Strategies for Sourcing IT Skills for South African Tertiary Institutions.

By

Alison Moller

Submitted for the partial fulfillment of the degree

Magister Technologiae: Business Information Systems

in the

Faculty of Computer Studies

of the

Port Elizabeth Technikon

Promoter: Prof. Eugene du Preez

September 2004
Dedication

This paper is dedicated to my late mother, Grace Muscat, who passed away on 12 July 2002. Her zest for life, and her courage with which she faced her final days, were an inspiration for me to complete this dissertation.
Table of Contents

1 CHAPTER 1: INTRODUCTION................................................1
1.1 Problem area described.................................................1
1.2 Research Objectives..................................................4
1.3 Methodology and layout..............................................5

2 CHAPTER 2: THE CONCEPTS OF STAFF RECRUITING..6
2.1 Introduction............................................................6
2.2 Human Resource Management......................................6
2.3 Organizational Culture...............................................9
2.4 Changing nature of workforce and workplace...............11
2.5 Recruiting strategies and processes............................12
2.6 Labour legislation and litigation (South Africa).........15
  2.6.1 Trade Unions.....................................................16
  2.6.2 Basic conditions of Employment Act 1997..............16
  2.6.3 Labour Law Court Cases....................................18
2.7 Labour legislation and litigation (United Kingdom)....20
  2.7.1 The AUT Trade Union of the UK............................20
  2.7.2 Comparable Employees.......................................21
  2.7.3 Less Favourable Treatment..................................21
  2.7.4 Summary of Regulations.....................................21
2.8 Conclusion ............................................................22

3 CHAPTER 3: HUMAN RESOURCES AND STAFF
MANAGEMENT...............................................................23
3.1 Introduction..........................................................23
3.2 People employed in IT specifically.............................24
3.2.1 The value of people in IT ........................................ 24
3.2.2 The IT personality ................................................. 25
3.2.3 Skills shortage in IT ............................................. 26

3.3 The employment relationship ........................................ 27
3.3.1 The organization structure and staff training.................... 27
3.3.2 Employee needs today ............................................ 28
3.3.3 Performance, career management and goal setting .......... 29
3.3.4 Discipline .......................................................... 29
3.3.5 Team dynamics ..................................................... 30
3.3.6 Motivation .......................................................... 32
3.3.7 Commitment and loyalty ......................................... 34
3.3.8 Trust ................................................................. 34

3.4 Human effects of sourcing strategies ............................... 35
3.4.1 On contractors ...................................................... 35
3.4.2 Outsourcing effects on staff ..................................... 35

3.5 Conclusion ............................................................. 36

4 CHAPTER 4: SOURCING STRATEGIES FOCUSING ON
OUTSOURCING .......................................................... 38
4.1 Introduction ........................................................... 38
4.2 Defining outsourcing and its variations ............................ 38
4.2.1 Sourcing options .................................................. 39
  4.2.1.1 Total outsourcing ............................................. 39
  4.2.1.2 Outsourcing .................................................. 39
  4.2.1.3 Insourcing ...................................................... 39
  4.2.1.4 Selective sourcing .......................................... 39
  4.2.1.5 Smart-sourcing / Rightsourcing .......................... 40
  4.2.1.6 Subcontracting .............................................. 40
  4.2.1.7 Facilities Management .................................... 40
4.2.1.8 Leasing ......................................................... 40

4.3 The history of outsourcing ........................................ 40

4.4 The reasons for outsourcing ........................................ 41
   4.4.1 General industry reasons for outsourcing .................. 42
      4.4.1.1 Financial .................................................. 42
      4.4.1.2 Shortage of in-house skills .............................. 43
      4.4.1.3 Equity and affirmative action ............................ 43
      4.4.1.4 Ad-hoc projects .......................................... 44
      4.4.1.5 Meeting the project deadlines ......................... 44
      4.4.1.6 Reasons summarized by others ......................... 44
   4.4.2 Reasons why tertiary institutions outsource IT services .... 46
      4.4.2.1 Limited or no involvement required from HR .......... 46
      4.4.2.2 Affirmative action / Equity not an issue ............... 47
      4.4.2.3 Improve quality and level of IT service ............... 47
      4.4.2.4 To obtain better skills, resources and technologies .... 48

4.5 Failures and successes of outsourcing ............................ 48
   4.5.1 Failures and risks of outsourcing ........................... 48
   4.5.2 Keys to success with outsourcing ........................... 50

4.6 Conclusion ......................................................... 53

5 CHAPTER 5: IT SOURCING STRATEGIES AT
SELECTIVE TERTIARY INSTITUTIONS ......................... 55

5.1 Introduction ....................................................... 55

5.2 PE Technikon IT Sourcing Strategies ........................... 55
   5.2.1 Reasons for change in the PE Technikon IT sourcing
        structure ......................................................... 55
      5.2.1.1 Financial reasons ........................................ 55
      5.2.1.2 Skills shortages .......................................... 58
      5.2.1.3 Rapid technology advancements ....................... 58
List of illustrations

Table 3.1 Categories of employee teams .................................................31
Table 3.2 Key elements of motivation theories .....................................32
Table 4.1 Reasons given by different companies for outsourcing ..........46
Table 4.2 IT student mix – PET ...............................................................47
Table 4.3 Key areas for outsourcing success ....................................53
Table 5.1 The benefits and problems associated with permanent and contractual staff as in the case of the PET IT department ..........59
Table 5.2 The benefits and problems associated with outsourced staff as in the case of the PET IT department ..................................................60
Table 5.3 Reasons for non-permanent forms of employment ...............66
Table 5.4 Benefits of using permanent staff ........................................67
Table 5.5 Problems experienced with permanent staff ..................68
Table 5.6 Types of contracts used for contract employees ..................69
Table 5.7 Benefits of using contract staff ..........................................70
Table 5.8 Problems experienced with contract staff .........................71
Table 5.9 Benefits and problems of using outsourced staff .............73
Table 5.10 Benefits of using temporary staff .................................74
Table 6.1 Guidelines for sourcing IT skills ......................................82
Table 6.2 Benefits and problems of permanent and contractual staff .......85
Chapter 1: Introduction

1.1 Problem area described

The traditional Information Technology (IT) workforce is continuously changing. Twenty years ago, people could spend their careers in one or two firms. Today, they can easily work for up to ten firms during their career, or be employed or even contracted by a few firms concurrently. (Greaver, 1999, p. 12).

Downsizing of firms, merging of organizations, the Internet, labour legislation, technologies to enable staff to work from home and diminishing IT budgets are but a few reasons for organizations to re-structure and re-focus their staff planning processes. Some IT departments in tertiary institutions, have already moved away from the traditional IT recruitment processes and are employing contractors and considering total or partial outsourcing of core services and staff.

Currently in the education sector in South Africa, tertiary institutions are faced with possible mergers between Universities and Technikons. This will further necessitate changes to the existing sourcing strategies and IT recruitment processes, and staff sourcing will continue to change.

These changes, although beneficial in many ways, are not without their problems. Decreasing staff morale, weakening of team structures, costly project failures, over expenditure on IT budgets and poor strategic planning are some of the results caused by deviations in traditional IT sourcing strategies.

IT service departments in tertiary institutions need to react to the changing market focus of maintaining an IT infrastructure and support service. IT support costs are increasing yearly. It is becoming vital for IT service departments to apply a more cost effective and efficient service.

The underlying concepts and theories of staff recruiting need to be visited and understood. In chapter 2 important aspects of staff recruiting will be reviewed.
Various formal contracts of employment exist together with informal methods where people often get employed with loosely defined contracts or no contracts at all. Invariably the latter creates numerous problems and these issues will be analysed.

Key issues of discussion will include the culture of an organization, the changing workforce and labour legislation. These aspects of staff recruiting all play an important role when an organization develops its sourcing strategies.

The Human Resources element is a key function in establishing an efficient strategic plan. Consideration needs to be given to the way human resource management has evolved from personnel management and the reasons therefore. Human resources management determines how people are treated in organizations. It is responsible for bringing people into organizations, helping them perform their work, compensating them for their labours, and solving problems that arise. (Cherrington, 1995, p. 5).

Any organization must align its IT strategy to its business strategy. For IT managers to survive in this changing environment, they need to ensure that their sourcing methods are adapted and properly managed. This will enable the implementation of future plans of their departments to be effective and successful.

Chapter 3 gives consideration to the people dimension and the importance of the employee relationships. Regardless of sourcing strategies adopted, for any organization to be successful, it needs to develop the potential of its employees and ensure a work environment that facilitates learning at all levels in the organization. Grotevant, in her 1998 article, sums it up by stating: “It is important not to lose sight of the fact that the potential of an organization represents the sum of the potential of its people”. (Grotevant, 1998, p. 3).

Organizations that wish to remain effective must place responsibility for quality, decision making, learning or continuous improvement, where it is applicable. This, according to Young and Mould, is in the hands of the people actually doing the work. (Young and Mould, 1994, p. 19).
It is crucial for an IT professional to continuously acquire the necessary skills to do the required work. As the associated IT technologies are rapidly changing, staff training is a high priority for any IT manager. Due to contract workers and outsourced staff assuming an independent role, there are limitations as to how much financial support can be given to these personnel for training. The training responsibility rests on the contractors, as they are not considered comparable to permanent employees with training benefits. This can cause problems especially if the contractor is not adequately compensated for work done. It often happens that the contract people cannot afford to pay for the training themselves.

Skill shortages and the cost of not training IT staff, whether permanent or not, need attention and this issue is prevalent throughout this paper.

Chapter 4 considers and analyses the various sourcing strategies. This project will highlight and recommend the key criteria necessary for achieving success with outsourcing. The use of effective and efficient sourcing methods that can assist IT managers in this changing environment, with specific reference to the tertiary institutions in South Africa, will also be highlighted.

Consideration needs to be given to the options of outsourcing on specific projects and specific staff. According to Lacity and Hirscheim the term “outsourcing“ (although not specific to Information Systems (IS) in that it reflects the use of external agents to perform one or more organizational activities) applies to everything from use of contract programmers to third party facilities management. (Lacity and Hirscheim, 1993, p. 2).

Many organizations, in an attempt to cut costs, enter into outsourcing agreements without giving due consideration to the probable consequences. The ultimate goal is smart-sourcing or selective sourcing where organizations retain strategic applications while farming out only those services that an external vendor can provide more efficiently. (Lacity and Hirscheim, 1993, p. 2).

It has become challenging for IT managers to continue to provide their staff with the necessary training and compensation which assist in ensuring that staff remain in the
employ of the organization for lengthy periods of time. One of the reasons for this, it seems, is due to the shift towards the contractual and outsourced type of employment. Outsourcing strategic services and staff is by no means a simple procedure.

Many organizations have not benefited from outsourcing. Outsourcing requires adequate decision-making at top-level in the organization and to transfer a core competency to an outside provider, a great deal of care is required. (Greaver, 1999, p. 10).

Total outsourcing of an IT department, even in industry, has not been prevalent and is seldom successful. Practices of co-sourcing, partial outsourcing, retaining skeleton permanent staff and sub-contracting have been practiced. It has become quite difficult for IT managers to effectively manage this mixture of sourcing strategies.

Chapter 5 analyses the results received from a questionnaire from other tertiary institutions in South Africa. Information has been gathered entailing what sourcing strategies are being practiced elsewhere in other tertiary institutions. Particular attention is given to the sourcing strategies of one institution, viz the PE Technikon.

Chapter 6 summarises and concludes the findings of this paper and guidelines will be developed to assist IT directors at tertiary institutions in the use of effective methods in sourcing IT skills.

1.2 Research Objectives

Traditional methods of IT recruitment in tertiary institutions need to be reviewed and more modern approaches analysed. A lot of successes and failures have been reported for each type of sourcing strategy in the IT sector. Many organizations have been liquidated due to poorly planned mergers, takeovers, and total outsourcing strategic shifts.

The primary objective is to review the current IT sourcing strategies in tertiary institutions and to analyse and discuss the benefits and limitations of employing permanent IT staff, contract workers or outsourced staff.
The paper will also establish under what circumstances outsourcing services might be a viable option.

1.3 Methodology and layout

An in-depth literature study will be undertaken initially. The main purpose of this literature study will be to master the underlying concepts of outsourcing IT services, staff contracting and permanently employing IT staff and in addition, to broaden the knowledge of IT sourcing strategies with special reference to IT departments in tertiary institutions. A review and study of the successes and failures of the various sourcing strategies will be conducted.

A survey will be conducted in other tertiary institutions in South Africa to identify how they have traditionally appointed IT staff and how their sourcing strategies have changed to the present day.

The layout of the paper will be as follows:
Chapter 1 Introduction
Chapter 2 The concepts of staff recruiting
Chapter 3 Human Resources and staff management
Chapter 4 Sourcing strategies focusing on outsourcing
Chapter 5 IT sourcing strategies at selective tertiary institutions
Chapter 6 Guidelines for sourcing IT skills in South African tertiary institutions
Chapter 2: The Concepts of Staff Recruiting.

2.1 Introduction
There are numerous concepts, theories and reasons for specific staff recruiting practices. Traditional and modern human resource practices, organizational culture, the changing nature of the workforce and workplaces, recruiting strategies, labour legislation and litigation also play a role.

This chapter will highlight these together with the various concepts of alternatives to permanent sourcing strategies such as part-time or temporary recruitment, permanent part-time recruitment, independent and fixed term contracting, outsourcing, in-sourcing, co-sourcing, partial outsourcing and leasing.

2.2 Human Resource Management
Human Resource Management (HRM) is a modern term that emerged in the 1970’s, formerly known as personnel management that first appeared during the 1940’s. The name change was a symbolic recognition of the expanding role HRM plays in creating competitive organizations. (Cherrington, 1995, p. 5).

In the late 1800’s, welfare personnel developed. It provided schemes to deal with unemployment, sick pay and subsidized housing for employees. McKenna and Beach state that after the Second World War more emphasis was placed on personnel administration, which was concerned with management support, recruitment, discipline, time keeping, payment systems, training and keeping personnel records. (McKenna, Beech, 1995, p. 2).

In the early 20th century, personnel departments of large manufacturing organizations had the traditional responsibilities of recruiting, selection, training, and health and safety. But the main focus of their responsibilities was the implementation of scientific management techniques which included time-and-motion studies, fatigue studies, performed job analyses, prepared job specifications, and created wage incentive programs. The employee was merely seen as another factor of production, like raw materials and machinery. The scientific management approach emphasized
employee output, but little emphasis was placed on employee satisfaction. Workers were still viewed as being no more valuable than a piece of machinery. Today the employees are considered the most important asset of any firm. (Carrell, Elbert, Hatfield, 2000, pp. 6-7).

Carrell, Elbert and Hatfield believe that during the 1930s and 1940s management’s attention shifted from scientific management to human relations. Studies suggested and demonstrated that employee productivity was affected not only by job design and economic rewards, but also by social and psychological factors. The shift to human relations was greatly influenced by the strength of unions during this time. Unionism did compel many employers to improve their personnel programs in an effort to keep unions out. The enactment of Labour Relations Acts and the creation of unions have contributed to the increase and importance of human resource functions. The most significant trend in HRM over the past two decades has been the enormous increase in legal restrictions. An organization’s failure to comply with laws regulating equal employment, affirmative action, compensation, safety, and labour relations, can result in costly penalties.

There was a significant increase in the 1960s and 1970s in the number of staff involved in personnel work. The reason was largely due to the increase in employment legislation and the state of economies at the time. There is evidence of much recruitment, selection, training and payment system activities in the practice of personnel management, prompted partly by labour shortages, and was reflected in actions to retain skilled labour and increase the skills levels of the work-force. During the 1980s there was a shift away from the traditional industrial relations of the 1970s towards an approach, which wanted excellence in the organization through a committed work force. (McKenna, Beech, 1995, pp. 2-3).

As Cherrington points out, in HRM today, managers generally place their highest priority on controlling their greatest expense. The largest single expense in most organizations today is on salaries and labour costs. On average most organizations have higher labour costs than necessary. Cherrington believes, this is partly due to such problems as absenteeism, wrongful termination, discrimination, poor project management, incorrect outsourcing decisions and inadequate sourcing strategies.
As Carrell, Elbert and Hatfield conclude, “the emerging trend in HRM is clearly
toward the adoption of the human resource approach, through which organizations
benefit in two ways: an increase in organizational effectiveness and the satisfaction of
each employee’s needs. This approach holds that organizational goals and human
needs are mutual and compatible. One set need not be gained at the expense of the
other. A number of principles provide the basis for a human resource approach:
• Employees who are effectively managed and developed will provide long-term
  rewards to the organization in the form of greater productivity.
• Policies, programs, and practices must be created that satisfy both the
economic and emotional needs of employees.
• A working environment must be created in which employees are encouraged
to develop and utilize their skills to the maximum extent.
• HR programs and practices must be implemented with the goal of balancing
  the needs and meeting the goals of both the organization and the employee”.
(Carrell, Elbert, Hatfield, 2000, pp. 6-7).

Organizations are very different from the former production companies. Modern
organizations today are focusing on their human capital and their knowledge assets.

Employee behavior can be greatly affected by how staff are recruited, selected,
trained, managed and rewarded. Limited attention is often given to these HR
processes even though they can cause labour unrest and lower productivity in the
workplace. (Kemp, 1992, p. 89).

