Off-Shoring: South Africa

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South Africa Basics

- Population: 42,718,530
- Age Structure:
  - 15 - 65 years: 65%
- Life Expectancy:
  - Males: 44.4 years
  - Females: 44 years

South Africa’s Culture
The practice of apartheid existed in South Africa for more than forty years and ended when Nelson Mandela was elected president in 1994. During those forty years:
- wealth by the white minority was systematically increased,
- resulting in the extreme repression of the majority native African population.

As the world became more aware of the practices of the minority rulers, a chorus of condemnation resulted and eventually force changes. Chief among these measures were economic sanctions.

Long-standing gender role belief: women are less important and less deserving of power, than men. Women expected to be responsible for:
- day-to-day survival of their families
- carrying out financial and legal transactions
Women in Work World

- Women constituted only about 36% of the labor force in the formal economy in the mid-1990s, according to official estimates.
- Women of all races generally held lower-paid jobs than men and paid less in comparable jobs.

Ethnic Makeup

Major Ethnic/national Group
- 75.2% Black Africans
- 13.6% White
- 8.6% Colored
- 2.6% Asian

Language
- English is one of 11 official languages
Labor Distribution

- **Formal Sector** - Includes medium to large organizations, highly regulated.
  - Number of Individuals: 8.8 Million
- **Informal Sector** - Includes vendors that provide services to customers at a point of need.
  - Number of Individuals: 2.2 Million
- **Domestic work** - 1.0 Million Individuals

Breakdown of Industries (Millions)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Formal</th>
<th>Full-time</th>
<th>Informal</th>
<th>Domestic</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>100</td>
<td>100.0%</td>
<td>100</td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td>Mining</td>
<td>120</td>
<td>120.0%</td>
<td>120</td>
<td>120</td>
<td>360</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>180</td>
<td>180.0%</td>
<td>180</td>
<td>180</td>
<td>540</td>
</tr>
<tr>
<td>Finance</td>
<td>150</td>
<td>150.0%</td>
<td>150</td>
<td>150</td>
<td>450</td>
</tr>
<tr>
<td>Trade</td>
<td>170</td>
<td>170.0%</td>
<td>170</td>
<td>170</td>
<td>510</td>
</tr>
<tr>
<td>Insurance</td>
<td>180</td>
<td>180.0%</td>
<td>180</td>
<td>180</td>
<td>540</td>
</tr>
<tr>
<td>Business services</td>
<td>200</td>
<td>200.0%</td>
<td>200</td>
<td>200</td>
<td>600</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>300</td>
<td>300.0%</td>
<td>300</td>
<td>300</td>
<td>900</td>
</tr>
<tr>
<td>Other services</td>
<td>400</td>
<td>400.0%</td>
<td>400</td>
<td>400</td>
<td>1200</td>
</tr>
<tr>
<td>Total</td>
<td>5370</td>
<td>100.0%</td>
<td>5370</td>
<td>5370</td>
<td>16010</td>
</tr>
</tbody>
</table>

Cost of Labor

- South African skilled labor is less than most 1st world countries.
- Different rates for various cities:
  - CC Manager = $6,000 a month
  - CC Team Leader = $2,700 a month
Labor Quality

- 521,000 skilled graduates each year.
- South African literacy rate is 84% (24% higher than India).
- Unemployment rate is 28% (March 2004).
- High school graduate unemployment is 30% and university grad unemployment is 13%.

Labor Force Issues

- High Emigration Rates due to low wages. Skilled workers are going elsewhere.
  - Highest shortage is at managerial and supervisory level.
- Adult (Aged 15-49) HIV prevalence rate 21.5%
- SA has the fastest growing rate of HIV in the World.
  - 4.2 million adults and children are living with HIV/AIDS (1999).
  - "The number of employees lost to AIDS could rise by 40-50% of the workplace in some companies in the next 10 years."

Labor Force: Call Center Industry

- Industry is classified under business services (1 million employees).
  - Estimated 80,000 employees working at call centers.
- In 2001 there were 410 call centers.
- 18 call centers provide services abroad.
  (Sykes, Merchants, Lufthansa, CSC, Qualiflyer, RCI)
Labor Force: Call Center Industry

- CC attrition rates between 5% to 7% (India is 40%)
- Average agent tenure is 40 months.
- It is projected the industry could grow about 10,000 seats per year and still not exhaust the skilled labor force.

