
27	<b>CD</b>	My government invests in transport infrastructure . (Source: Mclvor, 2010, Nijkamp, 2000, Gerbl, 2016.).	1	2	3	4	5
28	<b>CE</b>	My government invests in Telcoms infrastructure. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020).	1	2	3	4	5
29	<b>CF</b>	My government invests in in public amenities. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al., 2016).	1	2	3	4	5
30	<b>CG</b>	My government invests in energy infrastructure. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al, 2016 ).	1	2	3	4	5
31	<b>CH</b>	My government invests in educational facilities . (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020).	1	2	3	4	5
32	<b>CI</b>	In my country there is infrastructure growth. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020).	1	2	3	4	5
33	<b>CJ</b>	Using a scale of 1 to 5, 1 being least important and 5 most important, rate the importance of government support to infrastructure development. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020).	1	2	3	4	5
34	<b>CK</b>	The cost of infrastructure is high in my country. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al., 2016).	1	2	3	4	5
35	<b>CL</b>	It is easier for citizens with a high level of education to obtain government services	1	2	3	4	5
36	<b>CM</b>	The level of skills of citizens determines the extent to which they obtain government services	1	2	3	4	5
37	<b>CN</b>	Proximity to public amenities makes it easier to obtain government service. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al., 2016).	1	2	3	4	5
38	<b>CQ</b>	In my country people have access to all modes of transport. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al., 2016, du Plessis, 2013).	1	2	3	4	5
39	<b>CR</b>	In my country people have access to internet. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al., 2016, du Plessis, 2013, ABS Resources, 2020).	1	2	3	4	5
40	<b>CS</b>	My country offers people access to all forms of communication. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al., 2016, du Plessis, 2013).).	1	2	3	4	5
41	<b>CT</b>	In my country people have access to all public amenities. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al., 2016, du Plessis, 2013)..	1	2	3	4	5
42	<b>CU</b>	78. Using a scale of 1 to 5, 1 being least important and 5 most important, rate the importance of infrastructure accessibility to BPO growth. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020, Gerbl et al., 2016).	1	2	3	4	5
43	<b>CV</b>	My country has an efficient transport system. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020).	1	2	3	4	5

44	<b>CW</b>	My country has sufficient energy resources. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020).	1	2	3	4	5
45	<b>CX</b>	In my country there is robust Telcoms infrastructure. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020).	1	2	3	4	5
46	<b>CY</b>	My country has robust public amenities. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020).	1	2	3	4	5
47	<b>CZ</b>	Using a scale of 1 to 5, 1 being least important and 5 most important, rate the importance of infrastructure to BPO growth. (Source: Mclvor, 2010, Nijkamp, 2000, Surdea-Blaga, 2020).	1	2	3	4	5
48	<b>DA</b>	Government regulation on Black Economic Empowerment leads to BPO growth. (Source: The World Bank, 2017, Marenga, 2017, Mclvor, 2010)	1	2	3	4	5
49	<b>DB</b>	Government regulation on Employment Equity leads to BPO growth. (Source: The World Bank, 2017, Marenga, 2017, Mclvor, 2010).	1	2	3	4	5
50	<b>DC</b>	Government regulation on protection of personal information leads to BPO growth. (Source: The World Bank, 2017, Marenga, 2017, Mclvor, 2010).	1	2	3	4	5
51	<b>DD</b>	Government regulation on income tax leads to BPO growth. (Source: The World Bank, 2017, Marenga, 2017, Mclvor, 2010).	1	2	3	4	5
52	<b>DE</b>	Government regulation on labour law leads to BPO growth. (Source: The World Bank, 2017, Marenga, 2017, Mclvor, 2010)	1	2	3	4	5
53	<b>DG</b>	In my country, there is a low crime rate. (Source: Sosa, 2009).	1	2	3	4	5
54	<b>DH</b>	In my country, BPO is growing. (Source: Everest, 2019).	1	2	3	4	5
55	<b>DJ</b>	My company can locate only in a Tier 1 City in South African (Tier 1 Cities in this research are the traditional hubs - Durban, Pretoria, Johannesburg, and Cape Town). (BPESA, 2018).	1	2	3	4	5

