

**THE EFFECTIVENESS OF OUTSOURCING
SERVICES AS A TOOL FOR IMPROVING
SERVICE DELIVERY IN KZN DEPARTMENT
OF WATER AFFAIRS AND FORESTRY**

BY

ZIPHOZETHU BUSISIWE MATHENJWA

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WATER AFFAIRS AND FORESTRY

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In partial fulfillment of the requirements for the degree of Master of
Business
Administration

(i)

DECLARATION

I declare that this dissertation is my own work. It is being submitted for the degree of Master of Business Administration at the University of Natal, South Africa. It was never submitted for any other degree or examination in any other University. All the references used or quoted have been acknowledged by means of referencing.


.....

MATHENJWA ZB

17-09-02
.....

Date

(ii)

DEDICATION

This dissertation is dedicated to my parents and my family.

(iii)

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I wish to extend my sincere appreciation to the following persons:-

God, the almighty, for giving me the courage, strength and determination.

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My family and my friends for their continuous encouragement and support

All people who provided documents for the completion of this study.

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ABSTRACT

The aims of the study were to find out whether or not outsourcing essential to the Department of Water Affairs and Forestry. The second aim was to establish how can outsourcing improve the Department's cost structure. And the last one was to develop a viable business model for outsourcing services within the Department of Water Affairs and Forestry.

The main problem was that the Government opted for outsourcing as a move to save expenditure within the Department of Water Affairs and Forestry. This Department has outsourced car and truck financial services, insurance and management to Imperial Group. This venture estimated that it would save the Department and the Government approximately R1 Billion on operational costs. This system is currently operational, but already management in the Department of Water Affairs and Forestry have realized that such a venture with huge financial implications should have been based on carefully planned and executed research findings than mere hypothesis about saving. The study research method that will be used is a case study. All the data gathered in the study, is relevant on to the case being studied. Though conclusions allow for inferences to be made, the cases where such generalizations are

(v)

made or applied to must be similar in all respect. The study's sample consists of the Department of Water Affairs and Forestry and the Imperial Group. The two organizations were chosen because the outsourcing strategy could serve as a yardstick to measure similar agreements in the future. The specific area of focus is the agreement on car rental between the two organizations. The documents analyzed include the:

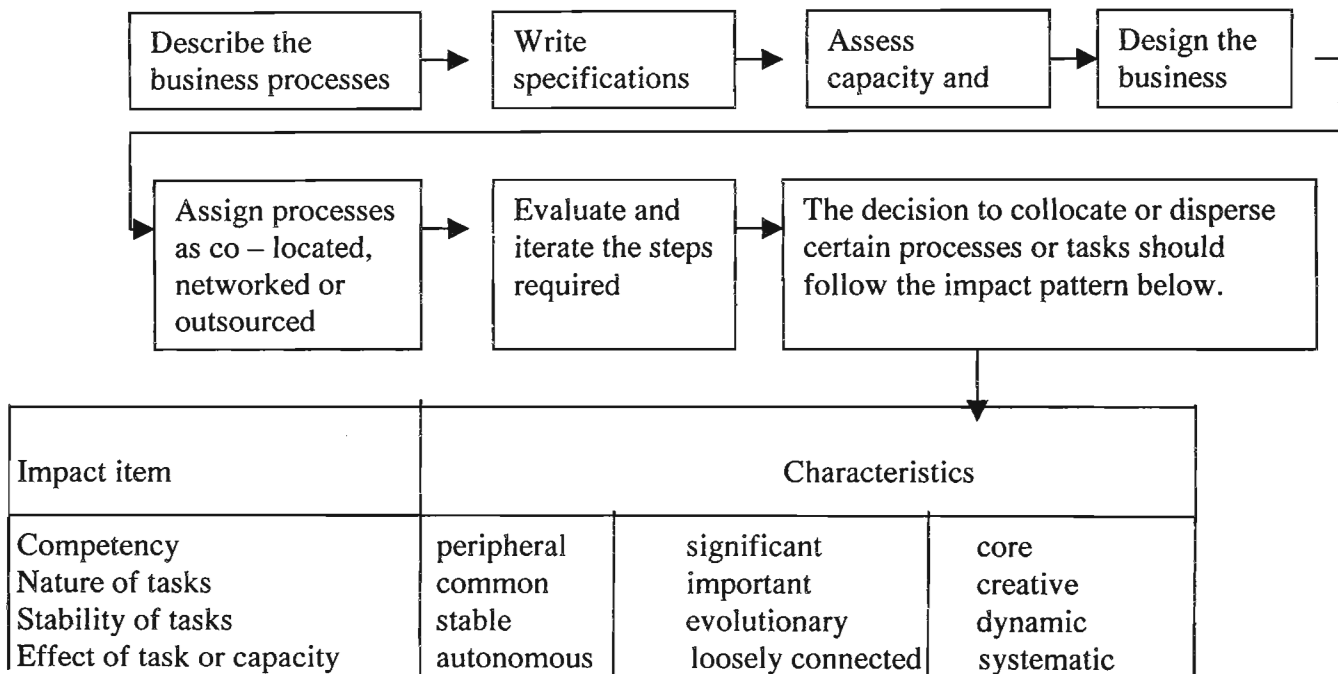
- Department of Water Affairs and Forestry Outsourcing Strategy and Outsourcing the Billing Process (January, 2001).
- Department of Water Affairs and Forestry Outsourcing Strategy and Outsourcing the Billing Process (February, 2001).
- Department of Water Affairs and Forestry Procedural Manual for Official Transport with Imperial Vehicles

Outsourcing services for the public agencies is a tool that is being used to offload those non-core functions, such as transport for a period of time. According to theory it is more cost effective to outsource peripheral tasks because the alternative, this is, maintain the same service within the organization is expensive. The findings

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of this study show that service should be outsourced but it is expensive, the individual factors that lead to this conclusion are far beyond this scope of the study and therefore will not be discussed in great detail.

The outsourcing model:



The outsourcing model above, developed in this study shows that the profile of task or process aligned with the first (left most) column will call for the outsourcing of the task to a supplier.

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1. CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

For any country to be effectively managed its government needs to have a plan of making maximum use of resources available in a responsible manner. This study will look at the case of the Department of Water and Forestry, which is one of the National Government Departments in South Africa (SA). The core duties for this Department include the management of water resources of South Africa in a sustainable way. This study aims at investigating the effectiveness of the outsourcing plans with special reference to the vehicle fleet system of The Department of Water and Forestry and Forestry, KwaZulu-Natal office (Department of Water Affairs and Forestry, 2000).

Outsourcing is reshaping business internationally, but SA is at least five years behind the more mature outsourcing industries of North America and Europe, says Peter Quinn, group CEO of the Fedics Group. "Whereas 10 years ago these markers were questioning whether outsourcing made

sense as a business model, this was resolved and no longer became an issue at least five years ago. In SA there is still some debate”.

1.2 MOTIVATION FOR THE STUDY

The motivation to conduct this study comes from the researcher's involvement in the Department of Water and Forestry in KwaZulu Natal. The main concern by management in the Department of Water affairs and Forestry is the financial impact that outsourcing services may have on the Department of Water Affairs and Forestry. In the Department of Water and Forestry strategic plan, the benefits of outsourcing services have been highlighted as a great concern. There is a need for the Department to conduct a study to determine the benefits of outsourcing services.

1.3 BENEFITS OF THE STUDY

This study will help the Department of Water and Forestry in KwaZulu Natal to understand the value of outsourcing certain services. This study will also compare the financial management previously applied by the Department of Water and Forestry and the current one by Imperial Group. This will

have impact in the decision that the management in the Department of Water and Forestry will take on future outsourcing services practices. The implication for not conducting this research is that it will not be possible to evaluate the advantages and disadvantages of outsourcing services.

1.4 STATEMENT OF THE PROBLEM

Government has opted for outsourcing as a move to save when necessary expenditure within the Department of Water Affairs and Forestry. For instance, this Department has outsourced car and truck financial services, insurance and management from Imperial Group. This venture has been estimated that it will save the Department and the Government approximately R1 Billion on operational costs. This system is currently operational, but already management in the Department of Water and Forestry have realized that such a venture with huge financial implications should have been based on carefully planned and executed research findings than mere hypothesis about saving. There is a need in this Department to find out the benefit for engaging in such an activity. Therefore this study will

determine whether or not outsourcing is essential to the Department, how outsourcing can improve the Department's cost structure and what would be the viable business model for outsourcing services for the Department.

1.5 CRITICAL QUESTIONS

- Is outsourcing essential to the Department of Water Affairs and Forestry?
- Does outsourcing improve the Department's cost structure?
- What would be the Department of Water and Forestry viable business model for outsourcing services?

1.6 AIMS OF THE STUDY

- To find out whether or not outsourcing is essential to the Department of Water Affairs and Forestry.
- To establish how outsourcing can improve the Department's cost structure.
- To develop a viable business model for outsourcing services within the Department of Water Affairs and forestry.