Another emerging trend in HRM and one, which is making a lot of sense according to
Workforce magazine, is the outsourcing of HRM itself. HRM departments are
spending too much time on reacting to rapid changes in the economy and in keeping
up with technology. This strategy is not without its problems. One of the main issues
is that employee relations need to be kept in-house. This way employees know if they
have an issue of concern, there is a live human being in the company they can consult.
Eileen Zimmerman, in her article in Workforce magazine, concludes that if
organizations view the HR department as a true strategic partner – rather than a
department of paper-pushing administrators, it is much more likely that HR will
remain in-house and when HR is more like ‘personnel’, it is also more suitable to be
outsourced because there is no strategic value. It is easier for employees to accept the outsourcing of number crunching and administrative functions as long as the personal type functions like compensation and benefits are kept in-house. (Workforce magazine, April 2001).

Cherrington writes that human resource strategies are partly derived from an organization’s culture and, simultaneously, the culture reflects the organization’s strategies. Although it is difficult to define organizational culture, it has an enormous impact on HRM.

2.3 Organizational culture

Carrell, Elbert and Hatfield pose that, “culture is defined as the shaping of the mind that distinguishes the members of one group or category of people from those of another”. (Carrell, Elbert, Hatfield, 2000, p. 31).

Cherrington describes organizational culture as intangible and pervasive. It is referred to as the unwritten feeling part of the organization. The meaning of the word culture highlights synonyms as: society, traditions, customs, civilization and a way of life. A culture emphasizes acceptable ways to think and to act and refers to a set of key values, beliefs and understandings shared by a community or group of people. This is the same for members in an organization. (Cherrington, 1995, pp. 48-49).

McKenna and Beech affirm that the culture of an organization enhances its stability and provides the community of that organization with a sense of identity and to generate within them a commitment to the beliefs and values of the organization. Culture is related to the design of the organization. Harrison, in McKenna and Beech, describes four types of types of organizational culture:

- **Power Culture.** A small group forming top management exerts power in a specific direction to advance the interests of the organization.
- **Role Culture.** It is believed that bureaucratic procedures, such as rules, regulations and clearly specified roles, stabilize the system.
- **Support Culture.** This refers to the group or community support for people, which cultivate integration and sharing of values.
• *Achievement Culture.* A culture, which encourages self-expression and promotes striving for independence, and the emphasis is on success and achievement.

Attitudes and beliefs go hand-in-hand with the different types of organizational cultures. The structure of an organization, its strategy and culture, compliment a successful outcome. (McKenna, Beech, 1995, pp. 53-54).

The policies and procedures developed by human resource departments must be balanced with the organization’s culture. Nearly every human resource strategy, including sourcing, training and compensation is influenced by the culture of the organization. The personnel of human resource departments today, act as change masters who try to clarify the organization’s culture and help it adapt to its ever-changing environment. The culture of an organization is closely linked to strategy and structure and influences HR management activities such as recruitment, selection, appraisal, training and rewards. The culture of an organization enhances its stability and provides the community of that organization with a sense of identity and to generate within them a commitment to the beliefs and values of the organization. (McKenna, Beech, 1995, p. 75).

As Groth points out, organizations are not just physical entities behaving independently; they are derived whole entities that are constituted through the actions of the individual human beings that make them up. These humans have their own characteristics, dreams, and objectives and together with the organization culture, make up this whole entity. Top management cannot dictate culture and it refers to the underlying beliefs and values that are shared by organization members. (Cherrington, 1995, p. 48).

Organization’s cultures can develop and change over many years. Traditionally there have always been certain cultural aspects of an organization that have remained since the organization’s establishment. Occasionally organizations feel the necessity to still reinforce their existing culture or alternatively a determination exists to change corporate culture, and this can have significant implications in revising strategy, structure and processes within the organization. The culture of an organization has
always played an important role in the types of employees an organization prefers to employ. This, however, is changing and it is due to the changing nature of the work and workforce itself. In the new age of technology, globalisation and the accelerating pace of innovative change in the business environment, unleashing the creative minds of tomorrow’s workforce is the factor most likely to propel businesses and the HR profession into the 21st century. (McKenna, Beech, 1995, pp. 50-75).

2.4 Changing nature of the workforce and workplace

A major component of changing work expectations is due to the changing nature of the workforce itself. In earlier times it was simple to appoint generically suitable workers. Today, organizations need to adjust the type of work, the training packages and the company benefits to fit the people available in the labour market. (Carrell, Elbert, Hatfield, 2000, p. 125).

New models of working together, according to Carrell, Elbert and Hatfield, are emerging due to global-minded management, technology and fast-moving economies. There is a paradigm shift towards rewriting work design rules, organizational structures and management styles and collectively these forces contribute to the need for more educated and flexible workers who are able to work in a diverse, multicultural environment.

“Leveraging a multicultural workforce means assuring everyone is included in all aspects of the organization. Reducing the barriers, which prevent people from fully using their talents for the organization, can only do this”. (Carrell, Elbert, Hatfield, 2000, p. 33).

Carrell, Elbert and Hatfield reason that slow population and labour force growth is helping to create a sellers market for workers. The work force has diversified in race, cultural background, gender, age and ability and due to unionism they are in a favourable position to make demands. Increasing numbers of women take up management positions, and generally the age of managers are younger than in the past and equity is playing a stronger role.
Diversity in the workforce in the human resources field has three major working definitions as described by Carrell, Elbert and Hatfield:

• The ‘politically correct’ term for equal employment opportunity/affirmative action.
• The recruitment and selection of racial and ethnic minorities and women.
• The management of individuals from different cultures sharing a broad range of common traits.
(Carrell, Elbert, Hatfield, 2000, p. 55).

The workplace of the present and the future will be home to a group of individuals with a whole new set of expectations. The traditional Information Technology (IT) workforce is continuously changing. Workers can easily work for up to ten firms during their careers today, or be employed or even contracted by a few firms concurrently. In addition, equity, especially in South Africa, has played an important role in the sourcing strategies of IT service departments.

IT managers are challenged more today than at any time in history by a changing and more demanding workforce, with high expectations about their work place. Simultaneously, as stated by Young and Mould (1994), rapidly advancing technologies and outside influences are changing the nature of the work and it is therefore becoming increasingly difficult to maintain a work environment that motivates and satisfies IT professionals.

Downsizing of firms, merging of organizations, the Internet, labour legislation, technologies to enable staff to work from home and diminishing IT budgets are but a few reasons for organizations to re-structure and re-focus their staff planning processes. Some IT departments in education, have already moved away from the traditional IT recruitment processes and are considering total or partial outsourcing of core services and staff.

2.5 Recruiting strategies and processes

An organization interfaces with the external supply of labour through recruitment and selection. Traditionally, recruiting is generally the process of attracting potential job applicants from outside the organization and selection is the technique of choosing a new staff member from the available candidates. (McKenna, Beech, 1995, p. 95).
It is the function of the HRM department to assume responsibility for recruiting and selection activities, recommending policies to top management, developing procedures for advertising open jobs, collecting information from job applicants, assisting with short-list creations, interviews and the final appointment of the applicant. In addition, they are also responsible for evaluating the recruiting process to identify the most effective recruiting procedures as processes of recruitment and selection incur significant costs, and HRM needs to ensure that the process complies with labour legislation. Line managers are normally responsible for doing preparatory work in the form of job analysis, job descriptions and job specifications. This is very important to the recruitment process and solid preparation ensures effective recruiting processes. (Cherrington, 1995, p. 193).

There are numerous methods used in organizations to recruit external and internal staff. Cherrington suggests that it is good practice to have a policy of promotion-from-within as it has a positive effect upon employee motivation. Performance levels improve by employees just knowing they have opportunities for advancing within an organization. Less time and money need to be spent on orientation for employees promoted to higher-level positions from within, as they are already knowledgeable about the organization. However, promotion-from-within is not without its disadvantages. Fresh, new ideas are likely not to be provided if internal employees are promoted. External appointments can also make changes without having to please certain groups, and their appointment limits change in the present organizational hierarchy.

In the past, employees were often poached or headhunted from other organizations. Today this is still happening although it is becoming more difficult because of the stringent recruitment policies in place i.e. posts must be advertised, affirmative action and equal opportunity policies must be adhered to.

These methods do not lend themselves to equality of opportunity and today, external recruitment is initiated mainly by advertising in the media, local or national, or through employment agencies. This ensures that all potential candidates are giving a fair and equal opportunity to apply for the position. Many organizations in South
Africa have strict policies and procedures in place with regards to employment equity and affirmative action.

There are numerous recruitment options available to employees and employers.

- **Permanent full-time recruitment** - An employee - This is the traditional recruitment option whereby an employee is employed on a permanent full-time basis with full company benefits. According to the South African Basic Conditions of Employment Act, 1997; an employee means- any person, excluding an independent contractor, who works for another person or for the State and who receives, or is entitled to receive any remuneration, and any other person who in any manner assists in carrying on or conducting the business of an employer.

- **Part-time or temporary recruitment** - In the past, management often thought part-time employees were not loyal and were not as productive compared to full-time employees. Today the realization is that part-time employees are very productive and plentiful in the labour market. There are benefits associated to this type of employment for both the employee and the employer. The employee is more enthusiastic and motivated due to the fact that they do not face constant repetition, day after day, for long periods of time and it enables fulfillment of the employee to other business or family commitments. Part-time employees are often less expensive, due to a decrease in total cost to company benefit costs and lower salaries. (Carrell, Elbert, Hatfield, 2000, p. 138).

Cherrington (1995) believes the benefits of temporary employees are not having to worry about training new employees and laying off employees during slack times.

Organizations should use temporary employee services for emergency fill-ins or to cover peak periods, but as Cherrington writes, some temporary or part-time employees however, are actually filling permanent jobs. A company not
willing to provide benefits has been equated to a cheapening of the workforce with undesirable consequences to workers.

- **Permanent part-time recruitment** - Organizations often create part-time permanent jobs to attract and retain valued employees whose personal circumstances often prevent them from working full time. (Carrell, Elbert, Hatfield, 2000, p. 139). It is general practice that all or most of the benefits of a full time permanent employee apply to a part-time permanent employee.

- **Independent Contracting and Fixed Term Contracting** – This is when a private individual signs a contractual agreement with a company for a specific period of time. Sometimes a person can have concurrent independent contracts running with various organizations but normally if it is fixed term, the contractor spends the majority or all of the working hours of the day at one company on a full time basis for as long as the duration of the contract.

- **Outsourcing** – Many definitions exist under this umbrella. The types include selective sourcing, leasing, sub-contracting and many more. Basically if an organization is practicing outsourcing, it implies that a section or whole area of the business is handled by a third party vendor who provides the required service at a certain fee. This will be discussed in-depth in Chapter 4.

### 2.6 Labour legislation and litigation (South Africa)

Slater in his paper on the distinction between a contract of employment and a contract with an independent contractor, remarks: “Government policies on labour have a profound effect on employment trends. Any policies that have the effect of increasing the cost of hiring employees on a long-term basis increase the difficulty for employers to downsize or terminate the services of employees. In South Africa the business sector claims that government policy is restricting job creation”. (Slater, 2001, p. 26).

Employment laws, labour courts, trade unions, apartheid dismantling/affirmative action policies have all played a role in the rapidly changing labour legislation in South Africa.
Human Resource functions have changed since the enactment of new employment laws. Four areas that have mostly been influenced by legislation in HR include, equal employment, compensation, safety, and labour relations. An organization’s failure to comply with the labour laws can result in high payback costs and awards to employees. (Cherrington, 1995, p. 6).

2.6.1 Trade unions
The South African trade union movement is the largest and most disciplined on the continent and it has played an influential role in determining labour market and industrial relations policies in the country. Its major success has been in dismantling apartheid legislation and practices in the workplace. It succeeded, during the apartheid era, in making employers appreciate the benefits of negotiating with employees through their representative unions. The fruits of these negotiations included agreements on union recognition, wages, conditions of service, workplace restructuring and retrenchments. South Africa’s post-1994 labour legislation is among the most progressive in the world, providing for nine institutions to settle disputes, ensure fairness in the workplace, and nurture sound, co-operative industrial relations.

According to the 2001/02 South Africa Yearbook, there were about 17 trade union federations at the end of 2000. This number could be higher, though, as federations are not required by law to register, and unaffiliated unions spring up all the time. Trade unions promote a democratic labour environment and movement, free from any unfair discrimination against gender, religion, race, culture or political beliefs or any other form of unfair discrimination against any individual or group of people. (Trade unions in South Africa, 2003).

2.6.2 Basic conditions of Employment Act 1997
The Basic conditions of Employment Act was passed in 1997. This Act’s primary function is to ensure that employees are protected and that certain conditions must be present when an employee is appointed. This Act mostly protects permanent employees. There are limited conditions in this Act to protect contractual staff. However, many cases of unfair dismissal of contractual staff have come before the
labour law courts in recent years and the courts have often ruled in favour of the contractor rather than the employer.

The law is notably simplistic in the protection of contractual employees. The Basic conditions of Employment Act 1997 was amended in 2002 and section 83A was inserted: “Presumption as to who is employee:

(1) A person who works for, or renders services to, any other person is presumed, until the contrary is proved, to be an employee, regardless of the form of the contract, if any one or more of the following factors is present:

a) The manner in which the person works is subject to the control or direction of another person;
b) the person’s hours of work are subject to the control or direction of another person;
c) in the case of a person who works for an organisation, the person is a part of that organisation;
d) the person has worked for that other person for an average of at least 40 hours per month over the last three months;
e) the person is economically dependent on the other person for whom that person works or renders services;
f) the person is provided with tools of trade or work equipment by the other person; or
g) the person only works for or renders services to one person.

(2) Subsection (1) does not apply to any person who earns in excess of the amount determined by the Minister in terms of section 6(3).

6(3) The Minister must on the advice of the Commission make a determination that 5 excludes the application of this Chapter or any provision of it to any category of employees earning in excess of an amount stated in that determination.

(3) If a proposed or existing work arrangement involves persons who earn amounts equal to or below the amounts determined by the Minister in terms of section 6(3), any of the contracting parties may approach the CCMA for an advisory award about whether the persons involved in the arrangement are employees”. (section 83A in Act 75 of 1997 No. 11 of 2002: Basic Conditions of Employment Amendment Act, 2002. Vol. 444 Cape Town 24 June 2002 No. 23539).
To summarise the above amendment, section 83A (1) protects contractors who have not been given permanent employments contracts. However this is only if they do not earn in excess of the amount determined by the Minister in section 6(3). Often in IT departments, contractors earn in excess of this amount, therefore this law often does not protect them. From the above, it can be argued that the employment Act does not protect the rights of contractual staff. Most IT contractors who work on a full-time basis will fall within those factors mentioned above 83A(1) but then this law will not stand up in Court because 83A(2) does not allow them to.

It seems as if more organizations and even tertiary institutions are making use of contract agreements for various reasons. The company benefits are always limited in these types of employment contracts and often the contract is in place to protect the employer with little or no protection for the employee. Contracts are continuously being renewed with the same contractor for different employment terms. In some cases, one person could have been appointed as an independent contractor for periods of 5 years or more. In other cases, contracts reach completion date and then the contract is not renewed.

As intended, a contractor should be employed for a specific period of time, thus the reason for the contract and not permanent employment. If a contract is continuously renewed this contractor should then be seen under the law as a permanent employee with benefits equal to that of permanent employees.

2.6.3 Labour Law Court Cases
In McInnes V Technikon Natal, a lecturer (referred to as applicant hereafter) was employed on a “locum” basis in 1996. This one-year contract was renewed 3 times before the post was advertised on a permanent basis. The applicant applied and was short-listed. The selection committee recommended that the applicant should be appointed. However, senior management referred the recommendation back to the committee for reconsideration in light of its affirmative action policy. The committee then recommended a black male candidate and the applicant’s contract was not renewed. The Court held that the applicant’s expectation of renewal was reasonable and that she had been dismissed unfairly because affirmative action cannot constitute a fair basis for dismissing, as opposed to appointing, an employee. The applicant was
reinstated without loss of benefit, in a permanent position with back-pay, including
interest, being the remuneration she would have received had she been appointed in
the post to date of reinstatement and Technikon Natal was ordered in addition to pay
for the applicant’s legal costs resulting from this court case.

In Dierks v University of South Africa, a lecturer (referred to as applicant hereafter),
was employed on four fixed-term contracts, the last two of which he replaced a
lecturer on study leave. Prior to the renewal of the last two contracts, a report was
issued by management and the union, which contained recommendations on the fair
and equal treatment of temporary employees of the University of South Africa. It
recommended that employees whose temporary contracts had been renewed at least
once should only be re-appointed in exceptional circumstances where a bona-fide
need existed. If vacancies existed, they should be invited to appear before a selection
committee. The parties agreed that the issue was whether the applicant could claim to
have reasonable expectation to be re-appointed. The university advised the applicant
in writing that he had been found to be “appointable” but that his application could
only be reconsidered if a vacancy arose in the near future. The applicant submitted
that in his final year his responsibilities had increased and he had matured
academically and claimed that his expectation of renewal had been strengthened. In
addition, he felt that the university traditionally appointed temporary lecturers to full-
time positions if they proved satisfactory. The Court found that there had been no
suitable vacancies in the applicant’s department after his contract was terminated and
that under the Act that applicant was required to prove that his expectation of renewal
was reasonable. Turning to the facts, the Court held that the applicant appeared to
have accepted that no vacancy existed and his contract indicated that he had no right
to renewal. Nothing had been said to the applicant to give rise to a reasonable
expectation of renewal. The Court also stated that he could not rely on the fact that
other temporary employees had been given permanent positions in other departments.
The application was dismissed and no rewards were granted due to the fact that the
applicant had failed to prove that he had a reasonable expectation of renewal of his
contract; either for a further period or permanently.