### Annexure 3: BPO investment outcome indicators

City of Cape Town		Investment and Job creation Figures				
Annual Targets 2020/2021						
Description	Annual Targets 2020/21	YTD total	Q1: July - Sept '20	Q2: Oct - Dec '20	Q3: Jan - Mar 21	Q4: Apr - Jun '21
SMMEs Assisted	20					
Industry new jobs created	4 000					
Number of people trained, 350 EPWP Voice/ICT learnership, 100 utilities project, 20 Management development, 100 Retail Academy	570					
EOH target number of beneficiaries	350					
Utilities target number beneficiaries	100					
MDP beneficiaries trained	20					
Retail Academy	100					
Matched funding secured for skills initiatives	R 3 000 000,00					
Industry events hosted	15					
Value of Investments Facilitated	R 1 000 000 000,00					
Total attendance at industry events	2 500					
Investment delegations hosted	8					
Number of investments facilitated	3					

## Annexure 4: Data analysis summary

### Analysis Summary

#### Date and Time

Date: Monday, May 24, 2021

Time: 5:34:44 PM

#### Title

21.05.2021 new model adjusted: Monday, May 24, 2021, 5:34 PM

#### Groups

##### Group number 1 (Group number 1)

##### Notes for Group (Group number 1)

The model is recursive.

Sample size = 118

##### Variable Summary (Group number 1)

##### Your model contains the following variables (Group number 1)

Observed, endogenous variables

AZ  
AY  
AX  
BX  
@BY  
BZ  
CH  
CG  
CF  
CE  
CT  
CS  
CQ  
DA  
DB  
DE  
BW  
CC  
CU

Unobserved, endogenous variables

BPO\_Growth

Accessibility  
 Unobserved, exogenous variables  
 Infrastructure  
 Talent pool  
 Legislative framework  
 Lower costs  
 e2  
 e3  
 e4  
 e36  
 e37  
 e38  
 e45  
 e46  
 e47  
 e48  
 e59  
 e60  
 e62  
 e67  
 e68  
 e71  
 e76  
 e77  
 e79  
 e80  
 e82

**Variable counts (Group number 1)**

<b>Number of variables in your model:</b>	46
<b>Number of observed variables:</b>	19
<b>Number of unobserved variables:</b>	27
<b>Number of exogenous variables:</b>	25
<b>Number of endogenous variables:</b>	21

**Parameter Summary (Group number 1)**

	Weights	Covariances	Variances	Means	Intercepts	Total
Fixed	27	0	0	0	0	27
Labelled	0	0	0	0	0	0
Unlabelled	22	9	25	0	0	56
Total	49	9	25	0	0	83

Assessment of normality (Group number 1)

Variable	min	max	skew	c.r.	kurtosis	c.r.
CU	2	5	-1,169	-5,183	0,613	1,36
CC	1	5	-1,233	-5,467	1,297	2,875
BW	3	5	-1,201	-5,326	0,205	0,454
DE	1	5	-0,203	-0,901	-1,184	-2,625
DB	1	5	-0,021	-0,092	-1,338	-2,968
DA	1	5	0,002	0,007	-1,416	-3,141
CQ	1	5	-0,065	-0,289	-1,301	-2,886
CS	1	5	-0,044	-0,196	-1,221	-2,706
CT	1	5	0,007	0,032	-1,092	-2,42
CE	1	5	-0,375	-1,663	-1,089	-2,414
CF	1	5	-0,213	-0,945	-1,219	-2,704
CG	1	5	-0,031	-0,138	-1,325	-2,938
CH	1	5	-0,231	-1,026	-1,185	-2,627
BZ	1	5	-0,837	-3,712	0,118	0,261
@BY	1	5	-0,691	-3,064	-0,159	-0,353
BX	1	5	-0,977	-4,333	0,423	0,938
AX	1	5	-1,553	-6,886	3,075	6,818
AY	1	5	-1,024	-4,543	0,542	1,202
AZ	1	5	-0,822	-3,644	-0,041	-0,091
Multivariate					79,736	15,331

Observations farthest from the centroid (Mahalanobis distance) (Group number 1)

Observation number	Mahalanobis d-squared	p1	p2
116	52,635	0	0,006
68	51,624	0	0
41	49,024	0	0
44	44,32	0,001	0
61	41,236	0,002	0
92	39,549	0,004	0
15	38,273	0,005	0
117	37,935	0,006	0
118	37,935	0,006	0
45	36,057	0,01	0
12	35,956	0,011	0