1.7 LIMITATIONS OF THE STUDY

Since the management of the Department of Water and Forestry has awarded a contract to Imperial Group to supply car and truck financial services, insurance and management; they may not want to cooperate because of a fear that this study have negative effects for their contract. Thus not all data required will be obtained without their cooperation.

1.8 DEFINITION OF CONCEPTS

The following definitions will assist in understanding various aspects in this study.

1.8.1 Outsourcing services

Outsourcing services also known as contracting out, refers to offloading peripheral services, such as cleaning and supplying maintenance of cars and trucks, through contracting them from outside agencies who specializes on these services such as Imperial Group; on a fee basis while the Department of Water and Forestry concentrate on its core business (Business Day, 2001).

1.9 ORGANIZATION OF THE STUDY

The chapters in this study are as follows:

Chapter one

Chapter one is the introductory chapter that presents the problem to be investigated, the aims of the study and the hypotheses that will be the guide for this study.

Chapter two

Chapter two is the chapter that deals with relevant literature and previous studies on outsourcing services.

Chapter three

Chapter three deals with research methods, a case study of the organization and limitations.

Chapter four

Chapter four presents the evaluation of the organization against the results as well as their analysis. The results are consistently presented in the form of tables and figures.

Chapter five

Chapter five discusses the findings of this study as well as the conclusion and recommendations.

1.10 CONCLUSION

This chapter has indicated clearly the critical questions to be answered and as well as the aims of the study. The main problem that was highlighted is the financial impact the

outsourcing services may have for the Department of Water
Affairs and Forestry.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Outsourcing is a highly competitive business, with many players offering solutions that have taken on the status of commodities. However with margins under such pressure, outsourcing companies must be able to differentiate themselves by offering their customers something more than a competitor can offer. In many cases the move towards outsourcing is not managed properly. For instance, in South Africa market, there is a striking element of lack of international best practice models. Customers and outsourcing service providers in South Africa are responsible for allowing this unpleasant situation to develop. Corbett (2002) argues that outsourcing contract is motivated by a need for client to focus on core business areas and shared functions that diffuse the company's efforts. It is important that a corporation taking the outsourcing route takes the advantage of the outsourcing service provider's greater expertise and the cost saving advantage as a result of competition from a range of service providers. However, few of the goals of outsourcing can be achieved if outsourced service providers are forced to keep everything the same for longer

period of their contract. For instance, if a service provider is required to enter into a five-year agreement without being able to improve services and re-skill staff, ultimately the service provider will lose the ability to efficiently manage the operation. Although outsourced service providers have encountered attempts by potential clients who force them to operate in this direction; a number of them have said no to these deals, because they would end up having to offer falling service levels with rising costs and unhappy customers. If companies are seeking an effective outsourced solution they must accept that there will be changes geared towards improving the services. Without this strategy there is no point in outsourcing. Outsourcing is based on creating a common tool, set cost effective processes and organization development that use and provide the needed services through latest information technology and operational strategies (Cross,1995).

Most organizations, for instance Telkom, Eskom and Department of Water Affairs and Forestry want a world-class fleet management solution, which is reliable, cost effective and well managed. This cannot be achieved unless they are innovative. Although new technologies will show substantial efficiency in manufacturing of car fleet, companies can rely on these if they are well managed and

resources for doing that are proper. According to Botha (2001), South Africa has a shortage of skilled managers who are efficient in management. It is then that most Departments tend to opt for outsourcing because it is believed to provide solutions, especially where there are functions that may be difficult to manage. Botha (2001) further argues that companies wanting to position themselves strategically need to take a long-term view of this opportunity that outsourcing offer as an aid to this process. There are many theories on outsourcing; the next sections are going to focus on these and other studies on outsourcing.

2.2 BACKGROUND OF THE STUDY

Outsourcing, also known as contracting out, has many benefits for public agencies. It allows these agencies as well as the private sector companies, to offload peripheral services through contracting them out on a fee basis while concentrating on their core businesses. In many cases, staff is transferred to the dedicated service providers on similar terms and conditions to the outsourcing agency. The bottom line is that each party sticks to its knitting, with customers or taxpayers, in the case of the public service reaping the benefit (Corbett, 2002).

Outsourcing has been in favour for some time in European and North American countries (Britain, France, Germany, Canada and United States Of America) where the private sector has become involved in a range of traditional government services such as water and sewage provision. The private sector has proved that, it can tackle a range of tasks more efficiently and at a cost-effective manner than government departments can do. The state and agencies are often loath to lose ultimate control over assets, which are viewed as strategic, notably in the transport and energy arenas. As a result, a range of other mechanisms to involve the private sector in government businesses has been developed. These include concessions, this is, a private firm runs a government service for a set period, by Building, Operating and Transferring (BOT) schemes. These are a form of concession where a private company builds and manages a project but ownership returns to the state after a defined period.

In South Africa a number of government departments have embraced the concept of private sector involvement in the industries they oversee, with the most progressive to date being the Transport Ministry. Governments privatization and restructuring program also makes room for outsourcing as one method of using private skills and funds. The outsourcing concept has capture the

imagination of parastatal heads, largely because it is manageable, makes commercial sense and has been successful in other parts of the world. Among the public agencies, which have gone his route, are Eskom, the Airports Company, South African Airways and Telkom (Quinn, 2000). Outsourcing for these public agencies is a tool that is being used to offload those non-core functions, such as transport or information technology, for a period of time. This will ultimately come back into the public agency.

In South Africa due to the past inequalities in job opportunities among its people, there are certain legislations that make outsourcing more favourable. These include:

(i) Employment Equity Act, No.55 of 1998.

This Act was passed in 1998. The purpose was to eradicate the legacy of apartheid in our workplaces. Through equity in employment as well as opportunities for providing services, an opportunity for the empowerment and development of small and medium enterprise are created. The small and medium enterprise is the segment in the employment sector that consists of service providers who are mostly outsourced by bigger business. This act promotes opportunities for big business to outsource some services.

(ii) Skills Development Act 1998 and Skills Development Levies Act 1999.

The Sector for Education and Training Authority (SETA) provide employers with relevant benchmarks, which are used for the purposes of The Skills Development Act. Big businesses are responding to this challenge of providing skills training to its employees. The employees that are trained on different skills tend to be outsourced once they are retrenched or open their businesses. The skill development act and levies are two provisions that promote outsourcing.

These two acts were provided to redress the imbalances of the past, this is, inequality in employment and opportunities for outsourcing. Equity in tendering for outsourced services is an unavoidable process. This helps South African business to exercise caution in outsourcing services. There should be transparency and equity, which ensure the empowerment of service providers.

2.3 THEORIES ON OUTSOURCING SERVICES

Outsourcing can contribute to the innovative capabilities of firms by saving resources that can be directed to support research and development activities of a company. Companies can enjoy the cost savings, which result from reducing costs of production

process by externalizing stages of a production process. This may cut cost to be as much as 50 per cent of total unit costs, depending on the type of production process and products involved (Suarez-villa and Karisson,1995). Capital is usually more difficult to obtain for research and development activities due to the higher risks commonly associated with such operations, and the typically long periods required before any benefits can be obtained. In contrast, more visible activities or assets with immediate payoffs, such as marketing the built facilities or the purchase of new production equipment may find it easier to obtain external financing of research and development activities (Estevan,1988).

In most cases both outsourcing customers and providers usually enter into agreements with optimistic intentions and expectations. Outsourcing customer-executives expect the following things from the provider:

- Expect to receive quality service
- Expect new ways of thinking
- Expect extraordinary responsiveness, and
- A provider that shows both a partner-like caring about the customer's success and an intuitive understanding of the business.

- Expect that this will be an arrangement that yields immediate and continuous business value.

The outsourcing providers tend to hope that the following key issues will match the outsourcing customer's expectations:

- Tend to hope to provide all that the customer is expecting and more, while making a fair profit and getting more business with this customer as well as others in the same industry.
- Hope to enhance the belief that both parties can enjoy the business relationship for many years
- Hope to benefit from the business by making a reference account that they can proudly write and talk about for years to come (Corbett, 2002).

The relationship begins based on both outsourcing customers and providers expectations and beliefs. Both parties have needs that are mutual and complementary. It is important though to highlight that making outsourcing relationships work takes a lot more than good faith and committed people. In most cases few such outsourcing arrangements actually come anywhere near reaching their desired goals. Even with the best of intentions, relationships

can end up in either the “value-shrinking or value-expanding” loop.

The two phenomena are as follows:

(i) What we call a “value-shrinking” loop.

This is a phenomenon in which both parties perceive failure in the relationship, but instead of dealing with it, projects the blame to the other party and both fails. Once in such a loop, customers and providers are headed down the spiral to failure. Both seem to get stuck in negative perceptions and behaviors; and fail to share mutual gains and responsibility for failures. It is most fortunate that some relationships get into a different loop.