After reviewing numerous, recent labour court cases, it has become evident that the
premise is that if a contractor has been given reasonable expectation that the contract
of employment would be renewed, if it is not, the Courts see this as a dismissal and have often ruled in favour of the employee/contractor. Another issue is when a contract post has been converted into a permanent post and the existing contractor is not appointed in that permanent post after having filled it contractually for a number of years. This can be due to the affirmative action policy of the organization.

In many labour court cases the employee who was unfairly dismissed has been re-instated or financially rewarded. Most of the previous cases are about confirming this key issue of whether the applicant has been given reasonable expectation of renewal, and if so, their case is brought forward on the premise of having been unfairly dismissed.

2.7 Labour legislation and litigation (United Kingdom)

In the United Kingdom (UK), legislation and attitudes towards contractual employment have surpassed those of the South African legislature. Being a first world country and more mature in labour legislation, it is not surprising to see that contract workers have similar rights as compared to permanent employees. Legislation exists specifically for the rights of employees and contractors in higher education.

2.7.1 The AUT Trade Union of the UK

The AUT is a trade union and professional association for over 48,700 higher education professionals in the UK. They provide support and run campaigns to bring some protection for computer staff, academics and researchers to mention a few. According to their records, 50% of academic and academic-related staff is on fixed-term contracts in the UK. They are campaigning hard to end the use of fixed-term contracts. This body, following extensive lobbying, was responsible for The Fixed-Term Employees Regulations 2002, which came into force on 1 October 2002. This regulation is referred to as The Fixed-term Employees (Prevention of Less Favourable Treatment) Regulations 2002. It ensures that these contractors have new rights and it ensures equal treatment as compared to an employee on a permanent contract. The AUT believes now that they have the opportunity, with this new regulation, to reverse years of bad employment practice and turn the national guidance into best practice for their universities.
2.7.2 Comparable Employees
In this legislation comparable employees are defined. They are comparable employees if:
2.7.2.1 they are employed by the same employer and engage in the same or similar work having regard,
2.7.2.2 where relevant, to whether they have a similar level of qualification and skills,
2.7.2.3 and if they are based at the same establishment.

2.7.3 Less Favourable Treatment
Fixed-term employees cannot be treated less favourably than the employer treats a comparable permanent employee in relation to:
2.7.3.1 any period of service qualification relating to any particular condition of service,
2.7.3.2 the opportunity to receive training, or
2.7.3.3 the opportunity to secure any permanent position in the establishment.

2.7.4 Summary of Regulations
The important issues in this regulation are in summary:
2.7.4.1 You have the right to be treated equally to a comparable employee on a permanent contract. This includes pay, pensions, and other working conditions like access to training.
2.7.4.2 You have the right not to be discriminated against with a permanent employee.
2.7.4.3 The employer must inform you of all permanent job vacancies.
2.7.4.4 The right to redundancy payment in respect of the ending of any contract signed, extended or renewed on or after 1 October 2002.
2.7.4.5 After four years of service on two or more contracts, your contract automatically becomes indefinite unless a further fixed-term can be ‘objectively’ justified by your employer.
(Pay and Conditions, 2004).
2.8 Conclusion

The South African legislation is by no means offering complete protection for contractual workers. These workers have in many cases also been part of bad employment practices. The South African cases have highlighted how difficult it is to ensure rights for these employees and to provide adequate compensation when deserved. There is not enough legislation to adequately protect them and South Africa can learn from the UK legislation in making provision for this short fall and bad labour practice.

Chapter 3 will have a look at the implications of sourcing strategies, from permanent staff to outsourced staff, from the staff member’s perspective. Often this area (the human side) is not given enough attention and the repercussions of not managing staff contracts and conditions of employment effectively, can place organizations in a compromising situation.
Chapter 3: Human Resources and Staff Management

3.1 Introduction

The human-side in many organizational structures is often overlooked. Consideration needs to be given to the people dimension of staff sourcing, not only in IT sourcing strategies but also in the management of the employment relationship after the recruitment process.

Some say IT people have a distinct characteristic or personality as opposed to other fields of employment. (Ward & Peppard, 2002, pp. 396-397). In IT specifically there is a number of unique factors that affect the people hired directly. The issue of shortage of IT skills and how it affects staff sourcing, needs a closer look.

People’s needs are changing in the workforce and organizations need to adjust to these changing times. Thus more emphasis needs to be placed on the employment relationship. Once staff is sourced, this is only the beginning. IT staff needs to be trained constantly, organizational structures need to be reviewed regularly and adequate career planning and management must always exist. Staff needs to be motivated, their performance measured, goals need to be set, team’s dynamics need to be assessed and optimised for a committed and loyal environment to exist. This is probably the case for all staff, not just IT staff. These issues warrant attention.

All too often it is the person being employed that suffers the most from incorrect and mismanaged employment contracts. Companies have also felt the pain of paying for lawyer’s fees and settlement agreements in court for not adhering to the employment acts and labour laws.

The different types of employment contracts can be dictated to by the HRM of a company and from top management. IT departments are sometimes pushed into using certain types of employment contracts. The side effects of the use of these various sourcing strategies can inadvertently affect the way IT departments manage their staff. The IT department is the area that is directly working with these employees and they have to face the challenges and problems imposed upon them, when different forms of
employment are instituted. This is further exasperated if a strong communications infrastructure is not in place between the IT department, HRM and top management. In other words, decisions that get made by HRM and top management, on changing sourcing strategies, should be discussed and agreement should be reached as to the strategies decided upon.

The different sourcing strategies and how they affect employees from the human perspective and the affects on IT management, need to be reviewed, especially when using contractual staff or outsourcing part of the IT service.

3.2 People employed in IT specifically

3.2.1 The value of people in IT

Davenport in Remenyi, Money and Sherwood-Smith described the importance of people in information systems success when he wrote: “Information and knowledge are quintessentially human creations, and we will never be good at managing them unless we give people a primary role. The benefits on an IT investment cannot be derived on its own, but with other resources, especially people”. (Remenyi, Money and Sherwood-Smith, 2000, p. 15).

Steven Gilroy, CompTIA Vice President of International Sales and Marketing said, “It's vital that we work diligently to continue to attract new entrants to the ICT workforce, partnering with government and higher education whenever possible. We need to be providing foundational skills and credentials that prove knowledge level and start people on the road to lifelong careers in ICT. The ICT sector is fundamental to the economy. We must also work harder to retain the skilled workers we currently have, by offering them professional development incentives, training and certification programs to help them progress and prove their industry-relevant skills. In today's economy, more than ever before, we need to prove we are getting maximum benefit from our existing ICT staff”. (European ICT skills shortage still significant, despite economic woes, 2004).

Experience and research show that training and certification are key tools in retaining and utilizing existing ICT staff, said Anneleen Vaandrager, Vice President & General
Manager, NCS Pearson-VUE Testing for Europe, Middle East and Africa. Worldwide, IDC, a leading global IT market research and advisory firm, believes that 26 million people are currently in IT-related jobs and that the number will grow to 32 million positions by the end of 2005. (European ICT skills shortage still significant, despite economic woes, 2004).

3.2.2 The IT personality

IT people have often been referred to as being ‘different’ from other employees. Much has been documented about the conflict between top management and the IT departments in organizations. IT professionals think top management does not understand them and vice-versa. Ward and Peppard emphasize; “to create a culture for the management of IS/IT that reflects corporate culture…action needs to be taken to overcome the frequently observed ‘culture gap’ that can exist between the IT specialists and the rest of the organization”. (Ward & Peppard, 2002, pp. 396-397).

The fact remains that IT professionals are branded as being ‘from another tribe’. As Patching and Chatman state; “IT people almost definitely form a different tribe, their language is hard to penetrate and that is why communication between the IT people and the rest of the business people is different”. (Patching & Chatman, 2000, p. xxix).

With IT professionals, generally the work itself is a common top motivator for why that person has chosen the IT field and so there are more than likely less people ‘doing it for the money’ than in other fields. (Young and Mould, 1994, p. 132).

There may be more truth to this in the educational sector. If a comparison is made at one tertiary institution, the PE Technikon, it is evident that the IT salaries of technical support staff are lower than that of the earnings of the IT industry in South Africa. The median yearly salary for technical support staff, according to IT Web SA salary survey for 2004 is 20% - 30% higher than that of a permanent, technical support staff (excluding network engineers) member’s salary at PE Technikon. (IT salaries at a glance, 2004).
3.2.3 Skills shortage in IT

A significant amount has been documented over the years with regards to the IT skills shortage. IT skill shortages can create enormous problems in organizations. It would seem that the type of skills shortage is constantly in line with emerging trend and technology. As newer technologies are adopted, people are trained up in that specific IT field, often an overflow in that field is eventually created and the skill shortage diminishes. At the same time a skill shortage starts in a new IT field and so the circle continues. It is safe to say there are always IT skill shortages but mostly in the new emerging IT fields. It is becoming increasingly difficult for organizations to keep up with these changing technologies and it is not always possible for in-house skills to be readily available as these technologies emerge. Staff continuously has to be trained and kept up to date. This can weigh heavily on the financial resources especially if the training process is not consistent. Often organizations get themselves into such a poor situation because of lack of staff training, that the only other option is to use outsourcing to regain this skills base. The outsourcing method then can create further problems if not correctly managed. This will be discussed further in Chapter 4.

Skills gaps in the information security and project management sector are examples of the current skill shortage problems. The shortage of qualified information security staff has been partly to blame for the increase in security breaches experienced by UK and European organizations. (Skills shortage threatens security, 2004).

There will always be shortages in skills of new emerging technologies. If the IT department does not keep their staff updated with these latest technologies, they will eventually find themselves in an irreversible situation. Continuous training is crucial if IT managers want to effectively maintain the latest technologies deployed. Staff will also feel more confident in performing their tasks and be more motivated and committed if their skills are updated regularly. As Salois, vice president of CompTIA, told the E-Commerce Times; “many companies have scaled back staffing levels and instituted mandatory hiring freezes in the past few years, but these cutbacks exacted a steep cost. In many cases, businesses now are facing skill gaps that hurt their IT departments”. (Probing the IT Skills Shortage, 2003).
3.3 The employment relationship

Armstrong describes the employment relationship as the relationships between the employers and the employees in the workplace. These can be formal (permanent employees) or informal (contractual, outsourced) contracts of employment. The fundamental basis of this relationship is about the employer providing a salary or a wage to the employee and in return the employee undertakes to provide skill and effort to the employer. Employers and employees have obligations to each other and legal rights. (Armstrong, 2002, pp. 181-183).

This relationship needs to be nurtured and constantly improved upon. The following sections highlight important principles necessary to sustain this relationship and in turn make an organization successful and be in a position to be able to achieve its business goals. If this relationship is a strong one, so too will the employees benefit and offer commitment and loyalty to the organization.

3.3.1 The organization structure and staff training

Handy and Drucker, in Ward and Peppard, believe organizational structures will become flatter and more flexible. This structure will be made up of management or critical core of staff, subcontracted specialized staff and a part-time low-skilled workforce. Organizations need to invest more in educating and training their staff first before investing in expensive technologies. (Ward and Peppard, 2002, pp. 590-591).

Unfortunately as educational institutions are faced with tighter and smaller subsidies from the government, the IT budgets are not being increased at the same rate that new technologies are being developed. Critical systems seem to remain on IT budgets but operational budget expenses such as training and staff development are often targeted as ‘an easy cut’ in the IT budget. Often the situation exists where the latest technologies are installed but are difficult to maintain due to internal IT staff having inadequate or no training to administer these technologies.

More emphasis has been given since the mid 90’s, to implement reward systems and work environments that are more suitable and motivating for employees and more productive for organizations. Rewards systems should be consistent with the changing
needs of IT professionals. As this has not been the case, this is the reason why some organizations have opted for outsourcing. Not only must organizations attract top talent, they must also provide these talented employees with future career paths. If they want to retain these individuals they must improve personnel employability. The focus is more on maintaining the skills level and investing in training to retain this talent. It is also up to the individual to take responsibility for his or her own future development. (Chorafas, 2003, pp. 173, 242-244).

3.3.2 Employee needs today
As stated by Reuvid and Hinks, “while organizations are struggling with attracting and retaining employees, employees are struggling with balancing their work and personal lives. The demands on both sides of this equation are growing everyday”. HR needs to become more flexible in the work environment to cater for employees’ changing needs. (Reuvid and Hinks, 2002, pp. 23, 25).

The workforce has changed because of this imbalance. Employees’ personal needs have shifted due to the demands on them and their families today. It has become the norm for the average family to have both parents in the workplace, due to financial reasons, inflation and the average standard of living, to mention a few. This, especially for families with children, has increased the pressures placed on families. The balance of work life and personal life is becoming increasingly difficult to maintain. Families are more under pressure to try and keep the family unit afloat and thus are demanding more assistance from their employers. For example; management in organizations often get requests from staff for child care facilities at the place of work, more flexible working hours and requests to work from home.

This could be one of the reasons why contractual forms of employment have created so many problems. Employees are becoming more demanding on organizations due to their changing needs. As a contractor, where the fundamental employee benefits do not exist, their needs are even larger as opposed to permanent employees who have their basic needs already catered for.
3.3.3 Performance, career management and goal setting

“Career Management is the process of designing and implementing goals, plans, and strategies that enable HR professionals and managers to satisfy workforce needs and allow individuals to achieve their career objectives”. (Carrell, Elbert, Hatfield, 2000, p. 295).


The employee needs to set individual goals too in the performance management process. Goal setting can improve job performance and it is important for the individual to receive constructive critical feedback. “Feedback is a powerful motivator when it is linked to personal accomplishment”. (Carrell, Elbert, Hatfield, 2000, p. 128). The performance of an employee needs to be measurable.

In the case of support consultants, for example, helpdesk systems can provide valuable statistical information as to how the employee is performing according to type of work completed in time required. This information can assist managers when conducting performance appraisals and can help in identifying possible problem areas that the individual needs to improve upon.

Business goals should be identified and then individual goals should be set accordingly in a performance session between the employee and his/her manager. It is important to meet a few times a year to give the employee guidance, feedback and to measure the performance so far. Training needs to be identified and planned for. Many organizations have performance management systems linked to a reward system.

3.3.4 Discipline

“The term discipline refers to a condition in the organization where employees conduct themselves in accordance with the organization’s rules and standards of
acceptable behaviour… they are made aware of what is expected of them and seek to meet those expectations…but not all employees will accept the responsibility of self-discipline and these employees require some degree of disciplinary action”. (Decenzo, Robbins, 2002, p. 108).

As stated by Carrell, Elbert and Hatfield; “In effect, discipline is management’s last resort to improve performance of employees”. It should only be used when it is clear that the employee is the cause of non-performance. (Carrell, Elbert, Hatfield, 2000, p. 444).

Discipline, if not managed effectively, can impact negatively on people employed. It is important to treat all employees fairly. This becomes difficult when you have permanent and contractual staff. If a contractor does not perform it is easy to just simply not renew his/her contract. Careful attention needs to be given to the reasons why these contractors are not performing and why disciplinary measures might be necessary to implement. It could be that contractors feel threatened because they do not have secure positions like the permanent staff. This whole mixture of staff brings about its own unique performance problems. The manager needs to clearly understand the reasons for non-performance of these contractors and needs to try and solve these problems constructively.

3.3.5 Team dynamics
A large portion of work in most organizations occurs within groups. In the IT sector, this goes without saying. Due to the nature of the work, it is seldom that one IT person in an IT department will work independently without having any effect on another person or group in that department. According to Carrell, Elbert, and Hatfield, there will be formal groupings within a department (sectors, sections) as well as informal employee groups. These informal groups are made up of employees whose strong friendships affect their working environment. The effectiveness of these groups (formal, informal) can be critical to the success of an organization. These groups of employees are referred to as employee teams and have been called the productivity breakthrough of the 1990’s even though they have been around for over 30 years.
There are several variations on the types of teams. Teams exist to analyse, recommend and implement solutions to problems. These teams usually meet on a weekly basis. Teams are also made up for specific projects and once the project is completed, the team ceases to exist.

Formal employee teams can generally be divided into 3 categories:

**Table 3.1 Categories of employee teams**

<table>
<thead>
<tr>
<th>Problem Solving</th>
<th>Special Project</th>
<th>Self Managed</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 5-12 members</td>
<td>• 10-15 members</td>
<td>• 5-15 non-</td>
</tr>
<tr>
<td>• Meet few hours a week</td>
<td>• Specific function to design and introduce work reforms or new technologies</td>
<td>management workers</td>
</tr>
<tr>
<td>• Review quality, efficiency, work environment</td>
<td>• manage themselves</td>
<td>• responsible for an entire work process or segment</td>
</tr>
<tr>
<td></td>
<td>• work assign to this team rather than a department</td>
<td>• best publicized today</td>
</tr>
</tbody>
</table>

The synergy factor of teams is believed to be a key force that drives team members to work harder, be more creative and achieve increased productivity. Maslow in Carrell, Elbert, and Hatfield found that teams made better workers, and better workers made better teams. (Carrell, Elbert, Hatfield, 2000, pp. 128, 134-135).

Because team dynamics are vital in organizational development, the effect of sourcing strategies on team dynamics needs to be reviewed. Due to the nature of their work, IT staff regularly work closely in teams and groups. It is important for the members of these teams to feel comfortable with each other and to resolve any underlying issues within the group that could lead to ineffective team solutions.