4	35,554	0,012	0
3	34,428	0,016	0
47	32,367	0,028	0
7	31,983	0,031	0
16	31,207	0,038	0
39	29,266	0,062	0,001
13	29,214	0,063	0
1	29,19	0,063	0
112	29,154	0,064	0
53	28,46	0,075	0
6	28,126	0,081	0
96	27,046	0,104	0,002
77	26,767	0,11	0,002
99	25,731	0,138	0,018
74	25,592	0,142	0,014
66	24,776	0,168	0,054
26	24,719	0,17	0,038
110	24,691	0,171	0,025
113	24,619	0,173	0,017
65	24,378	0,182	0,019
86	24,371	0,182	0,011
9	24,262	0,186	0,009
78	23,769	0,205	0,02
71	23,058	0,235	0,073
51	22,624	0,254	0,124
90	22,467	0,262	0,12
95	22,267	0,271	0,128
54	22,084	0,28	0,133
34	22,053	0,282	0,101
82	21,959	0,286	0,087
49	21,615	0,304	0,13
48	20,768	0,35	0,403
2	20,389	0,372	0,522
111	20,354	0,374	0,465
17	19,943	0,398	0,606
85	19,808	0,406	0,604
8	19,539	0,423	0,671
114	19,439	0,429	0,652
73	19,169	0,446	0,718
98	18,772	0,472	0,829
83	18,348	0,499	0,914
25	18,217	0,508	0,915
64	18,144	0,513	0,902
32	17,526	0,554	0,978
75	17,428	0,561	0,976
59	17,086	0,584	0,989
60	17,086	0,584	0,983
20	16,273	0,639	0,999

11	16,163	0,646	0,999
40	15,672	0,679	1
29	15,566	0,686	1
30	15,566	0,686	1
42	15,528	0,689	1
81	15,272	0,705	1
62	14,969	0,725	1
109	14,871	0,731	1
52	14,69	0,742	1
57	14,553	0,751	1
107	14,53	0,752	1
10	14,49	0,754	1
5	14,47	0,756	1
36	14,258	0,768	1
37	14,258	0,768	1
28	13,767	0,797	1
35	13,611	0,806	1
23	12,897	0,844	1
56	12,601	0,858	1
43	12,588	0,859	1
14	12,58	0,859	1
38	12,495	0,863	1
46	12,418	0,867	1
21	12,306	0,872	1
70	12,24	0,875	1
18	12,209	0,877	1
19	12,209	0,877	1
31	12,011	0,885	1
55	11,93	0,889	1
87	11,669	0,899	1
88	11,669	0,899	1
101	11,636	0,901	1
69	11,16	0,918	1
84	11,118	0,92	1
24	10,482	0,94	1
58	10,397	0,942	1
104	10,327	0,944	1
91	9,876	0,956	1
33	9,412	0,966	1
106	9,151	0,971	1
105	9,046	0,973	1