(ii) The so called a “value-expanding” loop.

This is, an outsourcing relationship in which suppliers and customers work together for mutual benefits. There are certain processes that ensure the sustainability of this healthy relationship.

They include:

- Both parties over time able to find and distribute joint gains
- Both parties make more efficient use of time
- Both parties structure and make wiser choices, enable continuous improvement
- Both parties gain from mistakes and share failures (Corbett, 2002).

The above argument clearly indicates that outsourcing is a challenging process given today's increased pressures on organizations to deliver against ever-changing requirements, and the consequences of falling into a value-shrinking mode which can be costly to both customers and providers. Although both providers and customers benefit from effective relationships, the customer usually stands to benefit the most from good relationships, and equally suffer the greatest from bad relationships. Customer executives need to ensure that their organizations have the ability to systematically and repeatedly develop value-expanding relationships by focusing on building relationship management capacity at both the relationship and organizational levels (Corbett, 2002). There is a need for outsourcing managers to evaluate the business relationship as the arrangements progress over time. It is important that both the relationship managers take a step back, pause and evaluate the relationship by asking themselves the following questions:

- How things are going?
- What changes can and or need to be made?
- What have they learn for the future?

This questions put forward the challenge that, unless such efforts are systematized, organizations lose the ability to not only ensure

that the activities are as useful as possible but also to look across its many relationships for overall learning and systemic difficulties. This will make organizations to build and implement a standard relationship audit process that will help to ensure that the purposes of such a process are met. They include the following:

(i) Evaluation

This is, evaluation of the performance of the relationship by monitoring ;

- The substantive value created and distributed to both sides of the arrangement;
- The quality of the working relationship

(ii) Adjust

This is, identifying ways the management of the partnership needs to be adjusted so as to achieve previously defined goals

(iii) Surface Breakdowns

This is, ensuring that the inevitable breakdowns in communication, misperceptions, and conflict are easily and regularly surfaced and constructively addressed

(iv) Find Value

This is to uncover opportunities to expand the scope and/ or shift the focus of the relationship

(v) Best Practices

This is, identifying effective relationship management practices and tools to share and implement on other relationships

(vi) Learning

This is, providing the basis upon which an organization can look across all of its relationships and determine where it is doing well at managing its relationships, where it is doing less well, and why.

Evaluation of a relationship is something that needs to be done by the provider and customer jointly, with the goal of joint learning so that they can both be better at, and find more value in, working with one another and others in the future. This can be foundational to the development of a relationship that can grow, adjust and deepen over time (Duranceau, 1994).

The outsourcing providers are categorized into two. There are small outsourcing providers and large outsourcing providers. The comparison between the two brings quite a different picture. Small

outsourcing providers are inherently flexible and quick. They are specialists in what they do and they do it with good passion. What they often lack, however, is access to the types of know-how, technologies, capital, economies of scale and other resources that the bigger outsourcing providers enjoy. The manager's small outsourcing providers get so bogged down in running the company that they are unable focus on building the business (Corbett, 2002).

The power of outsourcing for the small outsourcing providers is not so much in redefining and reorganizing operations for speed and efficiency because they are already good at; but to enhance their business financial security as well marketing strategies (Corbett, 2002). In outsourcing ventures, there are five steps for small outsourcing providers' success. The five steps helps towards objectively evaluating the potential of outsourcing and capture its benefits. These steps are as follows:

Step 1. It is important for outsourcing customers to make sure that they really understand what they hope to gain from the outsourcing service and service provider, before making the decision to move towards outsourcing.

Step 2. Then, the outsourcing customer needs to start by discussing the problems and the potential solutions with outside outsourcing providers.

Step 3. Once outside options begin to come into focus and potential providers begins to solidify, the outsourcing customers should start to actually craft the relationship that will exist.

Step 4. The transition from inside operations to an outsourcer may be managed carefully, if systems are in place before a relationship is established.

Step 5. As the relationship between the outsourcer who moves forward with the decision to outsource, there are three things that are most important. These are: communicate, communicate and communicate (Corbett, 2002).

2.4 PREVIOUS STUDIES ON OUTSOURCING SERVICES

Quinn study (2000) found that 73% of global company leaders already outsource one or more business processes. Of the total number of companies who have outsourced services, 89% have reported an increase in efficiency, while 78% reported that they have become more profitable. Another (73%) of company leaders reported an increase in their competitive edge and 93% have been able to refocus on core competencies. Another study by Mullin (2002) arrives at similar conclusions. Mullin found that business process outsourcing is on the rise. Out of 300 respondents 64%

reported increase in their use of outsourcing and 29% reported no change in current level of outsourcing. This study cited concentrating on core business and saving money as a motive for increased outsourcing. Other reasons other than cost-reduction were growth and employee performance criteria. The study also found that some outsourcing service firms generally thrive in a down economy, however, revenues in outsourcing increased 20% in 2001.

A study by Spalding (1998) in outsourcing transportation found that one of the last areas in the supply chain where business is focusing on reducing the cost is transportation. The study found that nearly 60 percent of all Fortune 500 companies in the United States of America, their logistics cost are spent on transportation. The study also shows that most company executives have realized that, there is money to be saved in these areas. Transportation seems more important than ever in the sense that firms supply chains are becoming more and more global. Thus, it is more important to be able to move products from overseas points to domestic points and vice versa. Randall study (1998) on logistic managers in Europe's leading manufacturing and commercial organizations found that logistic outsourcing, at least for basic services, has become well established in Europe. The study also found that the reasons for

this are emphasis on logistics cost reduction; service improvement and flexibility of response are at the center of most logistics outsourcing decisions. This study show that the extent of outsourcing logistics services out of 157 companies was 120 (76%). Among those companies that were not outsourcing 24% indicated that their companies were considering the use of outsourcing services.

Another study by Duranceau (1994) found different results after the layoff of workers by Caudex in the United States of America. The study found that outsourcing is one of the primary reasons displaced workers get reemployed quickly. The study also show that though, outsourcing is beneficial as it results in a number of older displaced workers retiring and those reemployed workers working more hours, in generally less stable jobs. These findings are consistent with the research in other industries by Belous (1989) and Podgursky (1989). Their research studies on displaced workers found that outsourcing tend to employ poorer and disadvantaged people who work longer hours for less pay. Suarez-Villa (1996) study on comparing two- way sub-contracting in European industries, found that establishments engaged in two-way sub-contracting in Austria industries were 56 per cent of the total that sub-contracted out; while in Sweden, the proportion was only 22 per cent of establishments sub-contracting out. The

Swedish industries indicated the inhibiting effect of research and development, as a major factor in making industries reluctant to engage in two-way sub-contracting.

A study by Cross (1995), found that other industries prefer selective outsourcing. This outsourcing strategy was found to be effective in cutting costs by more than 25%. This study also found that this strategy make operations to be efficient. The selective outsourcing strategy ensures the performance of operations is increased all the time.

Swanger, Chewning and Eugene study (2001) on outsourcing, found that outsourcing is an effective tool for ensuring transparency especially when outsourcing services like audit. These findings are consistent with that of Lowe *et al.* (1999). In their study of loan officers, independence was perceived to be impaired when both the internal and external audit services were conducted without staff separation. The study found that financial statement reliability was highest when audit treated staff separately.

2.5 CONCLUSION

This chapter shows that, among most outsourced services such as technology, audit, transportation, etc; transportation is one service that companies around the world are considering to outsource more

often than any other service. The reasons put forward for this tendency to outsource transportation services include:

- Saving money.
- The importance of transportation among firms supplying chains on a global scale.
- Importance of moving products from overseas points to domestic points and vice versa.
- Service improvement and flexibility.

It was indicated that the value of outsourcing lies in its benefit to the company, in terms of cost reduction, efficiency, flexibility and improved performance.

CHAPTER 3

CASE STUDY METHOD

3.1 INTRODUCTION

This study reviews a specific case that has huge financial implications between an outsourcer and service provider. The fundamental basis of this outsourcing venture was financial benefits. The case review thus covers the outsourcing strategy and its financial viability to the Department of Water and Forestry. The method of study chosen in this case allows the researcher to focus on one case and analyse it, in order to yield valuable information that can influence policy decisions. It is therefore vital that the documents that are reviewed here are not only relevant, but also provide all the details of the outsourcing strategy as well as data on financial viability of the outsourcing venture for the Department of Water and Forestry.

3.2 RESEARCH METHOD

This study chosen research method is the case study. This method is relevant in that it focuses on one case and study it thoroughly before conclusions are made based on the case. All the data gathered in the study such as this one that uses a case study method, is relevant on to the case being studied. Though

conclusions can allow for inferences to be made, the cases where such generalizations are made or applied to must be similar in all respect. The advantages of a case study method include:-

- The targeted organizations, this is, the Department of Water and Forestry and Imperial agreements are studied carefully and all the data sources between the two organizations are analyzed.
- The study focuses on the outsourcing aspect between the two organizations and excludes irrelevant information that has no benefit for this study.