Consider again staff in a team who are appointed on different employment contracts. There could be permanent employees, contract staff or even outsourced staff in one
team. Problems arise where these staff members are remunerated differently, e.g. a contractor doing the same work functions as a permanent employee could be getting paid less as compared to the permanent employee or an outsourced team member could be getting paid more as opposed to the permanent and contract staff on the team. This could even be the case if the individual is not motivated by money, as it is human nature to want to be treated fairly (especially financially) in comparison to others, especially when similar or exactly the same work is being performed. This unfair treatment can negatively impact on the team structures and cause staff to be unmotivated, disloyal and damaging to the service provided on the whole by the IT department. As is sometimes the case, when IT directors do not have control over the sourcing strategies adopted, these problems of unfair treatment have to be dealt with within the IT department. Managers have to become creative in devising ways of strengthening their diverse teams in order for the members to come together effectively and to genuinely feel like they are part of a team without prejudices.

This is when motivation of staff and their commitment to the organization, regardless of their employment contract, become important. This motivation can be achieved e.g. from team building activities, performance management and other means of remuneration or reward.

### 3.3.6 Motivation

Motivation is one of the most important aspects of the HRM process but probably the least understood because human behavior is so complex. According to Decenzo and Robbins various motivational theories exist and table 3.2 below is a summary of the more popular key elements of motivation theories.

<table>
<thead>
<tr>
<th>Theory</th>
<th>Individual</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hierarch of Needs</td>
<td>Abraham Maslow</td>
<td>Five needs rank in a hierarchical order from lowest to highest: Physiological Safety Belonging Esteem Self-Actualization Individual moves up the hierarchy when need</td>
</tr>
</tbody>
</table>
is realized

| Theory X-Theory Y | Douglas McGregor | Proposes 2 alternative sets of assumptions that managers hold about human beings’ motivations – 1 – Basically negative Theory X. 2 – Basically positive Theory Y. McGregor argues that Theory Y assumptions are more valid than Theory X and that the employee motivation would be maximized by giving workers greater job involvement and autonomy. |
| Motivation - Hygiene | Frederick Herzberg | Argues that intrinsic job factors motivate, whereas extrinsic factors only placate employees. |
| Achievement Affiliation Power Motives | David McClelland | Proposes 3 needs in the workplace: Achievement, affiliation, power. |
| Equity Theory | J. Stacey Adams | An employee compares his/her input/outcome ratio to relevant others. If there is perceived inequity, individual will augment his/her behaviour or choose another comparison referent. |
| Expectancy Theory | Victor Vroom | Proposes that motivation is a function of value of the effort-performance and the performance–reward relationship. |


According to Carrell, Elbert and Hatfield, the most common techniques for motivating the unmotivated include:

- Create meaningful, challenging and attainable goals
- Invite employee participation in decision-making
- Keep employees informed on “where they stand”
- Reward good work, be generous with praise
- Treat employees fairly
- Make work interesting and fulfilling
- Be sensitive to individual and cultural differences
- Help employees grow and develop

(Carrell, Elbert, Hatfield, 2000, p. 442).

It may not be possible to make use of all these techniques but quite a few should be attainable with a little effort. It should be remembered, as stated in 3.2.2, that the work
itself is believed to be the common top motivator for IT people. An environment needs to be created where employees, regardless of their employment contract, can grow, participate and generally have a sense of belonging in their environment they work in. By motivating and rewarding these employees for good performance, they will become more willing and committed to work towards attaining the organizations goals.

3.3.7 Commitment and loyalty
The concept of commitment refers to feelings of attachment and loyalty. Porter in Armstrong defined it as; “the relative strength of the individual’s identification with, and involvement in, a particular organization”. A commitment strategy needs to exist to enlist the support of the employees and it should include; training, education, communication development, performance and reward management and initiatives to increase involvement and ‘ownership’. Many of these programs already exist in some form. The key to having a commitment strategy that is actually adopted by staff is if the company wants commitment it should ensure that the management is committed to the employees too, through the employment relationship. (Armstrong, 2002, pp. 189-191).

3.3.8 Trust
Trust is defined as firm belief that a person may be relied on. Thompson in Armstrong notes, “trust is an outcome of good management”. Employees trust management when they believe what management say, do what they say they are going to do, when management delivers the deal and treats them fairly and with consistence. (Armstrong, 2002, p. 194).

Management trust by employees does not occur as soon as the employee enters the organization. This trust relationship is built up over time and will only be worthwhile if the employees have been given reasons to trust their management.

Contractors feeling insecure in their positions, having little or no career path and generally not really feeling like they are part of the whole organization, could lead to lack of trust with management.
3.4 Human effects of sourcing strategies

3.4.1 On contractors

Some people prefer contractual forms of employment where they work for more than one company and not bound to a particular one. This in the true sense of the word is a contractor. However, the contractors as described in above, often work full time at one organization, adhere to the company policy, receive a monthly salary and have the same characteristics of a permanent employer, however they are employed on contract. This must have an impact on these people as they are often not receiving equal benefits and pay as compared to the permanent employees for doing the same work. The human effects are obviously greater and impacts heavier for those contractors who wish to enjoy permanent employment but instead their contracts are often continually renewed and the benefit contributions of e.g. on pension and medical aid schemes are still denied to them.

3.4.2 Outsourcing effects on staff

When deciding to outsource it is important to involve existing staff right from the beginning. It can be demoralizing and demotivating for them if they are not informed. (Reuvid and Hinks, 2002, p. 156).

Thomas in Johnson offers some useful guidelines of what and what not to do when people come into the outsourcing equation. It is vital for good communication mechanisms to be in place from the beginning. Bad news should not be withheld or delayed. Staff need to be informed every step of the way. It should be kept in mind that people may fear the unknown and feel uncertain about the future. They need to be informed of their employment rights and how being outsourced could affect them. It is also important to create a positive atmosphere to foster good relations between the parties involved.

Employees on the actual end of the change should be positive and realize that change could bring new opportunities. It would be wise to find out what their legal rights are as an employee. Good advice to an employee where such a change is likely to take place, would be to be positive and use the time to pursue other career options. (Johnson, 1997, p. 159).
Michael Corbett says, “The process organizations use to manage the people dynamics will ultimately make or break the value of an outsourcing decision”. (Managing the people dimension, 2004).

Johan Kunz believes that as people are the ultimate driving force in outsourcing agreements, correct management and HR deployment will determine the long-term success of outsourcing relationships. (The human link in Outsourcing, 2004).

In cases where employees will be retrenched, it is the employer’s responsibility to treat these people fairly and to inform them as soon as possible. In most total outsourcing contracts, the majority of staff is retained. An interesting comment by Lacity and Hirscheim is that often, low performers in one culture can thrive in another one. (Lacity and Hirscheim, 1993, p. 255).

Greaver, on the other hand, emphasizes that employees staying and leaving deserve fair treatment and those involved internally with the outsourcing procedure should be sensitive to what employees are feeling. Those staying must be mentored in the whole process especially if their position in the organization is changing. It must not be taken for granted that they should just feel happy because they are remaining in the organization. (Greaver, 1999, pp. 258, 259).

All of these aspects need to be considered when it comes down to the staff affected by outsourcing in an organization. It cannot be assumed that the HRM side will run smoothly. All the literature available on problems experienced with staff sourcing when outsourcing, is evidence enough that this requires careful and correct HR management if it is at all to be given a chance to be successful.

**3.5 Conclusion**

IT People need to be given a primary role if organizations are to manage information and knowledge effectively. It is clear that when forms of employment are considered by organizations often little attention is given to the human aspects of the employment type and how it may impact on the individual job incumbent. To add to this IT people
are considered a bit differently to other workers, so consideration is needed here as well as the type of employment contract offered.

Much has been documented on the employment relationship, thus emphasizing its importance in our working environments. People require nurturing and this relationship can only mature and add value to the business if it is managed with respect and equality. Rules and regulations in the business need to be consistent and fair for all people employed. Only then will the employment relationship be a relationship that contributes to the success and sustainability of the business and its goals and objectives.

If a skills shortage issue exists, evaluate it in terms of whether it would be more cost affective to train in-house staff as opposed to sourcing the skill from outside. It should be kept in mind that the wider the skill gap gets, the more expensive it is to maintain the systems in place. Training decisions should not be taken with the short term in mind; rather long-term issues and how the skills maintained in-house can contribute to the business goals should be considered.

When deciding on using contractors or outsourcing options; the needs of the people actually affected by these decisions should be considered. The existing forms of employment should be considered (e.g. permanent) and attention should be given to the possible issues that will be raised if a new form of employment is introduced (e.g. contractors) especially where a mixture (permanent and contractors) of staff contracts will exist.

Chapter 4 will focus more in-depth on the types of outsourcing and the successes and failures thereof.
Chapter 4: Sourcing Strategies focusing on Outsourcing

4.1 Introduction

Information technology (IT) plays a prominent role in the existence of organizations today. (Hirscheim, Sabherwal, 2001, vol. 44, no. 1, p. 87). IT specifically refers to the technology, essentially the hardware, software and telecommunications networks. Information systems (IS) according to Ward and Peppard, existed in organizations long before the introduction of IT. IS refers to the means by which the people and the organization use, gather, process, store and distribute information and it is crucial for it to be aligned to the business strategy and vice versa. This is known as strategic IS alignment and IT becomes the enabler of IS. There are several ways, and numerous frameworks exist, to describe information systems strategies. Hirscheim and Sabherwal refer to the IS strategy as being multi-dimensional in that it includes 3 fundamental areas; the IS Role, the IS outsourcing arrangement and the IS structure. Where many organizations falter, is when IS is not considered strategic at all and it merely forms part of simply supporting the business operations. (Hirscheim, Sabherwal, 2001, vol. 44, no. 1, pp. 87-89).

Emphasis for the purposes of this paper will be on one specific dimension of the IS strategy; the IS outsourcing arrangement. As one of the areas of IT recruitment today is outsourcing, this will be discussed in depth in this chapter. The various definitions and types of outsourcing will be reviewed and the reasons, successes and failures of previous attempts of outsourcing highlighted. It is now more a question of how to use outsourcing than one of whether or not to outsource at all. (Outsourcing’s Next Wave, 2003).

4.2 Defining outsourcing and its variations

No single, concise definition exists to describe outsourcing. Johnson states, “One of the problems of outsourcing’s image is that no-one seems quite sure what it really is and the extent of activities it covers”. (Johnson, 1997, p. 5). A study by a market research organization, Xephon, according to Johnson, describes outsourcing as contracting out of any service by the IT department, which could range from having
all your development, maintenance and operations, on-site or off, to simply contracting an outside supplier to perform a single task. (Johnson, 1997, p. 5).

IS outsourcing refers to the third-party management of IS assets, people and activities. (Hirscheim, Sabherwal, 2001, vol. 44, no. 1, p. 89).

In my opinion, the term outsourcing has been the consistent key word always referred to under this topic on the whole. It would make more sense, to refer to the various outsourcing options as sourcing options, under which outsourcing would be one specific type.

4.2.1 Sourcing options

4.2.1.1 Total outsourcing is the decision to transfer IT assets, leases, staff, contracts and management responsibility for delivery from internal IT functions to third-party vendors. (Willcocks, Feeny, Isle, 1997, p. 280).

4.2.1.2 Outsourcing is used to refer to those organizations that outsource at least 80% of their IT budgets to third-party providers. (Hirscheim, Sabherwal, 2001, vol. 44, no. 1, p. 89).

4.2.1.3 Insourcing refers to those organizations that have over 80% of the IT budget used by the internal IT department. (Hirscheim, Sabherwal, 2001, vol. 44, no. 1, p. 89).

4.2.1.4 Selective sourcing refers to organizations that use third-party vendors for certain IT functions that represents between 20-80% of the IT budget, (typically around 40%) while retaining a substantial internal IT department. (Hirscheim, Sabherwal, 2001, vol. 44, no. 1, p. 89). Ward and Peppard emphasize that to minimize risks, maximize benefits and reduce costs, the use of multiple vendors in selective sourcing is an increasingly popular strategy that will more than likely be the choice of the future. (Ward, Peppard, 2002, p. 563).
4.2.1.5 Smart-sourcing / Rightsourcing is when select IT applications are outsourced to vendors while other IT applications are retained in-house. (Willcocks, Feeny and Islei, 1997, pp. 279-280).

4.2.1.6 Subcontracting is practiced when the outsourcee, outsources to people or organizations external to their own. (Ripin and Sayles, 1999, p. 89).

4.2.1.7 Facilities Management is a subset of the outsourcing market. This is when a vendor runs your computer operation on their premises or yours. It excludes the development and maintenance of existing and new applications but includes the operational and systems programming tasks. (Johnson, 1997, p. 7).

Reuvid and Hinks define facilities management as the command-and-control function concerned with the collective management of all the non-core issues outside the IS and HR remits. (Reuvid and Hinks, 2002, p. 6).

4.2.1.8 Leasing is when a leasing/staffing company hires workers and then contracts/ leases them out to employers that request employees with certain skills and abilities. The leasing company offers competitive salaries, and benefits to employees, and as the legal employer is responsible for all HR functions. (Carrell, Elbert and Hatfield, 2000, p. 176).

4.3 The history of outsourcing

According to Chorafas, the processes of outsourcing and insourcing began with the first artisans. He states “the evolution of the practice of outsourcing has not ended yet, as everyday there are new opportunities for both outsourcers and insourcers – and with them new risks”. (Chorafas, 2003, p. ix).
Reference is made to Japanese organizations that built core competencies as far back as the years following World War II (1945), by forming joint ventures and signing license agreements with superior organizations. (Greaver, 1999, p. 14).

Outsourcing has been a major IT strategy topic for the last 15 years, yet it has existed since the 1960’s when organizational computing began. Outsourcing is therefore not new, the difference now is that any aspect of IT supply can be outsourced. (Ward, Peppard, 2002, p. 523).

Mankind has been practicing some form of outsourcing for centuries, although it was never defined as a sourcing technique. Emphasis in the last 10 years and especially today, is on organizations to reduce costs and increase profits to gain competitive advantage to survive. As more experience is gained with outsourcing and as organizations adopt best practices, the business model receives more attention and is sure to play an ever-increasing role in the IT industry. Due to previous outsourcing failures, IT managers are wary and it seems to be the trend for organizations, if outsourcing is used, to ensure concrete and protective contracts are in place when services are farmed out to third party vendors. There is a place for outsourcing as long as it is managed correctly and previous failures of organizations are not repeated.

As long as more cost effective, improved and faster solutions are available by using outsiders, organizations will continue to consider outsourcing services rather than using in-house resources. These and other relevant issues are discussed in depth in the following section.

4.4 The reasons for outsourcing
In the past decade, industry and corporates have focused on doing more with less, and for less. The trend has been to outsource all non-core activities to those organizations that can do it more efficiently and more cost effectively. (Reuvid and Hinks, 2002, p. 154).

There has been a lot of negative hype surrounding the concept of outsourcing. However, it still proves to be a way of doing business and if the outsourcing
agreements are managed correctly and comprehensive plans and actions are put into place, there is still a future for this type of sourcing and it is set to continue to grow in the IT industry and other industries. Adriaan Graaf, a director from Namitech, in the IT Web SA salary survey for 2004, says, “There is a constant sway of favour between outsourcing and insourcing and, at the moment, it seems a fair number of companies are opting for outsourcing”. On the other hand, Jacqui Young from The Personnel Concept, in the same salary survey believes 2004 will show increased demand for IT jobs, as companies give preference to insourcing: “There will be an increase in insourcing due largely to bad service experience and a desire to decrease costs”. (On the Supply and Demand See-Saw, 2004).

The reasons why companies outsource will be discussed and a closer look taken on why tertiary institutions outsource.

**4.4.1 General industry reasons for outsourcing**

**4.4.1.1 Financial**

During the 1990s, IT spend accounted for an increasing percentage of budgets and due to this it was an obvious candidate for outsourcing. (Ward, Peppard, 2002, p. 361).

As stated by Michael F. Corbett & Associates, “Cost reduction continues to matter and to be a key goal of outsourcing. Businesses must constantly increase both their efficiency and quality and therein drive greater profits to their bottom lines. But almost as important as reducing costs is making sure that a business stays focused on its core. Modern businesses are simply too complex, and attempting to excel on your own at every aspect of your operations is just not possible”. (Why Companies Outsource, 2003).

One of the primary reasons for organizations having practiced some form of outsourcing is due to financial reasons. It has been the driving force since outsourcing began. However, today many organizations see outsourcing as a too expensive alternative and often hidden costs are later incurred. This has been due to some third-party vendors charging exorbitant prices for services and excellent presentation of
their services is given to organizations that cannot refuse the services and are blinded into binding contracts. (Outsourcing and the law of diminishing performance, 2004).

4.4.1.2 Shortage of in-house skills
Some new organizations starting from scratch outsource the entire IT operations from the beginning, as it requires a significant initial investment, which is often unaffordable for new organizations. Lacity and Hirscheim highlight, based on case studies, that senior managers in organizations felt the process of acquiring, appointing and training personnel, is not only time-consuming but also expensive. (Lacity and Hirscheim, 1994, pp. 209, 211).

All organizations at some or other stage have a shortage of a specific skill in-house, especially as technology is advancing at such a rapid rate. It is difficult, expensive and almost impossible to keep all your internal staff up to date with new developments in the IT industry. Often it is more cost affective to outsource a project and the staff resources required, rather than to train internal staff.

Skills shortages have varied across the different IT segments, since IT began really. A few years ago, e.g. there were shortages in Microsoft Network Engineers, today SAP programmers and Web technologists are more in demand.

Outsourcing has often been used to reduce the risk management of certain processes or projects, especially when organizations know they do not have the required in-house expertise to properly succeed with the project.