**Models**

**Default model (Default model)**

**Notes for Model (Default model)**

**Computation of degrees of freedom (Default model)**

**Number of distinct sample moments:**

190

**Number of distinct parameters to be estimated:**

56

**Degrees of freedom (190 - 56):**

134

**Result (Default model)**

Minimum was achieved

Chi-square = 269.763

Degrees of freedom = 134

Probability level = .000

**Group number 1 (Group number 1 - Default model)**

**Estimates (Group number 1 - Default model)**

**Scalar Estimates (Group number 1 - Default model)**

**Maximum Likelihood Estimates**

**Regression Weights: (Group number 1 - Default model)**

			<b>Estimate</b>	<b>S.E.</b>	<b>C.R.</b>	<b>P</b>	<b>Label</b>
Accessibility	<---	Infrastructure	0,426	0,082	5,17	***	par_17
Accessibility	<---	Lower_costs	0,081	0,108	0,749	0,454	par_18
Accessibility	<---	Talent_pool	-0,107	0,103	-1,046	0,295	par_19
Accessibility	<---	Legislative__framework	0,314	0,091	3,44	***	par_20
BPO_Growth	<---	Infrastructure	-0,186	0,064	-2,885	0,004	par_1
BPO_Growth	<---	Accessibility	0,303	0,088	3,426	***	par_2
BPO_Growth	<---	Talent_pool	0,626	0,099	6,309	***	par_3
BPO_Growth	<---	Legislative framework	-0,127	0,073	-1,735	0,083	par_4
BPO_Growth	<---	Lower costs	-0,012	0,084	-0,146	0,884	par_5
AZ	<---	Lower costs	1				
AY	<---	Lower costs	1,174	0,106	11,036	***	par_6
AX	<---	Lower costs	0,724	0,08	9,081	***	par_7
BX	<---	Talent pool	1				
@BY	<---	Talent pool	1,014	0,131	7,72	***	par_8
BZ	<---	Talent pool	0,807	0,112	7,216	***	par_9
CH	<---	Infrastructure	1				

CG	<---	Infrastructure	1,039	0,05	20,803	***	par_10
CF	<---	Infrastructure	0,968	0,053	18,361	***	par_11
CE	<---	Infrastructure	1,008	0,059	17,077	***	par_12
CT	<---	Accessibility	1,172	0,099	11,889	***	par_13
CS	<---	Accessibility	1,166	0,101	11,521	***	par_14
CQ	<---	Accessibility	1				
DA	<---	Legislative framework	1				
DB	<---	Legislative framework	1,011	0,043	23,357	***	par_15
DE	<---	Legislative framework	0,949	0,103	9,192	***	par_16
BW	<---	BPO Growth	0,578	0,114	5,07	***	par_25
CC	<---	BPO Growth	1				
CU	<---	BPO Growth	0,734	0,136	5,386	***	par_26

**Standardized Regression Weights: (Group number 1 - Default model)**

			Estimate
Accessibility	<---	Infrastructure	0,515
Accessibility	<---	Lower_costs	0,056
Accessibility	<---	Talent_pool	-0,08
Accessibility	<---	Legislative__framework	0,362
BPO_Growth	<---	Infrastructure	-0,408
BPO_Growth	<---	Accessibility	0,551
BPO_Growth	<---	Talent_pool	0,843
BPO_Growth	<---	Legislative__framework	-0,266
BPO_Growth	<---	Lower_costs	-0,015
AZ	<---	Lower_costs	0,8
AY	<---	Lower_costs	0,979
AX	<---	Lower_costs	0,746
BX	<---	Talent_pool	0,848
@BY	<---	Talent_pool	0,714
BZ	<---	Talent_pool	0,67
CH	<---	Infrastructure	0,939
CG	<---	Infrastructure	0,953
CF	<---	Infrastructure	0,916
CE	<---	Infrastructure	0,967
CT	<---	Accessibility	0,965
CS	<---	Accessibility	0,936
CQ	<---	Accessibility	0,769
DA	<---	Legislative__framework	0,822
DB	<---	Legislative__framework	0,861
DE	<---	Legislative__framework	0,863
BW	<---	BPO_Growth	0,531
CC	<---	BPO_Growth	0,751

CU	<-->	BPO_Growth	0,566
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**Covariances: (Group number 1 - Default model)**

			Estimate	S.E.	C.R.	P	Label
Legislative_framework	<-->	Lower_costs	-0,329	0,108	-3,048	0,002	par_21
Talent_pool	<-->	Lower_costs	0,24	0,072	3,354	***	par_22
Infrastructure	<-->	Lower_costs	-0,303	0,101	-2,996	0,003	par_23
Infrastructure	<-->	Legislative_framework	1,126	0,213	5,276	***	par_24
Talent_pool	<-->	Legislative_framework	-0,126	0,115	-1,095	0,274	par_27
Infrastructure	<-->	Talent_pool	-0,018	0,109	-0,168	0,867	par_28
e45	<-->	e48	-0,142	0,049	-2,873	0,004	par_29
e46	<-->	e48	-0,233	0,047	-5,015	***	par_30
e67	<-->	e68	0,535	0,146	3,654	***	par_31

**Correlations: (Group number 1 - Default model)**

			Estimate
Legislative__framework	<-->	Lower_costs	-0,344
Talent_pool	<-->	Lower_costs	0,391
Infrastructure	<-->	Lower_costs	-0,302
Infrastructure	<-->	Legislative__framework	0,67
Talent_pool	<-->	Legislative__framework	-0,122
Infrastructure	<-->	Talent_pool	-0,017
e45	<-->	e48	-0,829
e46	<-->	e48	-1,517
e67	<-->	e68	0,801