3.3 SAMPLE

This study's sample consists of the Department of Water Affairs and Forestry and Imperial Group. The two organizations were chosen because the outsourcing strategy could serve as a yardstick to measure similar agreements in the future. The specific area of focus is the agreement on car rental between the two organizations. The documents analyzed include the:

- Department of Water Affairs and Forestry Outsourcing Strategy and Outsourcing the Billing Process (January, 2001).

- Department of Water and Forestry and Forestry Outsourcing Strategy and Outsourcing the Billing Process (February, 2001).
- Department of Water Affairs and Forestry Procedural Manual for Official Transport with Imperial Vehicles

3.4 DATA COLLECTION

3.4.1 Protocol 1

(i) Scope of Services and Management of Contract

The contractor shall exercise the highest degree of skill, care and diligence in the provision of the services and operate the services strictly in accordance with the output specifications, as well as the other relevant provisions of the contract, to the reasonable satisfaction of the Department of Water Affairs and Forestry. The contractor shall comply with and strictly adhere to the representative's written instructions and directions regarding the operation of the services and shall take instructions and directions only from the Transport Officer's and/ or the representative within the Department of Water Affairs and Forestry.

The contractor shall have no cause to refuse to convey any user on a trip or part thereof or to provide a requested service unless on the grounds of violent, abusive or otherwise offensive conduct on the

part of a user or other grounds contemplated in applicable road traffic legislation.

Should the contractor become aware of circumstances or problems which have prevented it, are preventing it or will prevent it from providing the services as specified, it shall, as soon as is reasonably possible after becoming so aware, advise the representatives or a Transport Officer of such circumstances or problems and also indicate the manner in which the provision of the services was, or is going to be influenced thereby, if applicable. Such advice must be confirmed in writing as soon as possible or reasonably possible.

The representative and/or the Transport Officer shall each month, on the date agreed on, determine the value of the services performed in terms of the contract. When the representative requires any part or parts of the services to be measured, he/ she shall give notice to the contractor, who shall forthwith attend or send a qualified person to assist the representative or the Transport Officer with such measurement and shall furnish all particulars required by the representative or the Transport Officer.

In addition to the services which the contractor is obliged to provide in accordance with of the provisions of the contract, it may operate any other passenger services, provided that the operation of such services does not in any way interfere with or inhibit its ability to provide the services in terms of the contract. The contractor shall provide clarity on management plans and information systems for the administration of the contract as required in the output specifications. The management plans and information systems shall provide for a default mechanism that enables the institution of penalties for failure to comply.

A Steering Committee consisting of representatives from the five (5) NUDs (National User Departments), and the management of the contractor shall be instituted as soon as this agreement is signed by the parties .The said Steering Committee is authorised to deal with any aspects that according to the parties to the agreement need clarification and will specifically oversee the day to day operations of the contract and be responsible for the setting of policies and procedures in the execution of its overseeing function in respect of issues not dealt with in detail in the tender before execution.

(iii) Type and Condition of Vehicles

The type and condition of all vehicles to be provided by the contractor for the provision of the services shall correspond with the requirement of the output specifications when so ordered by the representative, the contractor shall remove from the services any unsuitable and/ or unroadworthy vehicles. The approval or disapproval of any vehicle by the representative shall not in any way release the contractor from its obligations in terms of the contract.

If the contractor, without the written authority of the representative, fails to provide the services as specified in the output specification and the main agreement within six (6) months of the commencement date or at a later stage in the contract period, penalty shall be imposed.

Any accident damages shall be repaired by the contractor, so that all the vehicles comply with the output specification. All vehicles shall be clean inside and outside when it is handed to a user. Prior to the commencement date, the contractor, the representative and the Transport Officers shall agree on guidelines as to what constitutes cleanliness in the operating circumstances.

(iv) Access to Facilities

The representative and any person authorised by him/ her shall at all reasonable times have access to all vehicles, workshops and depots of the contractor for the purpose of monitoring quality and general inspection and the contractor shall afford every facility for and render every assistance regarding such access.

The contractor shall inform all its employees of the identity, powers and duties of the representative or the person authorised by him/ her. For purposes of identification, the representative shall provide his/ her staff with a unique personal card. The contractor shall, at the request of the representative, produce proof of the validity of all licenses, permits and any other requirements arising from the contractor. Such proof shall be furnished not later than seven (7) days from the date of receipt of the return request from the representative.

(v) Rates and Prices

Except if stated, the rates and prices stated in the Pricing Schedule shall be final and binding throughout the period of contract.

(iv) Payment

The contractor shall monthly submit to each nominated Transport Officer of the NUD'S specified invoices, certified as correct by the Project Manager. If required, the contractor shall produce all invoices, vouchers and receipts in respect of payments made in connection with the services. The NUD's shall pay the contractor for the services in accordance with the Pricing Schedule and details stated therein. The relevant NUD's shall effect payment to the contractor within thirty (30) days after physical receipt of the itemised invoice, acknowledged as having been received by the nominated Transport Officer and which has been certified as due and payment is payable by the account of the contractor. The NUD'S shall make payment directly into the bank account of the contractor. Provisions for measurement for any part of the services will be stated in the Pricing Schedule. The currency applicable to the contractor is South African Rand.

If any item or part of an item in an invoice submitted by the contractor is contested by the representative or Transport Officer, they shall give prompt notice with reasons and shall not delay payment of the remainder of the invoice. The certification of approval of an invoice by the Transport Officer shall not be deemed to be approval of, or waiving of, any rights regarding any services or any other matter in respect of which it was issued, or be taken to

be an admission of the due performance of the contract or in part thereof, of the accuracy of any claim made by the contractor and no certificate shall revoke or prejudice any of the rights and powers of the State of NUD's. This shall also *mutates mutandis* apply in favour of the contractor as to the correctness of an invoice submitted.

Should the contractor, for whatever reason, owe any amount to the State, or any NUDs, the State or the NUDs shall have the right to set off any monies that may be owing to the contractor. The contractor shall maintain available for inspection up-to-date records, which will clearly identify the time and expense relating to the services. The State may, not later than thirty-six (36) months after the completion or termination of the services, after notice of not less than seven (7) days, require that officers of the appropriate department of the Government of the Republic of South Africa or a reputable firm of accounts nominated by the State, audit any amount claimed by the contractor by attending during normal working hours of the office where the records are maintained. Such records shall be maintained within the country. The following provisions will be applicable to discounts:

- Discounts received by the NUDs in respect of early settlements of accounts will be regarded as credits which will accrue interest after 30 days of receipt and shall be used to offset any request for the payment of services by the contractor.

In the event of early payment the following discounts will be given by the contractor:

- Payment within 7 days of acknowledged physical receipt of invoice which has been certified as due and payable by the accountant of the contractor – 1% discount
- Payment within 7 – 14 days of acknowledged physical receipt of invoice which has been certified as due and payable by the accountant of the contractor – 0.50% discount
- Payment within 15 – 21 days of acknowledged physical receipt of invoice which has been certified as due and payable by the accountant of the contractor – 0.25% discount

The following provisions will be applicable to additional discounts:

In the event of late delivery the contractor shall give the State of the following discounts which shall be applicable to the first demand of the specific request only:

Table 3.1: Discount to be given to the Department of Water Affairs and Forestry

CONDITION OF SERVICE DETERMINING THE DISCOUNT	PERCENTAGE OF DISCOUNT
Late delivery up to 2 hours	25%
Late delivery up to 2 – 4 hours	50%
Late delivery up to 4-6 hours	75%
Late delivery 6 hours and more	100%

In regard to problems in respect of service quality and roadworthiness there will be a 25% discount on the unit charge until the said issue is mutually resolved. This shall be given by the Contractor, provided it can be proved that the vehicle in question did not comply with the requirements laid down concerning service quality and roadworthiness. In regard to problem experienced with capacity specification relating to a request from a specification relating to a request from NUD a 100%, discount shall be given by the contractor with respect to the first demand of a specific request. In regard to cumulative delivery and quality performance penalty discounts incurred by the contractor, across a service line, the following additional penalties shall be payable.

Table 3.2: Cumulative delivery and quality performance penalty discounts

FREQUENCY OF INCIDENTS	TYPE OF DISCOUNTS
0 – 20 incidents	normal discount
21 – 40 incidents	discount x 1.25
41 – 60 incidents	discount x 1.5
61 – 80 incidents	discount x 1.75
81 and more	no charge to be levied

Penalties in respect of administrative support services are based on the average monthly demand charge. The levels of service and corresponding penalties are as follows:

Table 3.3: Administrative support penalties and conditions

ADMINISTRATIVE SUPPORT SERVICE PENALTIES IN PERCENTAGES	CONDITIONS
90-100%	No penalty
88-89%	The average demand rate multiplied by 1 as per the Price Schedule (Volume 3)
86 – 87%	The average demand rate multiplied by 2 as per the Price Schedule (Volume 3)
82-83%	The average demand rate multiplied by 4 as per the Price Schedule (Volume3)
80 – 81%	The average demand rate multiplied by 5 as per the Price Schedule (Volume3)

In the event of a less than 80% the contractor may be terminated without any prejudice to any rights the State may have subject to the procedure relating to cancellation being complied with as set out in the

contract. The Steering Committee shall ensure that the provisions relating to discounts and penalties are complied with.