4.4.1.3 Equity and affirmative action
Some organizations in South Africa have used outsourcing to work around becoming equitable and used it as a form of sourcing when it has not been possible to adhere to the set affirmative action policies. This, it seems has been the case when it has not been possible to appoint non-white staff due to skill shortages in the market. Because staff outsourcing is seen as an IT operational cost and not always equated to a salary cost it is easy for organizations to bypass their affirmative action policies and pay for the outsourced staff member in terms of an outsourcing fee.
4.4.1.4 Ad-hoc Projects
Often an IT need or a project exists for a specified period of time. There is no point in hiring permanent staff just because the existing staff resource is not adequate for the specific project in question. This is when organizations either appoint a temporary contractor for the project duration or else invite a third-party vendor and outsource either the whole project or just the staff requirement through an outsourcing contract. Once the project is complete the temporary or outsourced person is relieved of his/her duties and the contractual agreement between the parties expires.

4.4.1.5 Meeting the project deadlines
Time can also play a key role in outsourcing decisions. IT departments, in general work under pressure and staff have to work overtime. If a need arises and the current staff resources cannot provide the work required in the set time frame, outsourcing is opted for, to ensure on time delivery of the solution.

4.4.1.6 Reasons summarized by others
Much has been documented and researched around the outsourcing topic. Below is an attempt to include a few reasons given by authors who have thoroughly researched the reasons for outsourcing.

Organizations should outsource any non-core activities that can be accomplished quicker, cheaper and better by vendors. (Ward and Peppard, 2002, p. 568).

Greaver highlights a few reasons to outsource, i.e.
• Obtain Expertise, Skills and Technologies that would not otherwise be available
• Improve Credibility and Image by associating with Superior Providers
• Give Employees a Stronger Career Path
• Increase commitment and Energy on Noncore Areas
(Greaver, 1999, pp. 16, 154, 235).

Capitalising on skill, extending the reach of a certain process, reducing fixed costs or improving efficiency are reasons given by Chorafas for possible outsourcing. He also emphasizes that organizations have failed to develop reward and incentive systems,
which need to be consistent with motivating IT professionals. By outsourcing the IT staff this problem shifts to the company providing the service. Another interesting reason given is the computer illiteracy of senior management. It is not possible for them to stay up to date on technologies that underlie their business, it is easier and the risk is reduced they believe, when the IT services are outsourced. (Chorafas, 2003, pp. 8, 173).

As quoted by Ripin and Sayles, “Long standing frustrations with IS and computer technology, accelerating costs and intimidating future requirements, scarcity of the unique expertise required – all favour letting, experienced outsiders bear the brunt of managing this bear”. Outsourcing has become a means for organizations to reduce personnel head counts but yet still accomplish the job. (Ripin and Sayles, 1999, pp. 4, 17).

Johnson gives 5 tactical reasons for outsourcing as;
- To reduce or control the companies’ operating costs.
- To make capital funds available as outsourcing can reduce the need to invest capital funds in non-core business processes.
- Cash infusion – by transferring the assets of the company to the outside company.
- The required resources are not always available from within the company.
- The existing function is out of control and unmanageable.

(Johnson, 1997, pp. 9-10).

Reuvid and Hinks write that outsourcing has been about providing organizations with the capability to concentrate on their core business, reduce demands on limited resources and devolve the financial responsibility and risk to outside specialists. Headcount has been reduced, technological and other training burdens have been displaced and the management of risks transferred. (Reuvid and Hinks, 2002, pp. 6-7).

After researching the reasons, Chorafas developed a table outlining the reasons why companies outsource.
Table 4.1 Reasons given by different companies for outsourcing

<table>
<thead>
<tr>
<th>Reasons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce costs</td>
<td>35</td>
</tr>
<tr>
<td>Focus on core business</td>
<td>30</td>
</tr>
<tr>
<td>Improve functional performance or quality</td>
<td>16</td>
</tr>
<tr>
<td>Faster time to market</td>
<td>10</td>
</tr>
<tr>
<td>Faster innovation</td>
<td>3</td>
</tr>
<tr>
<td>Reduce non-productive assets on balance sheet</td>
<td>2</td>
</tr>
<tr>
<td>Conserve capital</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
</tr>
</tbody>
</table>

(Chorafas, 2003, p. 44).

4.4.2 Reasons why tertiary institutions outsource IT services

Not all of the above reasons are applicable to tertiary institutions’ IT departments. They do, however, provide insight into why organizations outsource for certain services.

4.4.2.1 Limited or no involvement required from HR

A Human Resources department spends a lot of time on staff employment, as it is a lengthy process. A standard process for appointing a person could more than likely be:

• Get approval for the post (new/replacement)
• Advertise the post
• Receive applicants and obtain short list
• Interview applicants
• Get approval for appointment from senior management
• Appoint person

As labour laws, affirmative action, equity policies and procedures change, it becomes increasingly frustrating for a manager of any department to adhere to these ever-changing policies. By practicing outsourcing, these issues and possible lengthy appointment processes are eliminated. The IT managers are not bound to the HR
policies but merely to their budgets, as it now becomes a financial issue. Value is also attained from outsourcing especially when resources and skills are required for a short period of time or for a specific project. HR can be bypassed completely and the outsource vendor merely invoices the IT department and payment is made from an operational / running cost type budget and payment is made once the service is delivered.

4.4.2.2 Affirmative action / Equity not an issue

Applicant figures have been low for specific posts in IT. Institutions, and most organizations in IT in South Africa are also under increased pressure from the government to increase the equity numbers of staff employed. This has resulted in further problems, due to the shortage of ‘affirmative action’ candidates in the IT industry in general. Outsourcing to third-party vendors has often provided the solution in cases where suitable affirmative action candidates have just not been available in the IT market place. This situation, it seems is changing. The number of previously disadvantaged students studying IT qualifications has slowly increased in the last few years, which should help towards solving this problem. Table 4.1 below is an example of a S.A. tertiary institution. Specific emphasis is on the column denoting African students. African student numbers have increased by 7.7% in the Faculty of Computer Studies in the last 3 years.

Table 4.2 IT student mix – PET.

<table>
<thead>
<tr>
<th>Year</th>
<th>FACULTY</th>
<th>ENROLLED</th>
<th>WHITE</th>
<th>COLOURED</th>
<th>INDIAN</th>
<th>AFRICAN</th>
<th>MALES</th>
<th>FEMALES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>COMPUTER STUDIES</td>
<td>706</td>
<td>380</td>
<td>104</td>
<td>34</td>
<td>188</td>
<td>466</td>
<td>240</td>
</tr>
<tr>
<td>2002</td>
<td>COMPUTER STUDIES</td>
<td>722</td>
<td>376</td>
<td>101</td>
<td>32</td>
<td>213</td>
<td>494</td>
<td>228</td>
</tr>
<tr>
<td>2003</td>
<td>COMPUTER STUDIES</td>
<td>707</td>
<td>329</td>
<td>105</td>
<td>30</td>
<td>243</td>
<td>472</td>
<td>235</td>
</tr>
</tbody>
</table>

4.4.2.3 Improve quality and level of IT Service

Obtaining improved skills in certain areas from outside can enhance quality of the service offered. Any additional resources should, if managed effectively, raise the level of the IT service being offered. However, this form of recruitment is not without
its problems. Outsourcing can be seen as a quick and easy approach for an urgent required solution. On the other hand, when a person with a certain skill is required, especially if it is a specialized skill, it can be extremely costly and more often than not a more affordable option of a person with fewer skills is obtained and the desired solution is not attained adequately and in time. There have been cases where organizations have then resorted back to the more expensive option anyway, to ensure effective completion of the solution required.

4.4.2.4 To obtain better skills, resources and technologies
Tertiary institutions have often battled to find IT staff with the correct skills to fill permanent posts. Salaries of IT staff in general in educational institutions have not always been market related and this has resulted in high staff turnover. This is due to permanent staff getting offered better packages elsewhere due to skills shortages.

4.5 Failures and successes of outsourcing
As organizations become more proficient in the outsourcing arena, more successes are attained. Lessons learnt and past experiences are being used to ensure optimum outsourcing relationships are maintained.

“In itself, the act of outsourcing is neither ‘good’ or ‘bad’, clear or obscure, something to seek or protect oneself against. It becomes a profitable or a dangerous enterprise depending on the degree of our preparation and on the homework done by the insourcer; the level of control over the functions to be outsourced; the contractual clauses embedded in the service level agreement (SLA) regarding the deliverables; the existence or absence of design reviews, as well as the costs associated to outsourced activities and the results being obtained”. (Chorafas, 2003, p. ix).

4.5.1 Failures and risks of outsourcing
Many organizations that practiced outsourcing, experienced problems with inflexible arrangements in the contracts. The contracts were not written with the customers’ changing needs in mind. Cultural incompatibility also existed between the customer and the service providers. (Reuvid and Hinks, 2002, p. 244).
Lacity and Hirscheim speak of the perceptions organizations had once they had service provider locked in. It was assumed that there would be available, specialized expertise on hand at reasonable rates. This was not always the case and the contracts did not specifically include these sort of assumed specifications. Many organizations, having totally outsourced their operations, lost their own specialized talented employees to other accounts controlled by the service provider. In some situations an outsourced staff member receives the adequate training in your business and once proficient, is then moved out to other customers. Their skills are transferred to propagate new business. Organizations then sit in the position for not having skilled staff and need to pay again to attain that same level of expertise. Clients need to be careful as to the reasons for outsourcing. Just because the proposal is more desirable than internal IT bids, it does not mean that it is a better bid. If it is not possible to achieve internal IT solutions, then it is crucial to ensure that vendors meet their promises efficiently and that a sound contract is negotiated. (Lacity and Hirscheim, 1994, pp. 237-238, 255).

Willcocks, Feeny and Islei found from their studies of 14 companies, that total outsourcing could lead to trouble a few years into the contract. They state, “After the initial honeymoon period, these companies complained of a loss of alignment between business strategy and IT, failed promises to access new technologies, contractual costs which were significantly greater than current market prices”. (Willcocks, Feeny and Islei, 1997, p. 283).

Ward and Peppard argue that although it is risky to use a single vendor, the risks are mitigated by additional time and resources to manage multi suppliers when using a multi sourcing strategy. Many companies are disillusioned with the results from having outsourced IT functions and even though vendors are more experienced with outsourcing today, outsourcing continues to be a high-risk process. Ward and Peppard’s research has identified the following risk factors:

- Treating IT as an undifferentiated commodity to be outsourced
- Incomplete contracting
- Lack of active supplier management of contract and relationships
• Changes later on in contract in favour of the vendor
• Inexperienced staff from vendors
• Outsourcing for short-term financial restructuring rather than to leverage IT assets for business advantage
• Hidden costs
• Managing multiple vendors – time consuming and difficult
• Loss of innovative capacity if staff are moved out to vendor
• Cultural incompatibility between company and vendor

Outsourcing becomes more risky and complex when the outsourcer outsources to subcontractors. Outsourcers subcontract for the same reason organizations turn to outside vendors i.e. need for specialized skills and cheaper labour. (Ripin and Sayles, 1999, p. 89).

Slater in his paper mentions 3 important factors to consider when outsourcing. “Firstly, the possibility exists that the vendor’s ability to provide the service will change. A number of reasons exist for this possible change, however the important issue is to have an adequate termination clause in the event of the provider not being able to fulfill the service as required. Secondly, the incorrect function may be outsourced. This can be prevented by initially correctly identifying core competencies. Thirdly, it is almost inevitable that certain positions will become redundant when certain functions are outsourced. This can result in skills being lost to the firm unless the employee can be deployed elsewhere internally”. (Slater, 2001, p. 23).

4.5.2 Keys to success with outsourcing
There are no formally published standards for successful outsourcing. Researchers on the topic make assumptions based on case studies, of organizations where outsourcing has either proven successful or not. All a company can do is familiarize themselves by reading the latest literature and by making sure that the lessons learnt are embedded in their strategy to outsource. Some informal standards and keys have been created and
collectively, if followed, the possibility of success with outsourcing, is more likely. Experts in this field have noted the following:

Johann Kunz, a columnist on the Web, states that many organizations make the mistake of outsourcing, just because they can, rather than whether they should or not. Organizations have found that it can in fact be better and cheaper to insource, and only if the IT department cannot satisfy the business demands, then outsourcing should be considered.

Kunz identifies 2 fundamental key guidelines that should be followed in the outsourcing decision-making process: Firstly, the company’s own IT department must be functioning optimally and at its fullest capability before any outsourcing decision is made. Secondly, an accurate IT costing model should exist across the enterprise to reflect what is being spent internally on IT in every department. These figures can then accurately be used to make comparisons with an outsourcing option. Only then can the IT department be sure, if proposing outsourcing, that the business requirements can be fulfilled from the IT side. The golden rule, according to Kunz; “Companies must not make the mistake of following the ‘outsourcing trend’ because it is vogue, rather they must determine their IT strategy based on their own business requirements first”.

Kunz has devised a list of questions, which if a company can answer yes to, outsourcing will not be needed, in all likelihood:

- Can the IT department cope in time with business changes as dictated by the market?
- Is the IT department flexible enough to easily increase its staff quotient should the business experience a sudden increase in demand?
- Can the IT department quickly change systems or upgrade/move platforms if the company’s business focus changes?
- Does the IT department have sufficient skills and can it maintain these skills without the costs becoming exorbitant over the long-term?
• Is the company’s entire IT knowledge base contained in a handful of people – and if 50% leave, will the company be able to continue to function in the short-term?

Kunz has also devised 5 steps to outsourcing success:

• The bid process – methodologies of the outsourcing arrangement and pricing must be provided by the vendor.
• Due diligence – This allows your preferred vendor to get a deeper understanding of your business and its processes and enables them to set benchmarks for the outsource operation.
• Contract negotiation – Purpose is to define the service, service levels and the price at which the vendor will perform the required services. Flexibility and conflict management must also be addressed in the contract.
• Transition stage – This must be handled carefully. It will take you from your existing business position to where you want to be. This stage will also include human resource transition.
• Ongoing operation – results on continual improvement, cost reduction, service level improvement and technology changes, form part of this stage.

(Look before leaping into outsourcing, 2002).

Much is documented about outsourcing contractual agreements. Contracts should be in place not only to protect the vendor but also to protect the company going into the agreement with the vendor.

The risk of contract needs to be balanced between the parties. Reuvid and Hinks state that a well-drawn contract should be part of the parties’ risk management policy. (Reuvid and Hinks, 2002, p. 137).

Too often contracts have been signed hastily especially when managers have been given unrealistic deadlines. The contract must be right from the beginning. Rather spend more time on negotiating the contract to protect the company from the start, than to later have to make changes in an already binding document. The contract must be flexible and change management must be built in, due to the rapid changes in
technology. A number of lessons have been learnt with regards to inappropriate contractual agreements.

Ward and Peppard identify 8 lessons gleaned from companies with practical experience in signing contracts:

• Discard the vendor’s standard contract
• Do not sign incomplete contracts
• Measure everything in the initial period
• Specify escalation procedures
• Beware of ‘change of character’ clauses
• Include cash penalties for non-performance
• Include a termination clause
• Take care of your people post-contract


4.6 Conclusion

It is not possible to develop a fail proof, comprehensive list to guarantee successful IT outsourcing. The following table summarises the key areas for success, which are deduced from past experiences of organizations having practiced outsourcing, of some form.

Table 4.3. Key areas for outsourcing success

<table>
<thead>
<tr>
<th>Number</th>
<th>Key Success Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Make sure the IT department is functioning optimally before considering outsourcing options.</td>
</tr>
<tr>
<td>2</td>
<td>Develop a costing model of what is currently being spent on IT across the enterprise.</td>
</tr>
<tr>
<td>3</td>
<td>Do not simply outsource because it is the latest trend.</td>
</tr>
<tr>
<td>4</td>
<td>Do not outsource core-activities, try and keep them in-house where possible.</td>
</tr>
<tr>
<td>5</td>
<td>Establish if outsourcing the activity will in fact be better and cheaper.</td>
</tr>
<tr>
<td></td>
<td>Ensure that, if outsourcing is proposed, that it is aligned with the business strategy.</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>7</td>
<td>When signing contracts ensure that the company is protected and risks are eradicated.</td>
</tr>
<tr>
<td>8</td>
<td>Insist on measures to manage and control outsourced contracts.</td>
</tr>
<tr>
<td>9</td>
<td>Make certain that there is buy in from management and in-house staff.</td>
</tr>
<tr>
<td>10</td>
<td>Contracts must be flexible and include change management mechanisms.</td>
</tr>
<tr>
<td>11</td>
<td>Consider the implications for the existing in-house staff, not only on the staff themselves but on the company too – the employee’s rights.</td>
</tr>
</tbody>
</table>

Having identified the general, most common staff outsourcing concepts, a closer look has been taken of what is currently being practiced at the PET IT department and various other tertiary Institutions. A questionnaire was distributed to all the IT Directors of Universities and Technikons in South Africa. These results will be compared and analysed in the following chapter.
Chapter 5: IT Sourcing Strategies at Selective Tertiary Institutions.

5.1 Introduction
In this chapter, a description will be given of the past and present IT department structures and recruitment processes in tertiary institutions. It will comment on why certain institutions have opted for outsourcing while others have maintained their traditional structures of appointing permanent staff. Problems and limitations of these structures will be discussed and comparisons and similarities of the various sourcing structures will be analysed. The beneficial aspects will also be included and certain variations and mixes of the types of sourcing strategies in one Tertiary Institution will be highlighted.