**Variances: (Group number 1 - Default model)**

	Estimate	S.E.	C.R.	P	Label
<b>Infrastructure</b>	1,759	0,262	6,726	***	par_32
<b>Talent_pool</b>	0,662	0,128	5,174	***	par_33
<b>Legislative__framework</b>	1,606	0,322	4,989	***	par_34
<b>Lower_costs</b>	0,572	0,114	5,023	***	par_35
<b>e77</b>	0,447	0,097	4,621	***	par_36
<b>e76</b>	0,069	0,048	1,431	0,152	par_37
<b>e2</b>	0,323	0,053	6,043	***	par_38
<b>e3</b>	0,035	0,045	0,781	0,435	par_39
<b>e4</b>	0,238	0,036	6,68	***	par_40
<b>e36</b>	0,258	0,065	3,989	***	par_41

e37	0,656	0,107	6,149	***	par_42
e38	0,53	0,082	6,491	***	par_43
e45	0,237	0,047	5,024	***	par_44
e46	0,192	0,045	4,242	***	par_45
e47	0,314	0,048	6,541	***	par_46
e48	0,123	0,06	2,059	0,039	par_47
e59	0,121	0,044	2,749	0,006	par_48
e60	0,234	0,051	4,564	***	par_49
e62	0,834	0,116	7,163	***	par_50
e67	0,773	0,165	4,678	***	par_51
e68	0,575	0,144	4,002	***	par_52
e71	0,495	0,126	3,944	***	par_53
e79	0,311	0,045	6,899	***	par_54
e80	0,282	0,059	4,788	***	par_55
e82	0,418	0,062	6,741	***	par_56

Matrices (Group number 1 - Default model)

Residual Covariances (Group number 1 - Default model)

	CU	CC	BW	DE	DB	DA	CQ	CS	CT	CE	CF	CG	CH	BZ	@BY	BX	AX	AY
CU	0																	
CC	0,074	0																
BW	0,058	0,041	0															
DE	0,038	0,023	0	0														
DB	0,073	0,072	-0,07	0,002	0													
DA	0,095	0,143	0,093	0,015	0	0												
CQ	0,148	0,009	0,169	0,155	0,194	0,264	0											
CS	0,061	0,001	0,119	0,032	-0,061	0,054	0	0										
CT	0,006	0,067	0,053	0,011	-0,001	0,071	0,018	0,004	0									
CE	0,119	0,051	0,032	0,079	-0,077	0,066	0,191	0,146	0,09	0,027								
CF	0,104	0,026	0,047	0,008	0,071	0,074	0,169	0,18	0,15	0,039	0							
CG	0,062	0,075	0,106	0,061	0,069	0,032	0,129	0,131	-0,1	0,011	0,018	0						
CH	0,006	0,038	0,077	0,16	0,189	0,141	0,237	0,047	-0	0,022	0,057	0,018	0					
BZ	0,006	0,03	0,039	0,124	-0,114	0,124	0,007	0,009	0,05	0,025	0,027	0,099	-0,06	0				
@BY	0,015	0,075	0,104	0,183	0,158	0,243	0,148	0,012	0,07	0,108	0,122	0,062	0,109	0,087	0			
BX	0,094	0,023	0,039	0,017	-0,033	0,002	0,081	0,019	-0,1	0,037	0,062	0,013	0	0,046	0,011	0		
AX	0,091	0,027	0,071	0,027	0,079	0,089	0,012	0,014	0,02	0,043	0,024	0,099	-0,06	0,166	0,001	0,02	0	
AY	0,087	0,052	0,003	0,001	-0,005	0,022	0,039	0,021	-0	0,101	0,094	0,067	-0,06	0,14	0,043	0,05	0	0
AZ	0,071	0,052	-0,02	0,078	-0,017	0,046	0,046	-0,04	-0	0,035	0,007	0,136	-0,11	0,171	0,041	0,08	-0	0

Standardized Residual Covariances (Group number 1 - Default model)