(v) Cancellation of Required Service

A NUD requiring a Service shall incur the following cost of cancellation or any other financial penalty:

- Where no notice of cancellation prior to the service is given - the full cost of the service is given.
- Where notice of cancellation prior to provision has been given- discount

Table 3.4: The cost of the cancellation of a service

TIME OF CANCELATION	COST OF SERVICE
Between 0 – 2 hours	50% of the cost of the service
Between 2 –6 hours	25% of the cost of the service
More than 6 hours	No charge

It

It shall be incumbent on and the Transport Officer and the Manager to log all cancellation agreed on and the data and time of such occurrences. Should the contractor not be able to present evidence of such logging through the agreed monthly summary reporting g

system, the NUD shall not be liable for any cost of cancellation or any other financial penalty. If the contractor does not make a vehicle as available, the State may make use of an alternative service. In this regard the contract shall be liable for a maximum payment of one and half time the contract price of the demand.

(vi) Obligation of the contractor

- The contractor shall appoint a Project Manager to act on its behalf. Their name shall be communicated in writing to the representative before the commencement date. Any instruction or notice, which the State gives to the Project Manager, shall be deemed to have been given to the contractor.
- The contractor shall indemnify the State against all claims of infringement of any patent, registered design, copyright, trademark or trade name.

(vii) Compliance with Laws and Regulations

The contractor warrants that it is fully conversant with all relevant statutory requirements having a direct or indirect bearing on the contract. The contractor shall comply with all laws and regulations of the Republic of South Africa during the duration of the contract. The contractor shall obtain all necessary permits and approvals in

accordance with any applicable laws and regulations for implementation of the services.

(viii) Accounting Matters

The contractor shall keep proper accounting and financial records in respect of the contract, in accordance with Generally Accepted Accounting Principles, and have such records audited annually. The contractor shall further annually, within six (6) months of the end of its financial year, submit to the State copies of such financial statement, together with the auditors report and such operating data as the representative requires. All accounting records shall be kept for a period of at least one (1) year after termination or expiry of the contract. The contract shall keep all its books and records at all times within the Republic of South Africa. The accounts of the contractor will be kept in South African currency. The State may meet with the contractor's auditors regarding the contractor's accounts and operation which relates to the contract from time to time. The State may also, as its own cost, require that officers of the appropriate department of the Government of the Republic of South Africa or a firm of independent accountants conduct additional audits of the contractor. The contractor shall report to the State within thirty (30) days prior to entering into effect:

- Any change in its shareholders agreement, constitution of its board of directors or its key personnel, any material change in the contractor's organizational structure or any other material change which might affect the fulfillment of the contractor's obligations under the contract; and
- Any change in insurance policies, and any claim brought or threatened which is reasonably likely to have a material effect on the contractor or its ability to perform its obligations hereunder.

(ix) Open bookkeeping system

The contractor shall operate an open bookkeeping system and the State shall have access to the management information system, which relates to the contract. The NUD's shall have the day-to-day access to all information that they deem relevant to the management of the services and the contract. In addition, the contractor shall provide regular summary reports through the information system, which will demonstrate performance and which can be used to justify and authorize an appropriate level of an appointment in accordance with the agreed Pricing Schedule.

The contractor shall provide the following information through an open bookkeeping system, including but not limited to-

- Vehicle demand profile by vehicle type, period of the NUD utilization and variants from the expected utilization.
- Help desk reports and actions taken to in respect of the reports.
- Accident or emergency reports and actions taken.
- Incidences by demand, of failure to meet the service delivery and quality standards and the appropriate actions taken.
- Penalties accruing through below standard performance.
- Consumable credit system utilization by vehicle, NUD
- Vehicle tracking reports.
- Excess or abnormal servicing requirements attributable to User abuse.
- Fuel consumption reports per vehicle demand and variance from manufacture's guidelines.
- Reports on suspected fraudulent actions including details of User, date of usage, excessive kilometer range reports, excessive fuel consumption reports and excessive consumable credit reports.
- Refusal of users to accept vehicles, by each demand, the reasons and actions taken.
- Daily accounting summaries of costs in accordance with the Pricing Schedule.
- Vehicle maintenance records and reports of variances against manufacture recommendations.

- Vehicle kilometer range recorded during third party utilization.
- Unauthorized user occurrences with full details of the individual.
- Third party revenue generated by vehicle type.
- The contractor shall provide the NUD with a monthly summary report referred to this clause 17 which shall set out:
 - The cost analysis, of each NUD; and
 - Demand profile by Service line and variance against estimated quality .

(ix) Guarantee

The contractor shall, in terms of Tender Rules, within twenty eight (28) days after then receipt of the Letter of Acceptance, provide one or more Guarantee(s), in the format attached hereto, marked Annexure II, from a bank, financial institution or an insurance company to be jointly and severally bound with the contractor in the sum of R120 000 000 as guarantee for the due and proper fulfillment by the contractor of all the terms and conditions of the contract. The said Guarantee(s) from the bank, financial institution or the insurance company shall be subject to the State approval. Whether or not the Guarantee is accepted, shall be at the sole discretion of the State. The cost of providing a Guarantee or obtaining such Guarantee, the deed to be entered into as well as the stamp duty thereon shall be borne by the State.

Where the contractor fails to furnish a Guarantee(s) within such time or furnishes a Guarantee(s) which is /are unacceptable to the State, the State may give the contractor written notice to furnish an acceptable Guarantee(s) within fourteen (14) days of such notice. If this is not done within such period, or if a further Guarantee(s) provided is unacceptable, the State may cancel the contract without further notice and exercise the rights set out in accordance with the Tender Rules. The Guarantee(s) shall become effective not later than the Commencement Date and shall expire three (3) months after the expiry of the contract and should the contract be extended in terms clause 5.2, three (3) Months after the expiring date of such extended period or on the date on which the contractor has fulfilled all its outstanding obligation under the contract whichever date the later. The Guarantee(s) shall expire on such date and shall be returned to the contractor within fourteen (14) days of such date.

In lieu of or in addition to the Guarantee, the State may, in its discretion, in writing impose the special audit requirement on the contractor, in which case the latter shall be obliged to comply therewith at the State's cost. The contractor shall throughout the duration of the contract, during normal business hours – Give the representative reasonable access to all book and records, with the

right to make copies thereof relating to the contract (including, without limitation work papers and other documents of the contractor), vehicle, offices and other facilities and properties of the contractor. Permit real time access through the Management Information System as prescribed in the Specification.

(x) Fines and Penalties

The contractor shall hold the State and the NUD 's harmless from all costs, liability, expenses, including the attorneys fees for any fines or forfeitures and penalties for speeding, reckless or careless driving, or the violation of any statute, regulation, or ordinance of any public authority, where the driver incurring the fees and /or penalties herein was an employee of the contractor.

(xi) Jointly and Severally Liable

Each member of the consortium shall be jointly and severally liable to the State for the due and proper fulfillment of his or her obligations under the contract .

(xii) Non Timeous provision of Service

If the contract fails to provide any service at the time specified in the order form, the State shall have the right to employ and pay any other person to carry out the order and the contractor shall in each

incident be held liable and all such costs consequent thereto shall be payable by the contractor on demand.

(xiii) **Insurance**

The contractor for the period 1999/06/11-2000/08/31, at its own expenses, sufficiently insure itself and the State against liability to third parties for any death or personal injury and loss of or damages to any property arising out of the performance of the contract. Such insurance shall not cover any insurance in terms of the road Accident fund, 1996 (Act No 56 of 1996) and the contractor accepts no liability relating to accidents governed by the Road Accident Fund Act.

The contractor shall whenever required by the State produce then policies or certificates of and insurance which it is required to effect under the contract together with receipts for premiums; should no material alterations to the terms of any insurance be made, inform the State as to the value and ambit of such alterations. Should it be agreed that any material alteration to the terms be made, then the contractor shall forthwith notify the State with a copy of the amended policies, and in all respect comply with any conditions stipulated in the insurance policies in respect of aspects under the contractor 's control.