Formal/Informal Constraints on Labor

Formal Constraints (Law)

- Child Labor Law:
- Section 43 of the Basic Conditions of Employment Act (BCEA), prohibits employment of children under the age of 15
Minister of Labour Mdladlana said, “The use of children to perform the work of adults is extremely exploitative. It is not only a form of abuse of the child, but it also limits job opportunities for adults in the area.”

Employers with more than 50 people must comply with the Employment Equity Act:
- Intended to redress employment disadvantages (Blacks, women and disabled)
- Directly impacts recruitment practices and workforce composition.

Ordinary hours of work (EEA)
- A worker must NOT work more than:
  - 45 hours in any week
  - 9 hours a day if a worker works 5 days or less a week, or
  - 8 hours a day if a worker works more than 5 days a week.
**Formal Constraints (Proposed Legislation)**

**Legislation proposals:**
- Four weeks notice for termination of all workers
- Workers will have right to receive written particulars of employment

**Formal Constraints (Proposed Legislation) Continued...**
- Discrimination:
  Employers unable to discriminate against workers exercising rights given by new legislation

**Illicit Underground Economy**
- Transshipment center for heroin, hashish, marijuana, and cocaine;
- Cocaine consumption on the rise; world's largest market for illicit methaqualone;
- Attractive venue for money launderers due to organized criminal and narcotics activity
Infra-structural Opportunities

- Telecommunications system the best developed and most modern in Africa
- International Infra-structure: 2 submarine cables; satellite earth stations - 3 Intelsat (1 Indian Ocean and 2 Atlantic Ocean)

As of February 2005,
- Cheaper phone calls for consumers (international calls made for less)
- Operators no longer forced to lease networks from Telkom at monopoly market rates
  (opportunity for wireless-based networks or use satellite services)

Health Related Risks to Labor

- 2003: an estimated 5.3 million South Africans were infected with HIV (the largest number of individuals living with the virus in a single country)
Industrial Relations Climate

The largest and most advanced of African countries
Highly responsible for ending workplace apartheid practices
Played critical role in establishing the Labour Relations Act (LRA) of 1995
LRA similar in many ways to the United State's National Labor Relations Act.

Trade Union Movement

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- Highly responsible for ending workplace apartheid practices
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- LRA similar in many ways to the United State's National Labor Relations Act.

Labour Relations Act of 1995

- Purpose of the Act-
  • Advance economic development
  • Achieve social justice
  • Promote labour peace
  • Encourage workplace democracy

- Major accomplishments of LRA-
  • Decreased occurrence of wildcat strikes that were common in the 1970s-80s
  • Provides unionized workers with redress through mediation,conciliation, and arbitration
Industrial Relations Policy Regulation

- Regulated by National Economic Development and Labour Council (NEDLAC)
- NEDLAC comprised of representatives from:
  - Trade union federations
  - Employers
  - Government
  - Civic organizations
- Discussion is between all representatives to decrease unilateral decision making

Outsourcing Call Centers to South Africa

Disadvantages of South Africa

- AIDS epidemic
- Long-standing beliefs about women
- Illicit underground economy
- Emigration of workers
South Africa vs. India

<table>
<thead>
<tr>
<th>South Africa</th>
<th>India</th>
</tr>
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<tbody>
<tr>
<td>Low attrition rate</td>
<td>High volume, low-cost</td>
</tr>
<tr>
<td>More neutral accent</td>
<td>Massive infrastructure already in place</td>
</tr>
<tr>
<td>Strong insurance &amp; banking industries</td>
<td>2.5 million graduates each year</td>
</tr>
<tr>
<td>Literacy rate 30% higher than India</td>
<td>Economies of scale allows for future growth</td>
</tr>
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Advantages of South Africa

- Call centers a national economic priority
- Government incentives to encourage call center business
- Sector Administration Training Authority (SETA) provides training subsidies in Gauteng region

Advantages of South Africa Cont.

- Deregulation of telecom industry in 2005 → significant price reductions in voice transmission
- Customer service staff attrition rate only 10% • Much lower than the U.S. average
- Modern, progressive legal system built on Western traditions
- English is the national language • Also has large groups of foreign language speakers