	CU	CC	BW	DE	DB	DA	CQ	CS	CT	CE	CF	CG	CH	BZ	@BY	BX	AX	AY
CU	0																	
CC	1,166	0																
BW	1,173	0,776	0															
DE	0,374	0,221	0,004	0														
DB	0,672	0,641	0,771	0,009	0													
DA	0,844	1,229	0,988	0,061	0	0												
CQ	1,426	0,087	1,949	0,766	0,894	1,186	0											
CS	0,616	0,012	1,427	0,156	-0,28	0,243	0	0										
CT	0,066	0,672	-0,65	0,057	-0,004	0,329	-0,08	0,019	0									
CE	1,185	0,494	0,382	0,387	-0,354	0,298	0,914	0,694	0,43	0,106								
CF	1,021	0,251	0,555	0,041	0,327	0,333	0,808	0,855	0,73	0,163	0							
CG	0,588	0,694	1,198	0,286	0,303	0,135	0,593	0,599	-0,5	0,046	0,073	0						
CH	0,055	0,362	-0,89	0,772	0,855	0,623	1,12	0,222	-0,2	0,095	0,238	0,072	0					
BZ	0,08	0,387	0,623	0,981	-0,841	0,884	0,051	0,073	0,38	0,198	0,21	0,758	0,47	0				
@BY	0,171	0,799	1,414	1,226	0,987	1,472	0,967	0,085	0,49	0,731	0,813	0,401	0,72	0,748	0			
BX	1,264	0,285	-0,62	0,139	-0,25	0,015	0,636	0,153	-0,4	0,304	0,496	0,104	-0	0,463	0,096	0		
AX	1,685	0,48	1,571	0,28	0,766	0,836	0,126	0,146	0,2	0,449	0,244	-0,99	0,64	2,447	0,014	0,23	0	
AY	1,288	0,739	0,057	0,006	-0,042	0,167	0,318	0,179	-0	0,836	0,769	0,533	0,46	1,646	0,425	0,54	0	0
AZ	1,018	0,716	0,344	0,625	-0,128	0,333	0,361	0,326	-0,3	0,282	0,052	1,048	0,84	1,955	0,399	0,94	-0	0

Total Effects (Group number 1 - Default model)

	Lower_costs	Legislative_framework	Talent_pool	Infrastructure	Accessibility	BPO_Growth
Accessibility	0,081	0,314	-0,107	0,426	0	0
BPO_Growth	0,012	-0,032	0,594	-0,056	0,303	0
CU	0,009	-0,023	0,435	-0,041	0,222	0,734
CC	0,012	-0,032	0,594	-0,056	0,303	1
BW	0,007	-0,018	0,343	-0,033	0,175	0,578
DE	0	0,949	0	0	0	0
DB	0	1,011	0	0	0	0
DA	0	1	0	0	0	0
CQ	0,081	0,314	-0,107	0,426	1	0
CS	0,094	0,366	-0,125	0,497	1,166	0
CT	0,095	0,368	-0,126	0,5	1,172	0
CE	0	0	0	1,008	0	0
CF	0	0	0	0,968	0	0
CG	0	0	0	1,039	0	0
CH	0	0	0	1	0	0

BZ	0	0	0,807	0	0	0
@BY	0	0	1,014	0	0	0
BX	0	0	1	0	0	0
AX	0,724	0	0	0	0	0
AY	1,174	0	0	0	0	0
AZ	1	0	0	0	0	0

**Standardized Total Effects (Group number 1 - Default model)**

	Lower_costs	Legislative_framework	Talent_pool	Infrastructure	Accessibility	BPO_Growth
Accessibility	0,056	0,362	-0,08	0,515	0	0
BPO_Growth	0,015	-0,067	0,8	-0,124	0,551	0
CU	0,009	-0,038	0,452	-0,07	0,311	0,566
CC	0,012	-0,05	0,601	-0,093	0,414	0,751
BW	0,008	-0,035	0,424	-0,066	0,292	0,531
DE	0	0,863	0	0	0	0
DB	0	0,861	0	0	0	0
DA	0	0,822	0	0	0	0
CQ	0,043	0,279	-0,061	0,396	0,769	0
CS	0,052	0,339	-0,074	0,482	0,936	0
CT	0,054	0,35	-0,077	0,497	0,965	0
CE	0	0	0	0,967	0	0
CF	0	0	0	0,916	0	0
CG	0	0	0	0,953	0	0
CH	0	0	0	0,939	0	0
BZ	0	0	0,67	0	0	0
@BY	0	0	0,714	0	0	0
BX	0	0	0,848	0	0	0
AX	0,746	0	0	0	0	0
AY	0,979	0	0	0	0	0
AZ	0,8	0	0	0	0	0