5.2 PE Technikon IT Sourcing Strategies.
Historically since 1979, PE Technikon (PET) has for the majority of its existence, had a permanent IT sourcing structure. It has only been in the past 5 years, that various other options of IT recruitment have been practiced. Currently 25% of the PET IT department consists of contractual staff and 75% make up the remaining permanent staff structure. The reasons for moving away from the total permanent structure to a mixed staffing compliment of permanent, outsourced and contractual staff have been numerous. The predominant ones are due to; financial reasons, skill shortages, rapid technology advancements and high staff turnover.

5.2.1 Reasons for changes in the PE Technikon IT sourcing structure
5.2.1.1 Financial reasons
As the IT department of the PET has grown, so too has the range of sourcing strategies. A limited number of new or additional posts has been approved for the department in the past few years. This has been mainly due to stricter financial budget controls on salary expenditure, in general for the whole of the organization. In the past 4 years if the need for an additional post has risen from new projects or initiatives within the department, the work required has either been outsourced to third party vendors or the existing staff compliment has provided the solution. The running of the project management sector for example, has been largely outsourced and a permanent
position does not exist in-house. This has proven to be cost effective and successful especially in cases where adequate skills for project management have not existed in-house.

The push from top management has been for the PET to reduce the salary expenditure to approximately 65% of the total expenditure figure. One solution has been to replace permanent staff with contractors, as staff have resigned, thus not reducing the head count of the department. By doing this, savings on the salary budget have been achieved. A contractor is given a set salary, normally on a yearly contract, with limited benefits. Savings are mostly attained through elimination of company contributions such as the medical aid, housing / rental allowance and the pension fund, as the contractors do not qualify for these benefits.

Contractors in the IT department, currently earn about 12%-20% less than similar permanent post incumbents. This depends on the grade level of the permanent post. This figure is based on gross earnings and does not include additional financial benefits the company contributes towards permanent employees medical aids, pension funds and housing / rental allowance and life assurance benefits. If a comparison is made with all these benefits included (total cost to company), the contractors receive on average 40% less than that of permanent employees in the same position.

In addition, the contractual leave benefits are greatly reduced as opposed to the permanent staff leave benefits. Academic institutions like any other educational institution have longer periods of leave compared to organizations in industry or the private sector. Although there is not a direct cost saving with reduced leave benefits, the contractors, if employed on normal office hours, work more days in a year than the permanent staff, which equates to a more productive environment, which inadvertently confers a cost saving. Contractors only get 15 days normal leave as opposed to permanent staff members who get 30 days normal leave and 12 days accumulative leave. This equates to 64.3% less leave for the contractors and if it is converted to man-hours, contractors are entitled to 120 (15 days x 8 hours) hours per annum and permanent staff, 336 ((30 + 12) days X 8 hours) hours per annum. Therefore there is a man-hour saving of 216 hours / 27 working days per annum per contractor. The question is; ‘How is this imbalance justified for people doing the same
work with the same responsibilities?’ This affects staff morale of the contractors and often can cause them to be unmotivated in their work.

As IT staff often require specialized training in order to satisfy the job requirements, this impacts greatly on overall IT costs. Mostly, IT training is expensive and if a person is employed on contract, it is his/her responsibility to make sure they are adequately trained to do the required work. This has created a saving for the IT department, however it has had an adverse affect especially in situations where the contractors cannot afford to pay for expensive specialized IT training and thus do not always attain the necessary skills required.

An additional issue, which could be seen by some, as a financial advantage for the PET, is the fact that contractual staff are not as protected by the labour laws as permanent staff members are. This has reduced the possible number of labour court cases (ruling against PET and in favour of the person employed), as contractors are not offered the same protection under the labour relations and basic conditions of employments acts. It has not been evident that this was one of the driving forces to move away from permanent positions towards contractual positions, but it could be seen now as an indirect financial advantage.

The institution has tried to encourage permanent staff to move to a contractual form of employment, by offering an equivalent contract salary that relates to total cost to company. This still proves to have cost advantages according to the institution. Only one post has been converted in this way and it was due to tax benefits gained by the change for the individual. The staff are generally hesitant to move away from a permanent position due to job security reasons mostly. The perception from the permanent employee exists, that there is lesser likelihood of job losses as a permanent employee than as a contractor. The contract can simply not be renewed at the end of the contract term for a contractor. This could play an ever-increasing key role as institutions with contractual staff, merge as proposed by the government, with other institutions.

For the Nelson Mandela Metropolitan University (NMMU) comprising PET and UPE campuses, the unions are proposing to the interim management that all contractual
posts be converted to permanent posts before the final structure is in place. This will ensure these contractors receive labour protection especially with the merger process, which could include retrenchment of staff.

5.2.1.2 Skill shortages
There have been situations, in the past, where a certain IT skill could not be sourced in-house from the existing staff structure of employees. In these instances it has been beneficial for the PET IT department to appoint a contractor with the required skills for a certain period of time until the project requiring the skill was completed. This approach is similar to selective sourcing, but the difference is that the resource is not provided by a third party vendor but by an independent contractor.

As quoted by Millard in a report on the E-Commerce Times website, “Wherever there is freshly developed technology, there is a need to run it. In today's high-tech world, technological advances can lead into a situation in which not enough IT workers are capable of tackling issues and challenges related to those new developments”. (Probing the IT Skills Shortage, 2004).

5.2.1.3 Rapid technology advancements
Rapid changes in technology have and will continue to impact the IT workforce as referred to in 3.2.3. As technology changes so too must the IT support skills. It is increasingly difficult for IT departments to keep up with supporting these new technologies on a continuous basis. Often in the initial setup of new technologies, a need exists for a specific specialized skill, which cannot be sourced internally. PET has overcome this need by relying on third party vendors for consulting and has made use of outsourced staff with specific skills for different periods of time. Once the project is at a stage where internal staff can assume continuation, the outsourced staff are released.

5.2.2 Problems and benefits derived from a mixed structure
Having had a mixture of different employment types in the PET IT department, and having gone from a totally permanent structure to a mixed structure of permanent and contractual staff, has not been without its challenges. Additional problems have
permeated with the mixed structure as opposed to having had a totally permanent structure or alternatively if a total outsourced structure had been put in place.

Tables 5.1 and 5.2 below highlight the problems and benefits experienced by PET IT department of practicing a mixed form of employment with its staff.

Table 5.1 The benefits and problems associated with permanent and contractual staff as in the case of the PET IT department.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Permanent Staff</th>
<th>Contractual Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ensures continuity of service.</td>
<td>• Lower IT salary budget is required.</td>
<td></td>
</tr>
<tr>
<td>• Ensures user relationships are built.</td>
<td>• Union/ Labour court involvement is limited.</td>
<td></td>
</tr>
<tr>
<td>• Employee loyalty more evident.</td>
<td>• Can use staff for specific time period or project.</td>
<td></td>
</tr>
<tr>
<td>• Employee feels like inherent part of IT team.</td>
<td>• Not obliged to renew contract with non-performers.</td>
<td></td>
</tr>
<tr>
<td>• Often there are more and better job applicants to choose from.</td>
<td>• There is no obligation to pay for contractors training.</td>
<td></td>
</tr>
<tr>
<td>• There is more job security for employee.</td>
<td>• Skills sometimes more available through contractor market.</td>
<td></td>
</tr>
<tr>
<td>Problems</td>
<td>• Higher IT salary budget required.</td>
<td>• Staff have no protection by unions.</td>
</tr>
<tr>
<td></td>
<td>• Protection of Unions.</td>
<td>• Staff feel insecure.</td>
</tr>
<tr>
<td></td>
<td>• All benefits must be given as part of the conditions of employment.</td>
<td>• Team conflicts between permanent and contract staff.</td>
</tr>
<tr>
<td></td>
<td>• New ideas are limited to in-house staff.</td>
<td>• Staff have fewer benefits.</td>
</tr>
<tr>
<td></td>
<td>• Skills are not always available.</td>
<td>• Employee loyalty can be limited.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Difficult to compensate financially for lack of benefits in contract.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• High administrative component with constant renewals and re-advertising of posts.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Uncertainty of staff compliment – difficult for long term planning.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Managers uncertain of changing labour laws and employment acts.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Known cases of contractor dismissals cause uneasiness.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• HR have not been consistent on conditions of employment.</td>
</tr>
</tbody>
</table>
Table 5.2 The benefits and problems associated with outsourced staff as in the case of the PET IT department.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Outsourced Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Not affected by unions and labour laws.</td>
<td>• Not affected by unions and labour laws.</td>
</tr>
<tr>
<td>• Limited or no involvement required from HR.</td>
<td>• Limited or no involvement required from HR.</td>
</tr>
<tr>
<td>• Affirmative Action and Equity policies do not form part of the decision making process.</td>
<td>• Affirmative Action and Equity policies do not form part of the decision making process.</td>
</tr>
<tr>
<td>• Can reduce IT costs and in general IT Budget.</td>
<td>• Can reduce IT costs and in general IT Budget.</td>
</tr>
<tr>
<td>• Improve quality and level of IT service.</td>
<td>• Improve quality and level of IT service.</td>
</tr>
<tr>
<td>• To obtain better skills, resources and technologies.</td>
<td>• To obtain better skills, resources and technologies.</td>
</tr>
<tr>
<td>• Elimination of staff training budget.</td>
<td>• Elimination of staff training budget.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Problems</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Team conflicts where there is a mixture of permanent and outsourced staff.</td>
<td>• Team conflicts where there is a mixture of permanent and outsourced staff.</td>
</tr>
<tr>
<td>• Loyalty of outsourced person lies with outsourced company not PET.</td>
<td>• Loyalty of outsourced person lies with outsourced company not PET.</td>
</tr>
<tr>
<td>• Outsourced person never really feels part of the in-house team.</td>
<td>• Outsourced person never really feels part of the in-house team.</td>
</tr>
<tr>
<td>• Mostly more expensive to pay for an outsourced person as opposed to in-sourced staff member.</td>
<td>• Mostly more expensive to pay for an outsourced person as opposed to in-sourced staff member.</td>
</tr>
<tr>
<td>• Uncertainty of staff compliment – difficult for long term planning.</td>
<td>• Uncertainty of staff compliment – difficult for long term planning.</td>
</tr>
<tr>
<td>• Confidentiality of in-house suppliers/pricing information required by outsourced person – conflict of interest with their employer.</td>
<td>• Confidentiality of in-house suppliers/pricing information required by outsourced person – conflict of interest with their employer.</td>
</tr>
</tbody>
</table>

The HR department has directed IT in this contracting direction for financial reasons but many of the related problems with the contractors are HR related. It has been realized in this particular environment, to have a combination of employment types, the problems have often outweighed the benefits of having non-permanent staff. It has been mainly at the expense of the PET IT department and more often than not, the problems have been on the human side and involved people related issues.

It is human nature for people to want security and to have a sense of belonging in an environment or a community. As a contractor these attributes of security, belonging and stability are missing. (Maslow’s Hierarchy of Needs, 2004).

This gives rise to the following problems:
• Contractors regularly do not know if contracts will be renewed or if possibly permanent positions could be created. The future for them is not clear and an air of uncertainty exists in the environment in which they work.
• It is difficult or even impossible for them to purchase vehicles or qualify for home loans. No finance house is willing to take the risk due to the contractors’ short-term employment contract.

• In the end, most of the contractors are young and gaining experience, as soon as their priorities in their lives change and they start a family, so to does their need increase for job security and it is at this point that they often resign for better future career prospects elsewhere.

• Currently the contractual staff in PET IT department have been appointed in their positions for up to the last 4 years. There have been very few resignations and this is due to a number of reasons:
  • Contractor’s young age (Average age of contractors at PET IT department is 25 years)
  • Free formal studies now available to contractors
  • Gaining of good technical skills in the environment
  • Pleasant work environment

  The possibilities are good that these contractors, as they gain vital experience and improve their skills, will resign in the future for permanent employment.

• Belonging is the third highest need according to Maslow’s hierarchy of needs in Table 3.2. in Chapter 3. Without this sense of belonging contractors cannot move up the hierarchy of needs and experience esteem and eventually self-actualization. The permanent staff is more likely to achieve this level due to the permanency of their working environment.

5.2.2.1 The UK perspective
The AUT trade union (as discussed in 2.7 in Chapter 2) in the UK believes that staff members on contracts have the least job security. In their opinion fixed-term contracts cause the following:
  • Leave staff feeling exposed and undervalued.
  • Lead to staff having difficulty finding things such as loans, mortgages and
other financial benefits.

• Significant drain on the institution’s resources.
• Destroy the possibility of career progression.

(Job Security, 2004).

The situation with the contractors in the PET IT department is not disparate from the findings of the AUT trade union and it can be used to support the contractor problem.

5.2.2.2 Further comparisons for PET
Problems arise when employment benefits are significantly different between permanent staff and contract staff. Contractors are considered part of one IT team, but have different employment benefits. They are employed to do exactly the same job functions regardless of the employment contract. It is evident that lesser benefits and lower job security have an effect on contractual staff. This can affect their behavior within a team and generally can impact negatively on the staff morale. Team building activities have therefore become important and play a big role in uniting a divided team as discussed in Chapter 3.

In the PET IT department as in all or most IT environments, staff generally works under extreme pressure the majority of the time. Leave, rest and relaxation become increasingly important as the pressure of the work increases. As stated earlier, educational institutions have longer leave benefits as compared to organizations in industry. Regular holiday breaks is an established culture in educational institutions.

The situation is then that permanent staff qualify for longer leave periods. This decreases the contractor’s staff morale, as they also deserve a well-earned break. The leave they get must mostly be kept for the December/ January shut down period anyway. Possibly if these contractors were working in industry where leave is approximately the same for permanent staff, this would not be an issue.

These problems have resulted in the IT department’s management having to shift the focus towards innovative new practices in order to increase job satisfaction and staff morale. As job satisfaction still remains high on the motivational list for employees,
PET IT department has tried to compensate contract workers by ensuring job satisfaction and thus increasing staff morale of the contract workers.

Formal Performance Management of contractual employees has been limited or none existent. PET has its own homegrown Performance Management System. The purpose of this performance management system is to guide the employee through a process of self-evaluation aimed at equipping him/her with the necessary skills and motivation to achieve organizational and personal performance goals through active participation. (Performance Management System, 2004).

This assessment assists the employee to identify goals for the following year, skill and job knowledge shortages and training requirements. The assessment is done based on the performance of the previous year. Currently permanent employees are evaluated according to this system. The HR department has indicated that it can also be used for contractual staff with at least one-year contract of employment.

It is clear that different sourcing strategies have impacted the existing PET IT structure. The following section will have a closer look at other tertiary institutions sourcing strategies.

5.3 Other institution’s sourcing strategies

The information in this section is derived from the findings of a questionnaire sent out to all the IT directors of the Universities and Technikons in South Africa. The response rate from the population was 11 out of a total of 35 (31.43%).

The 11 institutions from which results were received include:

- Cape Technikon
- Mangosutho Technikon
- Medical University of South Africa
- Northern Gauteng Technikon (Merged with Technikon Pretoria and Technikon North West to become Tshwane University of Technology)
- Port Elizabeth Technikon
- Technikon SA
• Technikon Witwatersrand
• University of Durban-Westville (Merged with University of Natal to become University of KwaZulu-Natal)
• University of Fort Hare
• University of Transkei
• Vaal Triangle Technikon (Changed name to Vaal University of Technology)

Refer to Appendix A to review the Questionnaire – An Analysis of Information Technology (IT) staffing strategies.

The findings are based on these institutions. The main purpose of the questionnaire was to establish the IT sourcing strategies practiced at the various institutions and to identify the benefits and problems associated with each variation. It must be remembered that the response is from 11 institutions and the findings may not be relevant at the remaining educational institutions in South Africa.

5.3.1 Analysis of answers received from the questionnaire

IT Staff and PC totals (Questions 1 – 3).

Question 1a) and 1b) request IT staff totals internal and external to the IT department.

• On average 80.87% of IT staff in the response fall under the IT dept of that institution. The lowest being 47.06% and the highest being 100%.
• On average 17.39% of IT staff fall under a faculty / dept. The lowest being 0% and the highest being 52.94%.
• The majority of IT staff are employed in the IT department.

From these figures it can be deduced that institutions that have responded are more in favour of centralized IT departments than that of decentralized operations.

Question 2) and 3) request PC totals and networked PC totals.

• On average, there are 69.47 PCs to every IT staff member (including all IT staff in those in other faculties). The lowest being 26.67 PCs / IT staff member and the highest being 115.38. Six institutions, the majority, were below this average which
indicates an uneven allocation of IT staff to the number of PCs installed. This is not bound to a certain province, it is widespread across South Africa. The reasons for this could be numerous; level of technology being used, limitations in IT salary budgets or it could indicate top managements commitment to IT in general.

Forrester Research Inc. conducted a study, for Microsoft in 1996, in large corporations and found that typical support staff includes one support person for every 50 PC’s. (Staffing for Technology Support, 2004). This would indicate that the institutions that responded, are all operating with fewer support people per PC, as compared to the industry standard of one support person for every 50 PC’s. This could affect the sourcing strategies at institutions. Indications are that the IT departments do not have sufficient staff resources and possibly this is why contracting, as a cheaper form of employment, is being practiced.

• On average, 92% of all PCs are networked. The lowest being 70% and the highest being 100%. This is encouraging as it means that the good majority of the institutions PCs are networked which is vital for collaboration and communication of the institution internally and with the outside world. This and the previous paragraph indicate that adequate technical infrastructure is in place in these institutions that responded, but adequate staff to support this infrastructure is not.