After the expiry of the period referred to in contract the insurance aspect shall be renegotiated by the parties. In the event of a discrepancy between the provision of this clause and the policy issued, the provisions by the Policy shall prevail. In year one (1) of the contract the insurance rate will be charged at 14% of the unit demand. Should any profit in the Insurance Fund be achieved in year one (1), the profit will be shared on a 50/50 basis between the parties with seven (7)% retained by the Fund in order to fund incidents not yet having been reported. From year two (2) to year (6) onwards the basis of profit sharing will be amended so that the State receive a 40% share from the Insurance Fund and the contractor 60%. The profit sharing in the insurance Fund will not be linked to the achievement target within the total contract but is subject to the contractor reviewing their entire financial situation. At the end of year one (1) the State reserves the right to renegotiate the insurance rate of 14% with a corresponding change in the demand price. The State will accept any profit share that it becomes entitled to from year one (1) to six (6) onwards in the form of service credits within the contract.

(xiv) Copyrights and Confidentiality

Copyright in all documentation, electronic data manuals and documentation produced or prepared for the State by or on behalf of the contractor emanating from the contract shall vest in the State which shall have the right to adopt them for other project but excluding any base system, programme source codes technical manual or adaptations developed by the contractor or its suppliers. The contractor shall not, without the written consent of the State, use copy or communicate to any person such documents or information, except as strictly necessary for the purposes of the contractor. In addition and without limiting the foregoing, the contractor shall deliver such documentation to the State, immediately upon the expiry or termination of the contract. All information, which relates to the business affairs, development, trade secrets, know-how and the personnel of State or information which may reasonable be regarded, as confidential information by the State, shall be treated as confidential by the contractor.

The contractor shall hold all confidential in the strictest confidence, not disclose it to any person and shall not make use thereof or copy it other than in the performance of its obligation under the contract and shall not disclose any such information, to any party, without prior written consent of State except information or documentation that- is, or becomes, publicly available (other than through the

default of the contractor or its officers, employees, agents or sub – contractors) is required by law to be delivered, in which case the contractor shall give the State prior written notice of the proposed disclosure and shall limit any disclosure to only such information or documentation as is expressly required by law and in respect of which no lawful reason for non- disclosure exists, or is required on a confidential basis, by its accountants, attorneys and financial advisors and /or lenders

The contractor shall ensure that all key personnel and other officers, employees, agents or sub – contractors involved with the services in any capacity, shall treat all confidential information as confidential. The contractor will not use the name of the State in publicity releases, advertising or for other commercial purposes, without securing the prior written approval of the State.

(xiv) **Termination**

- **Termination by the State**

The State Tender Board or the State shall have the right to terminate the contract, without any notice to the contractor, upon the occurrence of the following events if the contractor offered, promised or give a bribe or other gift, or remuneration to any officer or employee within the employment of the State Tender Board in

connection with obtaining or the execution of the contract; the passing of a resolution for the commencement of any action for the dissolution and /or liquidation of he contractor, except for the purpose of an amalgamation or restruction which has been approved in advance and in writing by the State, is made; application is made, voluntary or by another person, for the liquidation of the contractor, to place the contractor under judicial management, or the contract commits any other act of insolvency; if the contract finds itself incapable of completing the services the contract entered into a compromise with a general body of its creditors; the contractor fails to provide the Guarantee required by clause 18; Judicial execution is levied on the contractor's goods and which remains unpaid for 14 days after attachment if the contractor- consistently and materially fails to observe the output specification, notwithstanding the fact that penalties have been imposed, with result that the quality and /or delivery of the Service is unacceptable to the State; or fails to comply materially with any of its obligation in accordance with the contract, the State may, give the contractor at least thirty (30) days written notice to rectify. The failure if the contractor has not rectified such failure as specified in the notice, the State shall have the right to terminate the contract forthwith by notice in writing to the contract without prejudice to any other rights that it may have upon termination the Employer may

call upon call the Guarantor(s) in writing to make good to the State all losses, costs and damages excluding any special and /or consequential damages as the case may be.

To reduce its liability the Guarantor(s) may, within fourteen (14) days from the date of such notice, with the consent of the State, find an alternative contractor is acceptable to the State shall be at the sole discretion. Whether or not the State will consent to an alternative contractor nomination by the Guarantor(s) or whether such contractor is acceptable to the State shall be at the sole discretion of the State.

The State may, for any reason contemplated in contract¹, terminate the contractor in which case the damages will be payable by the State to the contractor which will not exceed the amount specified per annum.

- **Termination by contractor**

In the event of the State breaching any material term or condition of the contract, the Contractor may give the State At least thirty (30) days written notice of such breach, calling upon the State to remedy such breach. Should the State fail to remedy the breach in accordance with the contractor may terminate the contract by

notice in writing to the State, without prejudice to any other right it may have.

- **Termination due to *Force Majeure***

If any party is entitled to, and elects to terminate the contract due to *force majeure* neither party may claim against the other for any loss, damage nor compensation arising from such termination .

- **Effect of Termination**

Upon the expiry or termination of the contract for whatever reason and without prejudice to any rights of the parties hereto; the contract except specified sections shall cease to have effect, subject to all right and obligation of the parties prior to such termination ; the right to provide the services shall terminate, subject to clause 37.1 (i) On termination of the contract the State may immediately appoint officers of the appropriate department of the Government of the Republic of South Africa or a firm of independent auditors at the State's cost to check and verify all relevant books, records and other data of the contractor, and the contractor shall give its full cooperation in this regard The contractor shall after termination of the contract surrender all documental information and data which were utilized in the administration of the contract to the State , without the right of

retention. All such data be released to the State in an acceptable electronic format as to enable the State to proceed with the provision of the services.

3.5 DATA ANALYSIS

The approach for data analysis used in this case study is document analysis. The study of this nature requires that appropriate documents are studied carefully and synthesized in order to arrive to some conclusions about the outsourcing strategy as well as benefits between the two organizations.

3.6 CONCLUSION

This chapter was about the method of research used. It also looked at the sample and the data sources to be analyzed. The agreement between the two institutions was presented in this section. The Department of Water and Forestry and Imperial Group have outsourcing agreement, the financial viability of this outsourcing strategy is reviewed in the next chapter.

CHAPTER FOUR

ANALYSIS OF DATA AND DISCUSSION OF FINDINGS

4.1 INTRODUCTION

This chapter presents the data and discusses the findings of the study on the effectiveness of outsourcing services as a tool for improving service delivery in KwaZulu-Natal Department of Water Affairs and Forestry. The decision for outsourcing services is usually based on the cost effectiveness and financial viability of such a service. It is important therefore that, once services have been outsourced, a thorough evaluation of the costs and viability of the outsourced service is undertaken. The study of this nature requires that document analysis is selectively synthesized in order to discriminately separate researchable information and information that is not relevant to this study. Most of these documents are confidential and certain information within them is treated as privileged information. All relevant documents were available and most of the information needed for the purposes of this study was obtained and analyzed. The consolidation of these documents is clearly presented in the discussion below.

4.2 DOCUMENT ANALYSIS

4.2.1 Expectations of the outsourcing institution

The outsourcing institution expect the following:

- That the service provider should exercise the highest degree of skill, care and diligence in the provision of the services
- That the service provider operates the services strictly in accordance with the output specifications, as well as the other relevant provisions of the contract, to the reasonable satisfaction of the Department of Water Affairs and Forestry.
- That the contractor comply with and strictly adhere to the representative's written instructions and directions regarding the operation of the services and shall take instructions and directions only from the Transport Officer's and/ or the representative within the Department of Water Affairs and Forestry.
- The contractor shall have no cause to refuse to convey any user on a trip or part thereof or to provide a requested Service unless on the grounds of violent, abusive or otherwise offensive conduct on the part of a User or other grounds contemplated in applicable road traffic legislation.

- The representative and/or the Transport Officer shall each month, on the date agreed on, determine the value of the services performed in terms of the contract.
- That the service provider is obliged to provide in accordance with of the provisions of the contract, it may operate any other passenger services, provided that the operation of such services does not in any way interfere with or inhibit its ability to provide the services in terms of the contract.
- That the type and condition of all vehicles to be provided by the contractor for the provision of the services shall correspond with the requirement of the output specifications when so ordered by the representative, the contractor shall remove from the services any unsuitable and/ or unroadworthy vehicles.
- That the representative and any person authorized by him/ her shall at all reasonable times have access to all vehicles, workshops and depots of the contractor for the purpose of monitoring quality and general inspection and the contractor shall afford every facility for and render every assistance regarding such access.

- The contractor shall inform all its employees of the identity, powers and duties of the representative or the person authorized by him/ her. For purposes of identification, the representative shall provide his/ her staff with a unique personal card. The contractor shall, at the request of the representative, produce proof of the validity of all licenses, permits and any other requirements arising from the contractor. Such proof shall be furnished not later than seven (7) days from the date of receipt of the return request from the representative.
- Except if stated, the rates and prices stated in the Pricing Schedule shall be final and binding throughout the period of contract.
- Discounts received by the NUD's in respect of early settlements of accounts as contemplated in the contract will be regarded as credits which will accrue interest after 30 days of receipt and shall be used to offset any request for the payment of services by the contractor.