**Direct Effects (Group number 1 - Default model)**

	Lower_costs	Legislative_framework	Talent_pool	Infrastructure	Accessibility	BPO_Growth
Accessibility	0,081	0,314	-0,107	0,426	0	0
BPO_Growth	-0,012	-0,127	0,626	-0,186	0,303	0
CU	0	0	0	0	0	0,734



CC	0	0	0	0	0	1
BW	0	0	0	0	0	0,578
DE	0	0,949	0	0	0	0
DB	0	1,011	0	0	0	0
DA	0	1	0	0	0	0
CQ	0	0	0	0	1	0
CS	0	0	0	0	1,166	0
CT	0	0	0	0	1,172	0
CE	0	0	0	1,008	0	0
CF	0	0	0	0,968	0	0
CG	0	0	0	1,039	0	0
CH	0	0	0	1	0	0
BZ	0	0	0,807	0	0	0
@BY	0	0	1,014	0	0	0
BX	0	0	1	0	0	0
AX	0,724	0	0	0	0	0
AY	1,174	0	0	0	0	0
AZ	1	0	0	0	0	0

Standardized Direct Effects (Group number 1 - Default model)

	Lower_costs	Legislative_framework	Talent_pool	Infrastructure	Accessibility	BPO_Growth
Accessibility	0,056	0,362	-0,08	0,515	0	0
BPO_Growth	-0,015	-0,266	0,843	-0,408	0,551	0
CU	0	0	0	0	0	0,566
CC	0	0	0	0	0	0,751
BW	0	0	0	0	0	0,531
DE	0	0,863	0	0	0	0
DB	0	0,861	0	0	0	0
DA	0	0,822	0	0	0	0
CQ	0	0	0	0	0,769	0
CS	0	0	0	0	0,936	0
CT	0	0	0	0	0,965	0
CE	0	0	0	0,967	0	0
CF	0	0	0	0,916	0	0
CG	0	0	0	0,953	0	0
CH	0	0	0	0,939	0	0
BZ	0	0	0,67	0	0	0
@BY	0	0	0,714	0	0	0
BX	0	0	0,848	0	0	0
AX	0,746	0	0	0	0	0
AY	0,979	0	0	0	0	0
AZ	0,8	0	0	0	0	0

Indirect Effects (Group number 1 - Default model)

	Lower_costs	Legislative_framework	Talent_pool	Infrastructure	Accessibility	BPO_Growth
Accessibility	0	0	0	0	0	0
BPO_Growth	0,025	0,095	-0,033	0,129	0	0
CU	0,009	-0,023	0,435	-0,041	0,222	0
CC	0,012	-0,032	0,594	-0,056	0,303	0
BW	0,007	-0,018	0,343	-0,033	0,175	0
DE	0	0	0	0	0	0
DB	0	0	0	0	0	0
DA	0	0	0	0	0	0
CQ	0,081	0,314	-0,107	0,426	0	0
CS	0,094	0,366	-0,125	0,497	0	0
CT	0,095	0,368	-0,126	0,5	0	0
CE	0	0	0	0	0	0
CF	0	0	0	0	0	0
CG	0	0	0	0	0	0
CH	0	0	0	0	0	0
BZ	0	0	0	0	0	0
@BY	0	0	0	0	0	0
BX	0	0	0	0	0	0
AX	0	0	0	0	0	0
AY	0	0	0	0	0	0
AZ	0	0	0	0	0	0

Standardized Indirect Effects (Group number 1 - Default model)

	Lower_costs	Legislative_framework	Talent_pool	Infrastructure	Accessibility	BPO_Growth
Accessibility	0	0	0	0	0	0
BPO_Growth	0,031	0,2	-0,044	0,284	0	0
CU	0,009	-0,038	0,452	-0,07	0,311	0
CC	0,012	-0,05	0,601	-0,093	0,414	0
BW	0,008	-0,035	0,424	-0,066	0,292	0
DE	0	0	0	0	0	0
DB	0	0	0	0	0	0
DA	0	0	0	0	0	0
CQ	0,043	0,279	-0,061	0,396	0	0