Employment types used (Question 4)
Question 4 allows for the selection of employment types per position and the quantity of each. Only staff within the IT departments of the institutions that responded was included here.

• 66.3% of the IT staff are employed as permanent/full-time employees.
• 15.5% of the IT staff are on a fixed term contract.
• 15.5% of the IT staff are employed temporarily and on a part-time basis.
• 1.9% of the IT staff are outsourced.
• 0.8% of the IT staff are employed temporarily and on a full-time basis.
• All, except one, have permanent posts for the IT Directors.
• The majority of staff employed are permanent/full-time employees.
• Only 3 make use of permanent staff only, the others have a combination of permanent, contractual, outsourced or part time staff even though the majority of IT staff are permanently employed.

It can be inferred from the response that the trend is for IT departments to have the majority of their staff, permanently employed.

Reasons for non-permanent forms of employment (Question 5).
This was aimed at whom historically only had permanent IT staff and have moved towards other forms of employment. The reasons given were selected as per below Table 5.3.

<table>
<thead>
<tr>
<th>Reason Selected</th>
<th>No of Institutions that selected reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortage of in-house skills</td>
<td>6 (55%)</td>
</tr>
<tr>
<td>Financial reasons not related to the IT budget</td>
<td>4 (36%)</td>
</tr>
<tr>
<td>Reduce IT Costs / Budget</td>
<td>3 (27%)</td>
</tr>
<tr>
<td>Improve quality and level of IT Service</td>
<td>3 (27%)</td>
</tr>
<tr>
<td>Affirmative Action / Equity Reasons</td>
<td>2 (18%)</td>
</tr>
<tr>
<td>High staff turnover with permanent posts</td>
<td>2 (18%)</td>
</tr>
<tr>
<td>Pressure from HR department</td>
<td>1 (9%)</td>
</tr>
<tr>
<td>Pressure from Top management</td>
<td>1 (9%)</td>
</tr>
</tbody>
</table>

The main reason for employing non-permanent staff is due to the shortage of in-house skills. As quoted by the New Zealand minister for research, science and technology Pete Hodgson, “Advances in science and technology were creating new opportunities. On the one hand we have new opportunities to develop increasingly effective medicines, improve living standards and develop products that are more environmentally friendly. At the same time breakthroughs in the science and technology sector require a much more highly skilled and specialised workforce to make the most of these opportunities. The problem for many developing areas is how...
they develop the skill base to fully compete in the new digital economy and not be left behind”. (IT Skills Shortage on APEC Agenda, 2004).

The rate at which technology changes, has a direct impact on the IT sector in tertiary institutions. It has always been difficult and expensive for relevant IT skills to be maintained in any organization. Hence the reason why institutions have had to resort to external resources to maintain these levels of technology. Often the skill is only required for a short period of time. This is the very reason why outsourced staff or contractors with the necessary skills should be used until the in-house skills are at an acceptable level.

The survey further pointed out that 4 institutions chose financial reasons not related to the IT budget. These financial reasons could be related to reducing salary costs, including staff benefits such as pension, medical aid and housing subsidy. When appointing non-permanent staff, these costs can be eliminated.

**The Benefits of using permanent staff (Question 6).**
The benefits were selected as per below Table 5.4

**Table 5.4 Benefits of using permanent staff.**

<table>
<thead>
<tr>
<th>Benefits Selected</th>
<th>No of Institutions selected benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure continuity of service</td>
<td>9 (82%)</td>
</tr>
<tr>
<td>Ensures building up of relationships with the users</td>
<td>8 (73%)</td>
</tr>
<tr>
<td>Employee loyalty</td>
<td>8 (73%)</td>
</tr>
<tr>
<td>Inherent part of IT team</td>
<td>6 (55%)</td>
</tr>
<tr>
<td>Better job security for employees</td>
<td>4 (36%)</td>
</tr>
<tr>
<td>Increased number of applicants due to benefits</td>
<td>1 (9%)</td>
</tr>
</tbody>
</table>

The top 3 benefits in Table 5.4 have merit for further analysis. From the table above it is indicated that 9 institutions agree that the most beneficial reason for using permanent staff is because of the fact that it ensures continuity of service. For some members in an organization, even top management, this might not seem like a good enough benefit, but for IT in general it is vital. Due to the speed at which technology changes, it is crucial for any IT department to ensure continuity. Permanent staff tends
to stay longer in a company than non-permanent staff because of the job security and benefits. The longer a staff member remains the more chance there is of continuity of service.

From the second and third highest benefits listed above, 8 agreed upon the building up of relationships with the users and employee loyalty, which again highlights the importance of having permanent employees. There is nothing more frustrating for a user than to have to deal with different IT support staff every time they have a problem. In dealing with the same support person, this builds the relationship between the users and the IT department in general. Users’ lack of certain skills can also be ascertained by this relationship and appropriate training offered. All organizations want employee loyalty. There is less chance of ensuring this when non-permanent staff are employed, especially when the staff know they are on a short-term employment contract. The same applies when they are outsourced from another company in which their loyalties lie. Refer to 3.3.7 in Chapter 3 for reasons why a commitment strategy should exist.

The Problems experienced with permanent staff (Question 7).

The problems were selected as per below Table 5.5

Table 5.5. Problems experienced with permanent staff

<table>
<thead>
<tr>
<th>Problems Selected</th>
<th>No of Institutions selected problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>New ideas limited to in-house staff thinking</td>
<td>6 (55%)</td>
</tr>
<tr>
<td>Skills not always available</td>
<td>6 (55%)</td>
</tr>
<tr>
<td>High IT salary budget required</td>
<td>4 (36%)</td>
</tr>
<tr>
<td>Protection of Unions</td>
<td>3 (27%)</td>
</tr>
<tr>
<td>Benefits must be included in package</td>
<td>3 (27%)</td>
</tr>
</tbody>
</table>

The problem selected the most in the above table is again to do with shortage if in-house skills. This was also the option most selected in question 5, in answer for the reasons of non-permanent forms of employment. There is definitely significance in this skill shortage problem as it has appeared twice on top of the list in Table 5.3 and Table 5.5.
The skills shortage issue remains a problem in IT departments, as discussed in section 3.2.3 in Chapter 3. Related to the above, IT managers need to evaluate if the skills shortage with existing staff is due to lack of adequate training or merely due to the rapid speed at which technologies are changing.

Types of contracts used for contract employees (Question 8).
The numbers are low due to most institutions having a more permanent IT staff structure. Of the remaining, Table 5.6 highlights the types of contracts used quantitatively.

Table 5.6. Types of contracts used for contract employees

<table>
<thead>
<tr>
<th>Contract types for non-permanent employees</th>
<th>No of Institutions selected this type of contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-Term</td>
<td>5 (45%)</td>
</tr>
<tr>
<td>Both</td>
<td>2 (18%)</td>
</tr>
<tr>
<td>Independent</td>
<td>1 (9%)</td>
</tr>
</tbody>
</table>

Reason why specific types of contracts (i.e. Fixed-term, Independent) have been chosen (Question 9).
The following additional reasons were given from the various Institutions:

• Dictated by HR
• Staff available on short term
• Availability of resources
• Merger considerations
• The ITS/Sapse administrator is a skill set that one university found to be difficult to fill. Therefore the fixed term contract.
• An attempt to develop in-house skills
• To rotate staff and train equity candidates
The Benefits of using contract staff (Question 10)

The benefits were selected as per below Table 5.7

Table 5.7. Benefits of using contract staff.

<table>
<thead>
<tr>
<th>Benefits Selected</th>
<th>No of Institutions selected benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can use for specific time period/project</td>
<td>7 (64%)</td>
</tr>
<tr>
<td>Skills often more available with contractors</td>
<td>5 (45%)</td>
</tr>
<tr>
<td>If contract has ended, not obliged to renew if contractor is not performing</td>
<td>5 (45%)</td>
</tr>
<tr>
<td>Lower IT salary budget required</td>
<td>4 (36%)</td>
</tr>
<tr>
<td>Limited or no union/labour courts involvement and protection</td>
<td>0 (0%)</td>
</tr>
<tr>
<td>Employer is not obligated to pay for training</td>
<td>0 (0%)</td>
</tr>
</tbody>
</table>

The main reason for using contract staff is due to the duration of the contract. It is ideal for short-term projects when in-house resources are not sufficient. The contractor gets hired for a specific period of time and on completion of the contract, the contractor leaves. Often, in the IT field, ad-hoc projects will arise without prior warning and they could not have been planned for. A good example of this is the Y2K problem. It was difficult to plan and realize the resources needed. Many IT departments only realized once they were well into the project, the amount of staff resources that were needed to solve the problem. As it was a once off situation, it was pointless in hiring permanent staff, therefore appointing staff on contract for the duration of the project, made sense.

The second highest benefit of using contract staff in Table 5.7 is to obtain the necessary skills. Once again the skills shortage issue is prevalent. The third benefit needs mentioning because it ties in with the skill shortage issue. It would seem that due to skills shortages in certain IT areas, often people are appointed permanently because of the desperate need for their skills. This is regardless of the personality of the individual and if in fact he/she would fit into the existing team structures, only later to find that even though the person has the skills, he/she may not perform adequately. Contracting is a way out for this problem and ensures that if you do not
want to retain the individual, he/she can be asked to leave on termination of the contract.

**The Problems experienced with contract staff (Question 11)**

The problems were selected as per below Table 5.8

Table 5.8. Problems experienced with contract staff.

<table>
<thead>
<tr>
<th>Problems Selected</th>
<th>No of Institutions selected problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuous renewals, re-advertising of posts and uncertainty of staff compliment</td>
<td>6 (55%)</td>
</tr>
<tr>
<td>Limited loyalty</td>
<td>5 (45%)</td>
</tr>
<tr>
<td>Can’t compensate financially if no benefits are included</td>
<td>5 (45%)</td>
</tr>
<tr>
<td>Uncertainty with labour laws and acts</td>
<td>5 (45%)</td>
</tr>
<tr>
<td>HR not consistent on policy and terms of contractors employment contracts</td>
<td>4 (36%)</td>
</tr>
<tr>
<td>Team conflicts where there is mixture of permanent and contract staff</td>
<td>3 (27%)</td>
</tr>
<tr>
<td>Difficult to do long term planning – as continuity of staff compliment uncertain</td>
<td>3 (27%)</td>
</tr>
<tr>
<td>No protection by unions</td>
<td>2 (18%)</td>
</tr>
<tr>
<td>Previous dismissals of contractors taken to labour courts</td>
<td>1 (9%)</td>
</tr>
</tbody>
</table>

The biggest problem involves the HR component. Due to stricter appointment and equity policies, it is often difficult to renew a contract without advertising the post. It is time consuming for the HR department to continuously renew these contracts and go through the whole appointment procedure. The uncertainty, especially for IT Managers, of the IT staff compliment, makes it very difficult for future planning of resources.

The second, third and fourth problem, the institutions selected evenly. Loyalty seems to be limited by contractors in certain cases. This could be especially true in a mixed structure where contractors are working side-by-side with permanent employees and
performing the same work functions. The contractors, because of the less favourable package they receive, more than likely, do not aspire to the same loyalty levels of the permanent staff.

It can be speculated that the IT directors are also in the position where they do not have the power to make up the difference financially to the contractors for benefits lost. After all, the one reason Finance and HR departments push for contract posts is to save costs on the salary budget and it would defeat the object if they gave contractors a higher salary to make up for benefits lost due to the contractual appointment.

Lastly there is the issue of the uncertainties with the labour laws and acts. Because there is no definite or extensive South African legislation on contractual appointments (as discussed in 2.6 of Chapter 2), IT directors are uncertain of what is acceptable with regards to these appointments. If legislation existed as discussed for the UK under section 2.7 in Chapter 2, this problem could possibly be prevented. At least, IT directors would know where they stand with regards to contractual appointments and the law.

**Able to retain IT skills by using contract staff. (Question 12).**

Of the 8 that replied, 3 agreed that the Institution could retain IT skills by using contract staff and 5 did not agree. The majority disagree that contracting can help retain IT skills. The reason for this could be that for the short-term contracting can help with skill shortages but often the contractors leave due to permanent job offers and then the cycle continues for the institution to attempt to find the necessary skills once again.

**Senior Management in favour of using contract staff (Question 13).**

Of the 8 institutions that replied, 6 said Senior Management were in favour of using contract staff and the remaining 2 were not in favour of it.
Only one institution replied as to the benefits and problems of using outsourced staff. (Question 15 and 16). The table 5.9 below lists the institution’s benefits and problems.

Table 5.9. Benefits and problems of using outsourced staff.

<table>
<thead>
<tr>
<th>Benefits Selected</th>
<th>Problems Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited or no involvement required from HR</td>
<td>Team conflicts where there is a mixture of permanent and outsourced staff</td>
</tr>
<tr>
<td>Affirmative Action / Equity not an issue</td>
<td>Limited Loyalty</td>
</tr>
<tr>
<td>Improve quality and level of IT Service</td>
<td>Outsourced person never really feels part of IT Team</td>
</tr>
<tr>
<td>To obtain better skills, resources and technologies</td>
<td>More expensive than in-sourcing</td>
</tr>
<tr>
<td></td>
<td>Confidentiality of competitor pricing/information required</td>
</tr>
</tbody>
</table>

Able to retain IT skills and stay more up to-date by using outsourced staff. (Question 17 and 18).

Of the 3 that replied, 2 agreed that the Institution could retain IT skills and stay more up to-date with the latest technologies by using outsourced staff and 1 did not. This is interesting if you compare it to Question 12 results where 62.5% stated that they could not retain IT Skills by using contract staff, but in Question 18, it is stated by 2 out of 3 institutions who have used outsourcing, that with outsourcing IT skills could be retained.

Senior Management in favour of staff outsourcing (Question 19).

Of the 4 that replied; 2 said Senior Management were in favour of using outsourcing and the 2 were not in favour of it. Due to the 50-50 answer it can be deduced that there is no indication if senior management favour outsourcing or not.
Benefits for using temporary staff (Question 21).

The benefits were selected as per below Table 5.10

Table 5.10. Benefits of using temporary staff.

<table>
<thead>
<tr>
<th>Benefits Selected</th>
<th>No of Institutions selected benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce IT Costs/Budget</td>
<td>4 (36%)</td>
</tr>
<tr>
<td>Able to appoint staff member for limited period of time or until the project is complete</td>
<td>4 (36%)</td>
</tr>
<tr>
<td>To obtain better skills, resources and technologies</td>
<td>2 (18%)</td>
</tr>
<tr>
<td>Improve quality and level of IT Service</td>
<td>1 (9%)</td>
</tr>
</tbody>
</table>

If these figures are compared to Table 3.7 in Question 10, it is interesting that the same percentage (36%) of institutions selected the IT budget related benefit for temporary and contract staff. However only 2 institutions selected this benefit for both types of appointments.

Problems experienced with temporary staff (Question 22).

The respondents listed the following problems related to temporary staff.

• Time management becomes an issue, especially when they are required urgently. (Exams commitment etc)
• Need to have standby staff if temporary staff members do not feel like pitching up for their shift.
• Low levels of loyalty exist and often-temporary staff members do not have a sense of urgency.
• Temporary staff in some institutions do not report to the IT Director.
• Long channels of communication sometimes exist.

Problems experienced with a mixture of employment contracts (Question 23)

The respondents listed the following problems related to having a combination of different employment contracts.

• The continuous motivation to extend contracts - sometimes the bureaucracy becomes quite painful to handle.
• Salary discrepancies between different staff employment contracts have become a problem.
• 2 Institutions indicated that no problems have as yet been encountered.

Feelings on outsourcing in the merged institutions (Question 24).
The following gives and indication of how the institutions feel about IT outsourcing in the merged institutions.
• 81.81% of the institutions agreed that the merger of tertiary institutions should not follow the total outsourcing route for their IT requirements. The feeling is not to allow management of the strategies and projects to be controlled by vendors.
• The other problem is that there are indications of it being an expensive and unaffordable option.
• There are fears that, if IT is outsourced, considerable institution knowledge could be lost and in-house should be retained as existing staff know the setup and the environment well. This wide range of in-house skills needs to be harnessed and it is feared that these skills will be lost, if IT is outsourced.
• There are suggestions that certain strategic blueprints should come from industry experts, but thereafter the implementation must be from within to ensure sustainability in a robust environment.

How will the merger of Tertiary institutions affect the IT staff structure and employment contracts? (Question 25)
The following comments on the future structure and contracts in the merged institutions were received from the respondents.
• It is recommended that a new IT audit be conducted to identify needs and gap analysis to devise a new support structure.
• One institution indicated that there should not be a problem as both the targeted institutions have fairly small staff complements so employment contracts will not be an issue, however there may be structural considerations.
• Although premature, there is general agreement that there will need to be changes in staff structures. However a few have indicated that they do foresee little or no effect, as the new institution will be able to use all the existing staff.
• One institution sees the merger process as an opportunity for the coming together of
minds to form a unified team working towards a common purpose and also to increase the range of options currently available to staff.

- In addition it could be an opportunity to re-negotiate performance based contracts and enable individuals in ‘comfort zones’ to realize the need to develop and keep abreast of new technologies and therefore ensuring strong competition amongst colleagues.

According to Ripin and Sayles, mergers often create situations, which are politically sensitive when the diverse IT groups have to integrate. A simple way to solve this dilemma is to outsource the majority of the IT services. This way negotiation with staff is removed and there is not an issue of deciding on which systems remain or which get removed. (Ripin and Sayles, 1999, p. 17).