Table 4.1: Discount to be given to the Department of Water

Affairs and Forestry

CONDITION OF SERVICE DETERMINING THE DISCOUNT	PERCENTAGE OF DISCOUNT
Late delivery up to 2 hours	25%
Late delivery up to 2 – 4 hours	50%
Late delivery up to 4-6 hours	75%
Late delivery 6 hours and more	100%

Table 4.2: Cumulative delivery and quality performance penalty discounts

FRQUENCY OF INCIDENTS	TYPE OF DISCOUNTS
0 – 20 incidents	normal discount
21 – 40 incidents	discount x 1.25
41 – 60 incidents	discount x 1.5
61 – 80 incidents	discount x 1.75
81 and more	no charge to be levied

Table 4.3: Administrative support penalties and conditions

ADMINISTRATIVE SUPPORT SERVICE PENALTIES IN PERCENTAGES	CONDITIONS
90-100%	No penalty
88-89%	The average demand rate multiplied by 1 as per the Price Schedule (Volume 3)
86 – 87%	The average demand rate multiplied by 2 as per the Price Schedule (Volume 3)
82-83%	the average demand rate multiplied by 4 as per the Price Schedule (Volume3)
80 – 81%	the average demand rate multiplied by 5 as per the Price Schedule (Volume3)

Table 4.4: The cost of the cancellation of a service

TIME OF CANCELATION	COST OF SERVICE
Between 0 – 2 hours	50% of the cost of the service
Between 2 –6 hours	25% of the cost of the service
More than 6 hours	no charge

**4.3 ANALYSIS OF DATA ON THE EFFECTIVENESS OF
OUTSOURCING SERVICES AS A TOOL FOR IMPROVING
COST STRUCTURE IN KWAZULU-NATAL DEPARTMENT OF
WATER AFFAIRS AND FORESTRY.**

**4.3.1 THE COSTS INCURED BY THE DEPARTMENT OF WATER AFFAIRS
BEFORE OUTSOURCING THE FLEET SERVICE.**

Table 4.5: The fleet costs before outsourcing.

MONTHS	YEAR 1998-1999	YEAR 1999- 2000	CUMULATIVE %	
APRIL	149,095,48	232,986,65	8389117	0,12%
MAY	247,536,48	288,698,75	4116227	0,05%
JUNE	210,966,69	223,747,62	2235366533	32%
JULY	215,043,31	289,804,81	747615	0,01%
AUGUST	223,388,18	247,808,01	2441983	0,03%
SEPTEMBER	228,667,94	202,598,48	226408092	3,23%
OCTOBER	256,047,58	198,775,21	6627237	0,09%
NOVEMBER	224,483,37	147,644,18	7683919	0,10%
DECEMBER	242,766,58	173,626,03	6914055	0,09%
JANUARY	203,982,55	443,108,12	4410682945	46%
FEBRUARY	208,646,40	553,207,03	34456063	0,5%
MARCH	209,734,06	678,008,37	46827431	0,7%
CUMULATIVE TOTAL	2,615,358,27	1,903,863,21	6990661217	

Table 4.5 shows that the fleet cost in April 98 and 99 was 12% more, in May 98 and 99 was 0,05% more, in June 98 and 99 was 32% more, in July 98 and 99 was 0.01% more, in August 98 and 99

was 0,03% more, in September 98 and 99 was 3,23% more, in October 98 and 99 was 0,09% more, in December 98 and 99 was 0.10 more, in January 98 and 99 was 46% more, in February 98 and 99 was 0,5% more and in March 98 and 99 was 0,7% more.

**4.3.2 THE COSTS INCURRED BY THE DEPARTMENT OF WATER AFFAIRS
AFTER OUTSOURCING THE FLEET SERVICE.**

Table 4.6: The fleet costs after outsourcing.

MONTHS	YEAR 2000-2001	YEAR 2001- 2002	YEAR 2002- 2003	CUMULATIVE	
APRIL	627,104,12	719,017,81	724,909,70	9191369	7%
MAY	674,404,85	698,030,76	782,628,93	2362591	2%
JUNE	508,365,85	607,446,28		9908043	7,3%
JULY	549,963,90	655,602,25		10563835	8%
AUGUST	1,117,857,48	642,061,31		47579617	35%
SEPTEMBER	870,358,45	590,445,60		27991285	21%
OCTOBER	646,748,60	631,445,60		1530300	1,13%
NOVEMBER	774,583,34	595,685,72		17889762	13,2%
DECEMBER	624,787,57	570,532,53		5425504	4%
JANUARY	665,953,99	683,224,66		1727067	1,23%
FEBRUARY	662,245,82	671,610,51		936466	0,69%
MARCH	696,999,61	698,409,04		140943	0,10%
CUMULATIVE TOTAL	8,219,323,09	7,763,300,80	1,507,488,63	135246782	

Table 4.6 shows that the fleet cost in April 98 and 99 was 7% more, in May 98 and 99 was 2% more, in June 98 and 99 was 7,3% more, in July 98 and 99 was 8% more, in August 98 and 99 was 35% more, in September 98 and 99 was 21%

more, in October 98 and 99 was 1,13% more, in November 98 and 99 was 13,2% more, in December 98 and 99 was 4% more, in January 98 and 99 was 1,23% more, in February 98 and 99 was 0.69% more, and March 98 and 99 was 0,10% more.

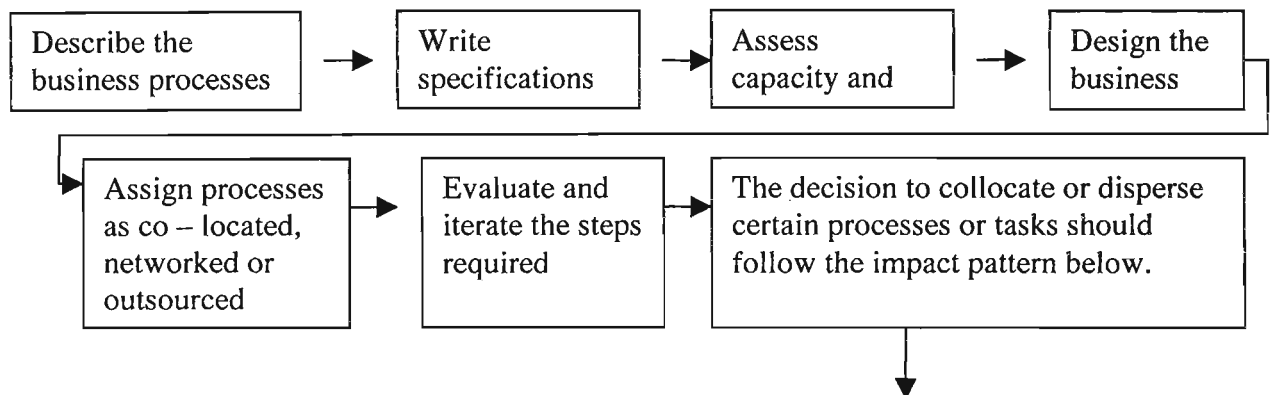
4.4 THE NECESSITY FOR OUTSOURCING IN THE DEPARTMENT OF WATER AFFAIRS AND FORESTRY

Partnership between government departments and private sector is an ongoing process in South Africa. A number of government departments have embraced the concept of private sector involvement in the business they oversee. The most progressive efforts to date are those in transport services. The government's privatization strategy and the restructuring programmes also make room for outsourcing. This is viewed as a method for using private skills and funds. The outsourcing has been shown to be largely manageable, commercial viable and successful in most partnership between the government and private sector. Among the public agencies, which have gone his route, are Eskom, the Airports company, South African Airways and Telkom (Quinn, 2000). Outsourcing for these public agencies is a tool that is being used to offload those non-core functions, such as transport for a period of time. According to theory, is more cost effective to outsource and maintain the same service in the organization. The study has shown that outsourcing has huge negative financial implications for the Department of Water Affairs and Forestry.

4.5 DEVELOP A VIABLE BUSINESS MODEL FOR OUTSOURCING SERVICES WITHIN THE DEPARTMENT OF WATER AFFAIRS AND FORESTRY.

According to Friedrich (1996), outsourcing raises the key issues. These are: (i) which areas of production are needed to maintain the value-added chain and on (ii) which key area's the company should concentrate on achieving optimal performance. Prahalad and Hamel (1990) argue that the company should focus on core competencies. Core competencies represent in this view the collective learning of the organization, especially how to co-ordinate diverse production skills and integrate multiple streams of functioning. These core competencies relate strongly to the strengths following from a strategic Strength – Weakness – Opportunities – Threats analysis. However, the application of this theory does not lead directly to a clearly defined productivity strategy. It is only when an organization, for instance the Department Water Affairs and Forestry link core competencies to decision – making that it will find an increase in productivity and effective financial saving (Hayes and Pisano,1994). In the Department of Water Affairs and Forestry strategy for outsourcing

described by Doft (1996) these are as appropriate sequential steps for designing a model for outsourcing:



Impact item	Characteristics		
Competency	peripheral	significant	core
Nature of tasks	common	important	creative
Stability of tasks	stable	evolutionary	dynamic
Effect of task or capacity	autonomous	loosely connected	systematic

Source : Constructed with reference to sequential steps from Doft (1996)

This is, defining a profile for a specific process that will enable the Department of Water Affairs and Forestry to determine if the activities should be:

- Outsourced (contracted);
- Networked with employees;
- Co-located centrally;

If the profile of the tasks lies in the right – hand column, the task should be most likely co – located centrally. The profile of a task aligned with the middle column calls for a network of employees.