CS	0,052	0,339	-0,074	0,482	0	0
CT	0,054	0,35	-0,077	0,497	0	0
CE	0	0	0	0	0	0
CF	0	0	0	0	0	0
CG	0	0	0	0	0	0
CH	0	0	0	0	0	0
BZ	0	0	0	0	0	0
@BY	0	0	0	0	0	0
BX	0	0	0	0	0	0
AX	0	0	0	0	0	0
AY	0	0	0	0	0	0
AZ	0	0	0	0	0	0

**Notes for Group/Model (Group number 1 - Default model)**

The following covariance matrix is not positive definite (Group number 1 - Default model)

	e48	e46	e45
e48	0,123		
e46	-0,233	0,192	
e45	-0,142	0	0,237

This solution is not admissible.

**Modification Indices (Group number 1 - Default model)**

**Covariances: (Group number 1 - Default model)**

			M.I.	Par Change
e80	<-->	e82	7,692	-0,105
e79	<-->	e76	6,49	0,07
e71	<-->	e80	4,043	-0,1
e68	<-->	e77	4,415	-0,066
e67	<-->	e77	5,861	0,084
e62	<-->	e77	5,009	-0,138
e62	<-->	e82	5,742	-0,141
e60	<-->	e82	6,932	0,094
e60	<-->	e68	4,808	-0,055
e59	<-->	e80	4,26	0,06
e48	<-->	Legislative__framework	4,613	-0,116
e47	<-->	Lower_costs	4,383	0,069
e47	<-->	e77	8,953	0,103
e47	<-->	e62	6,394	-0,115
e46	<-->	e77	7,523	-0,1
e45	<-->	Legislative__framework	6,08	0,133

e45	<-->	e62	5,047	0,11
e38	<-->	Lower_costs	7,498	0,133
e36	<-->	e82	4,554	0,086
e36	<-->	e59	8,464	-0,089
e3	<-->	e47	4,917	0,05
e2	<-->	e37	4,008	0,096

**Variances: (Group number 1 - Default model)**

	M.I.	Par Change
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**Regression Weights: (Group number 1 - Default model)**

			M.I.	Par Change
CC	<---	CU	4,916	-0,16
BW	<---	CQ	4,174	-0,077
CQ	<---	CU	5,631	-0,263
CQ	<---	CH	4,567	0,132
CF	<---	Accessibility	4,323	0,093
CF	<---	CS	5,935	0,086
CF	<---	CT	5,137	0,082
CG	<---	CS	5,538	-0,089
CH	<---	DE	4,004	0,075
CH	<---	DB	4,323	0,073
BZ	<---	Lower_costs	6,864	0,253
BZ	<---	AX	7,778	0,273
BZ	<---	AY	6,218	0,197
BZ	<---	AZ	8,661	0,223
@BY	<---	DA	4,441	0,111
BX	<---	AZ	4,732	-0,138
AX	<---	BW	5,324	0,162

**Minimization History (Default model)**

Iteration	Negative eigenvalues	Condition #	Smallest eigenvalue	Diameter	F	NTries	Ratio
0	e	16	-1,118	9999	2115,9	0	9999
1	e*	19	-1,165	2,507	1406,3	20	0,508
2	e	13	-2,735	0,453	1230,8	6	0,905
3	e*	12	-0,506	0,299	1077,7	4	1,021
4	e	11	-3,557	0,403	983,06	5	0,571
5	e	9	-0,679	0,47	828,53	5	0,632
6	e	6	-0,673	0,629	616,06	5	0,923

<b>7</b>	e	4		-0,354	0,278	515,04	5	0,956
<b>8</b>	e	1		-0,048	0,321	443,61	5	0,746
<b>9</b>	e*	0	9354,81		0,716	344,16	6	0,719
<b>10</b>	e	1		-0,002	0,72	324,43	4	0
<b>11</b>	e	0	1997,33		0,528	281,84	6	0,932
<b>12</b>	e	0	1307,74		0,564	270,99	1	1,005
<b>13</b>	e	0	1491,97		0,107	269,78	1	1,067
<b>14</b>	e	0	1622,59		0,012	269,76	1	1,018
<b>15</b>	e	0	1540,88		0	269,76	1	1,001