Finally, the profile of task or process aligned with the first (left most) column will call for the outsourcing of the task to a supplier.

4.7 CONCLUSION

An outsourcing service for the public agencies is a tool that is being used to offload those non-core functions, such as transport for a period of time. According to theory it is more cost effective to outsource peripheral tasks because the alternative, this is, maintain the same service within the organization is expensive. Department of Water Affairs and Forestry outsourcing choice, that is transportation is a peripheral service and is line with the outsourcing model developed. The outsourcing model developed in this chapter shows that the profile of task or process aligned with the first (left most) column will call for the outsourcing of the task to a supplier. This chapter through financial analysis further shows that although outsourcing transportation seems the right option in terms of the model it has huge financial implications for the Department of Water Affairs and Forestry. Recommendations and conclusions are discussed in the next chapter.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

The conclusions reached in this study show that the problem that was highlighted is the financial impact the outsourcing services may have for the Department of Water Affairs and Forestry. Literature shows that, among the most outsourced services such as technology, audit, transportation, etc; transportation is one service that companies around the world are considering to outsource more often than any other service. The reasons put forward for this tendency to outsource transportation services include: the sample and the data sources to analyzed were the agreement between the two institutions; this is, the Department of Water and Forestry and Imperial car rental. An outsourcing service for the public agencies is a tool that is being used to offload those non-core functions, such as transport for a period of time. According to theory it is more cost effective to outsource peripheral tasks because the alternative, this is, maintain the same service within the organization is expensive. The outsourcing model developed in the previous shows that the profile of task or process aligned with the first (left most) column will call for the outsourcing of the task to a supplier. Department of

Water Affairs and Forestry outsourcing choice, that is transportation is a peripheral service and is line with the outsourcing model developed. The previous chapter through financial analysis further shows that although outsourcing transportation seems the right option in terms of the model it has huge financial implications for the Department of Water Affairs and Forestry. The reason for this is beyond this study but recommendations are shown below.

5.2 RECOMMENDATIONS

The conclusion reached in this study of the effectiveness of outsourcing services as a tool for improving service delivery in Kwa-Zulu-Natal Department of Water Affairs and Forestry led to the formulation of the following recommendations:

- That the peripheral services in the Department of Water Affairs and Forestry be outsourced and the Department focuses on core duties.
- Similar government departments should use the model developed in this study and outline peripheral services that need to be outsourced, and thus outsource these services.
- The outsourcing agreement to be reviewed in a three-year cycle in order to ensure quality service, which is cost effective.

- The parties involved to approach the relationship as a strategic investment, not as a purchasing decision in order to ensure joint responsibility
- Both parties make the investment to truly understand and align the interest of both parties
- Establish an objective, measurable scorecard in advance and use it as a cornerstone of the management process
- Define the process for escalating problems and negotiating changes and make them part of the regular, ongoing management of the relationship, this allows for problems like mismanagement, large negative financial implications to be rooted and resolved.
- Put experienced people in place to manage the relationship, that is people who have the personal, professional and economic incentive to make it work.

CHAPTER SIX

SUMMARY OF THE FINDINGS

6.1 AIMS OF THE STUDY

- To find out whether or not outsourcing essential to the Department of Water Affairs and Forestry.
- To establish how can outsourcing improve the Department's cost structure.
- To develop a viable business model for outsourcing services within the Department of Water Affairs and Forestry.

6.2 STATEMENT OF THE PROBLEM

Government has opted for outsourcing as a move to save when necessary expenditure within the Department of Water Affairs and Forestry. For instance, this Department has outsourced car and truck financial services, insurance and management from Imperial Group. This venture has been estimated that it will save the Department and the Government approximately R1 Billion on operational costs. This system is currently operational, but already management in the Department of Water and Forestry have realized that such a venture with huge financial implications should have been based on carefully planned and executed research

findings than mere hypothesis about saving. There is a need in this Department to find out the benefit for engaging in such an activity. Therefore this study will determine whether or not outsourcing is essential to the Department, how outsourcing can improve the Department's cost structure and what would be the viable business model for outsourcing services for the Department.

6.3 RESEARCH METHOD

This study research method is the case study. All the data gathered in the study such as this one that uses a case study method, is relevant on to the case being studied. Though conclusions can allow for inferences to be made, the cases where such generalizations are made or applied to must be similar in all respect. The study's sample consists of the Department of Water and Forestry and Imperial Group. The two organizations were chosen because the outsourcing strategy could serve as a yardstick to measure similar agreements in the future. The specific area of focus is the agreement on car rental between the two organizations. The documents analyzed include the:

- Department of Water Affairs and Forestry Outsourcing Strategy and Outsourcing the Billing Process (January, 2001).

- Department of Water Affairs and Forestry Outsourcing Strategy and Outsourcing the Billing Process (February, 2001).
- Department of Water Affairs and Forestry Procedural Manual for Official Transport with Imperial Vehicles

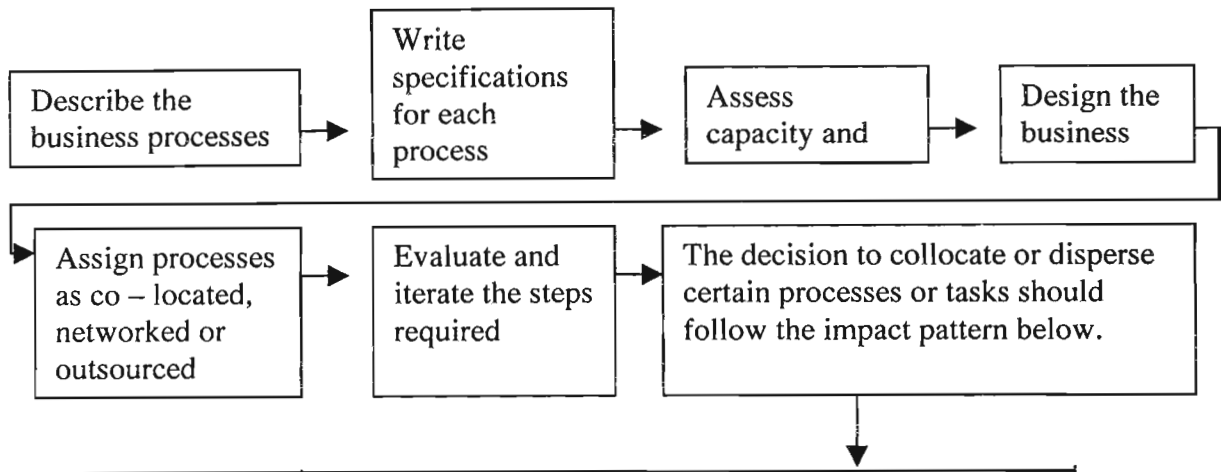
Protocol 1

- (i) Scope of services and Management of contract
- (ii) Type and Condition of Vehicles
- (iii) Access to Facilities
- (iv) Rates and Prices
- (v) Payment
- (vi) Cancellation of Required Service
- (vii) Compliance with Laws and Regulations
- (viii) Accounting Matters
- (ix) Open bookkeeping system
- (x) Guarantee³
- (xi) Fines and Penalties
- (xii) Jointly and Severally Liable
- (xiii) Non-Timeous provision of Service
- (xiv) Insurance
- (xv) Termination

6.4 FINDINGS

Outsourcing services for the public agencies is a tool that is being used to offload those non-core functions, such as transport for a period of time. According to theory it is more cost effective to outsource peripheral tasks because the alternative, this is, maintain the same service within the organization is expensive. The findings of this study show that outsourcing has a huge negative financial implications for the Department of Water Affairs and Forestry. The Department when outsourcing must make use of the outsourcing model developed in this study and put measures in place such as those listed under recommendations in order to manage the contract and also to avoid any form of avoidable contract failure.

The outsourcing model:



Impact item	Characteristics		
	peripheral	significant	core
Competency	peripheral	significant	core
Nature of tasks	common	important	creative
Stability of tasks	stable	evolutionary	dynamic
Effect of task or capacity	autonomous	loosely connected	systematic

The outsourcing model above developed in this study show that the profile of task or process aligned with the first (left most) column will call for the outsourcing of the task to a supplier. According to the model Department of Water Affairs and Forestry should outsource because transportation is a peripheral service but improve management of the contract in terms of the recommendations in the previous chapter.

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