Ward and Peppard comment that organizations have used outsourcing to facilitate mergers to solve technical incompatibilities, absorb the excessive IT assets and assimilate the additional IT employees generated by merger activity. (Ward, Peppard, 2002, p. 362).

The merger between PET and the University of Port Elizabeth (UPE), will be a challenging one as the UPE IT department is partly outsourced to the company, Dimension Data (DD). Many of UPE’s core IT services are controlled by DD. This has created problems for the IT Director and the remaining permanent IT staff at UPE. IT has become difficult for the IT management to co-ordinate and control IT service delivery because of the ownership of its core areas being in the hands of an outside vendor. It is difficult to draw the line of where the responsibilities lie. When the two institutions merge, further problems of ownership will be realized. For example, the active directory (AD) currently at PET is the responsibility of PET staff but at UPE it belongs with DD. It will not be possible to support a merged institution with this sort of responsibility sharing, if a truly merged entity needs to exist as prescribed by the DoE.

There is no doubt that outsourcing of IT services will definitely be a discussion point on the merger agenda, probably not for total outsourcing of IT services, but certainly
with selective sourcing for certain areas of expertise and projects. Already some institutions have outsourced the project management aspect of the merger process.

5.4 Conclusion

IT directors and the management of IT service delivery need to carefully consider the implications of their sourcing strategies. The speed at which technology changes in this environment will always be an issue and will affect the pool of in-house skills. If skills are maintained and properly utilized, the benefits of employing a permanent IT team can be realized. With a mixed structure there will constantly be conflict between the different people employed, especially if they are not treated fairly and comparably to others in the team.

 Outsourcing of individual services and its benefits, however, cannot be ignored. Situations will arise when no matter how much training is given and in-house skills are improved, special projects and requests will dictate the application of outsourcing. The means as to how outsourcing is deployed and managed in educational institutions will determine the success thereof.

A summary and criteria will be developed in Chapter 6 based on the findings in the previous chapters.
Chapter 6: Guidelines for sourcing IT skills in South African Tertiary Institutions

6.1 Introduction

Based on the literature study and research conducted in this project area, guidelines will be developed in this chapter. The intention is that this information will assist IT directors at tertiary institutions to make use of effective sourcing strategies, based on historic successes and failures with IT recruitment in the educational sector and this will be combined with valuable lessons learnt in industry.

The problems associated with the different sourcing strategies were addressed in this paper. The primary research objective was to review the current IT sourcing strategies in tertiary institutions and to analyse and discuss the benefits and limitations of employing permanent IT staff, contract workers or outsourced staff.

6.2 Staff recruiting key issues

Chapter 2 emphasized the importance of the HRM function and how employees needs have changed since it was referred to as Personnel Management in the 1940’s. Today the organizations’ people are spoken of as being the most important asset, probably due to the fact that salaries and labour costs are the largest single expense in most organizations.

The alternatives to permanent sourcing strategies were also described in Chapter 2. It was found that it is crucial for HRM to balance their policies and sourcing strategies with the organization’s culture and to remember to incorporate the changing and demanding nature of the workforce to best fit the organization and its people employed.

Consideration should be given to a promotion-from-within policy to increase employee motivation and performance levels. However, a balance of promoting from within and externally is needed to ensure new and fresh ideas are still provided.
At the same time organizations need to be aware of the South African labour legislation especially pertaining to discrimination of the people being hired. Contractors specifically, are receiving more protection from the labour courts than in the past. The labour laws, however, are still not adequate in protecting the non-permanent people from discrimination. As in the UK legislation, contractors need to have new rights to ensure equal treatment as compared to an employee being permanently employed. This should be the case when the conditions of employment (number of working hours, type of work performed, etc) are the same for both permanent and contractual people. There is a place for both these forms of employment but it is essential to ensure these forms of sourcing IT skills are practiced in situations for which they are intended. A fair democratic labour environment should be considered, which is free of discrimination.

6.3 The people dimension

Chapter 3 reviewed how these different sourcing strategies affect the actual people being employed. Consideration must be given to the IT personality specifically, the importance of people in maintaining IT systems and the reasons the organization want to opt for various forms of employment.

The employment relationship is vital and efforts in ensuring the growth of this relationship must be from both sides – that of the employer and that of the employee. This relationship is often put under strain when people are employed as non-permanent employees for long periods of time. The employer is faced with ethical issues of employing contractors who never leave and who are in essence not really contractors. The employees have issues with loyalty, trust and performance when on contract. These issues will always exist if there is disparity in the conditions of employment of people as compared to permanent employees doing the same work.

To avoid this, the organizational structure should be reviewed regularly and management should be sensitive to problems that could result from having a mixture of employment contracts for those doing the same work. They should further ensure that career planning, performance measurement and future development paths exist.
Individuals need to be guided and need to receive critical feedback as to their performance.

In Chapter 3 it was further highlighted that the technical knowledge of IT staff needs to be maintained within. Training courses should be budgeted for to ensure this and careful attention given to what is needed for these skills to be continuously maintained. At the same time the employee will grow and increase his/her knowledge, which can only add value to the employment relationship.

In addition, careful attention must be given to staff to ensure effective team environments, commitment from staff, loyalty, trust and motivation. Most importantly, the people doing the work in the organization should be considered and treated with respect when employment terms are entered into.

When considering contractor or outsourcing options, consideration should be given to those people directly affected by these various options. Chapter 4 focused more in-depth on the outsourcing option.

6.4 The outsourcing option

Chapter 4 underlined the various types of outsourcing that exist and investigated the successes and failures thereof. Organizations will continue to consider outsourcing options as long as it is more cost effective, improved and faster solutions are available from outside vendors. Generally the success rate of outsourcing has been low but the indications are here that it is set to grow in the IT industry. The keys to success are summarized in Table 4.3. These key areas are based on best practice, and will help to ensure successful outsourcing methods.

In tertiary institutions there is also a place for certain IT department functions to be outsourced and special projects will always emerge which will require outsourcing. However, unless outsourcing is managed correctly, disastrous outcomes are predicted. The key is to remember not to outsource the core activities, which need to be aligned with the business strategy.
Furthermore, it should be ensured that the in-house staff continually update their skills in line with the latest technologies, as these skills are the most expensive to source from outside.

**6.5 IT sourcing strategies of other tertiary institutions**

Chapter 5 focused on the sourcing strategies adopted by 11 tertiary institutions in South Africa, with emphasis on what is practiced at the PET. The advantages and disadvantages of the various sourcing strategies were analysed. Attention was given to the reasons why PET, in particular, has moved towards a mixed staffing structure. The main reasons derived were; financial, skills shortages and the speed at which technology is advancing.

The benefits and problems of using permanent, contractual and outsourced staff were summarised from the response in Table 5.1 and Table 5.2. A key underlying cause of the problems with contractors is that they are not treated comparably to permanent staff even though they assume the same role and perform the same functions as in the case at the PET IT department. The response of the 11 institutions was used as an indication of what IT sourcing strategies are being practiced at other institutions.

The response indicated that the main benefits of continuity of service, strong user relationships and loyalty of using permanent staff, are the reasons why permanent employment is preferred. When looking at the problems selected in using permanent employees, the key issue is shortage of skills and ideas. This will be discussed further in the conclusion. The responses to the problems of using contract staff were given in Table 5.7. Main reason selected was the continuous renewals, re-advertising of the posts and uncertainty of staff compliment. Equal emphasis was then given to limited loyalty, limitations on financial compensation and uncertainty with the labour laws and acts.

The survey further indicated that 81% of the institutions that responded agreed that the new merged institutions should not follow the total IT outsourcing route.
6.6 Guidelines and Conclusion

Table 6.1 lists the guidelines for effective sourcing of IT skills. These guidelines are recommended for use by IT directors of tertiary institutions in South Africa.

**Table 6.1 Guidelines for sourcing IT skills**

<table>
<thead>
<tr>
<th>Staff Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Effectively manage the organization's largest expense – The Staff.</td>
</tr>
<tr>
<td>• Be sensitive to the organization’s culture when making changes to staffing</td>
</tr>
<tr>
<td>structures.</td>
</tr>
<tr>
<td>• Incorporate the changing nature of the workforce where possible. Cater for the</td>
</tr>
<tr>
<td>changing needs of the staff employed. Fit the benefits and salary packages to the</td>
</tr>
<tr>
<td>type of people available in the market place.</td>
</tr>
<tr>
<td>• Promote and develop a flexible work environment to cater for employee’s changing</td>
</tr>
<tr>
<td>needs.</td>
</tr>
<tr>
<td>• Aim to promote the staff from within to optimize their career paths and</td>
</tr>
<tr>
<td>development.</td>
</tr>
<tr>
<td>• Treat staff doing the same work equally or comparably.</td>
</tr>
<tr>
<td>• Aim for a fair democratic labour environment.</td>
</tr>
<tr>
<td>• Become familiar with the S.A. labour legislation.</td>
</tr>
<tr>
<td>• Make use of non-permanent staff only for fixed / limited term projects.</td>
</tr>
<tr>
<td>• Consider the effects of appointing staff on different employment contracts (i.e.</td>
</tr>
<tr>
<td>permanent and contractors) for doing the same work.</td>
</tr>
<tr>
<td>• Ensure that the majority of IT staff are permanently employed – this will assist in</td>
</tr>
<tr>
<td>maintaining core activities, ensuring continuity of services and relationship building</td>
</tr>
<tr>
<td>with the users of the IT services.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>People Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Promote growth of the employment relationship – organizations need to treat staff</td>
</tr>
<tr>
<td>with respect.</td>
</tr>
<tr>
<td>• Staff policies need to be consistent for all staff.</td>
</tr>
<tr>
<td>• Be sensitive to differences in conditions of pay between permanent and non</td>
</tr>
<tr>
<td>permanent staff.</td>
</tr>
<tr>
<td>• Develop career planning, performance measurement systems.</td>
</tr>
<tr>
<td>• Continuous feedback should be given to staff on their performance.</td>
</tr>
</tbody>
</table>
• Train In-house staff rather than sourcing skill outside – utilize tertiary institution courses available to staff.

• Consider how staff are affected by contracting or outsourcing options.

• Create environment to promote commitment from staff, loyalty, trust and motivation.

• Ensure motivating techniques include:
  • Create meaningful, challenging and attainable goals
  • Invite employee participation in decision-making
  • Keep employees informed on “where they stand”
  • Reward good work, be generous with praise
  • Treat employees fairly and be sensitive to individual and cultural differences
  • Help employees grow and develop and make work interesting and fulfilling
  (Carrell, Elbert, Hatfield, 2000, p. 442).

**Outsourcing**

• Reasons to outsource should include:
  • Obtain Expertise, Skills and Technologies that would not otherwise be available.
  • Improve Credibility and Image by associating with Superior Providers.
  • Give Employees a Stronger Career Path.
  • Increase commitment and Energy on Noncore Areas.
  (Greaver, 1999, pp. 16, 154, 235).
  • To reduce or control the companies operating costs.
  • To make capital funds available as outsourcing can reduce the need to invest capital funds in non-core business processes.
  • Cash infusion – by transferring the assets of the company to the outside company.
  • The required resources are not always available from within the company.
  • The existing function is out of control and unmanageable.
  (Johnson, 1997, pp. 9-10).

• Outsourcing will probably not be needed if answer to the following questions is Yes.
  • Can the IT department cope in time with business changes as dictated by the market?
  • Is the IT department flexible enough to easily increase its staff quotient should
the business experience a sudden increase in demand?

- Can the IT department quickly change systems or upgrade/move platforms if the company’s business focus changes?
- Does the IT department have sufficient skills and can it maintain these skills without the costs becoming exorbitant over the long-term?
- Is the company’s entire IT knowledge base contained in handful of people – and if 50% leave, will the company be able to continue to function in the short-term? (Look before leaping into outsourcing, 2002).

- Make sure the IT department is functioning optimally before considering outsourcing options.
- Develop a costing model of what is currently being spent on IT across the enterprise.
- Do not outsource because it is the latest trend.
- Ensure that the outsourcing proposed is aligned with the business strategy.
- Consider outsourcing only if it is better, cheaper not to insource.
- Outsource only if in-house skill cannot be utilized.
- Outsourcing is only an option if it is managed correctly.
- Insist on measures to manage and control outsourced contracts.
- Careful and precise attention needs to be given to signing of contracts.
- Do not be blinded into binding contracts with vendors.
- Do not assume anything when signing the contract.
- Insist on an adequate termination clause in the contract.
- Contracts must be flexible and include change management mechanisms.
- Obtain buy in from management and in-house staff.
- Consider risk management in the contractual agreement to protect the company.
- Consider outsourcing for ad-hoc projects when staff resources are limited.
- Only outsource non-core activities.
- Inform existing staff of the decisions to outsource.
- Consider the implications on existing staff and on the company.

**Staff Training**
- Make use of the courses available in the institution to keep IT staff skilled.
Only outsource when in-house skills are not adequate and no-one could be trained within reasonable time frame for the specific project.

Training / skills development of staff needs to be a continuous process that is planned for in advance.

Performance Management process must highlight the skill shortages and identify training needs.

On no account view training as an unnecessary expense.

Business Drivers

- **Finance** – The sourcing options need to be affordable.
- **Mergers** – Provides opportunity for replacing redundant and ineffective sourcing strategies.
- **Skills** – Need to ensure IT skills of staff are continuously developed and sustained.
- **Outsourcing** – Ensure in-house IT capabilities and cost effectiveness thereof.

The benefits and problems associated with permanent and contractual staff as in the case of the PET IT department were highlighted in Chapter 5. Table 6.2 (as per table 5.1) can be used as a guideline when deciding on employment contracts for IT staff.

**Table 6.2 Benefits and problems of permanent and contractual staff**

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Permanent Staff</th>
<th>Contractual Staff</th>
</tr>
</thead>
</table>
| **Benefits** | • Ensures continuity of service.  
• Ensures user relationships are built.  
• Employee loyalty more evident.  
• Employee feels like inherent part of IT team.  
• Often there are more and better job applicants to choose from.  
• There is more job security for employee.  
|  | • Lower IT salary budget is required.  
• Union/ Labour court involvement is limited.  
• Can use staff for specific time period or project.  
• Not obliged to renew contract with non-performers.  
• There is no obligation to pay for contractors training.  
• Skills sometimes more available through contractor market.  |
| **Problems** | • Higher IT salary budget required.  
• Protection of Unions.  
• All benefits must be given as part of the conditions of employment.  
• New ideas are limited to in- | • Staff have no protection by unions.  
• Staff feel insecure.  
• Team conflicts between permanent and contract staff.  
• Staff have fewer benefits.  
• Employee loyalty can be limited.  
• Difficult to compensate financially for |
The AUT trade union summarized the problems that the U.K. has experienced with staff on fixed-term contracts and these problems have also been experienced by some institutions in S.A. The problems include:

1) Leave staff feeling exposed and undervalued.
2) Lead to staff having difficulty finding things such as loans, mortgages and other financial benefits.
3) Significant drain on the institution’s resources.
4) Destroy the possibility of career progression.

(Job Security, 2004).

The strategies used to source and employ IT people at tertiary institutions have a significant impact on the delivery of services in this environment. The skills issue was evident throughout this research process. However, by keeping staff on a permanent basis, it can stagnate the development of skills. Alternatively, by not continuously developing these skills, other sourcing strategies e.g. contracting and outsourcing are inevitable.

How effectively these skills are maintained, is the key to successfully maintaining adequate in-house skills. Career management and a genuine two-sided employment relationship are required. By narrowing the skills gap, the speed at which technology changes can be successfully controlled and effective implementation of these technologies can be made possible.
Outsourcing, in some form, will continually be needed. These relationships with outside vendors require meticulous attention if they are to be deemed successful.

The IT people employed in tertiary institutions’ IT departments are important assets. If their rights are abused (legally or not) and if they are not treated comparably, this will continue to impact upon the quality of the IT services provided.
Bibliography


Appendix 1:

AN ANALYSIS OF INFORMATION TECHNOLOGY (IT) STAFFING STRATEGIES

The aim of this questionnaire is to gather research data for a project titled: IT STAFFING STRATEGIES IN TERTIARY INSTITUTIONS.

The questionnaire has been designed so that it can be submitted electronically via the web by no later than 30th June 2003.

It is advisable to have a copy of your IT department organogram at your disposal before you complete this questionnaire. You will also need to know how many staff fill a certain position and have their employment type on hand.

Any queries please contact Alison Moller at 041-5043209 or email her.

You are ensured of getting a copy of the results.

Thank you very much for your cooperation.

Questionnaire

Insert the name of your institution

1a) How many people are employed in you IT department?
   (Include temporary, permanent, outsourced and contract staff in total)

1b) How many additional IT support people are employed by other faculties or departments (excluding your IT department) within your institution?

2) How many personal computers (PC's) does your IT department have to support?

3) How many of those PC's are on the network?

4) Please select: position, type of employment, enter the total people for that category. Only include people within your IT department (e.g. Hardware Technician, Permanent, 3).

   Administrator  Fix-Term Contractor  No. of Staff

   Total: 0

5) If your institution historically only had permanent IT staff, why has it opted for other forms of contracts of employment i.e. Outsourcing, temporary, contractors?
Select relevant boxes and add any additional reasons.

- [ ] Affirmative Action / Equity reasons
- [ ] Reduce IT Costs/Budget
- [ ] Financial reasons not related to the IT budget
- [ ] Improve quality and level of IT Service
- [ ] Pressure from HR department
- [ ] Pressure from Top management
- [ ] Shortage of in-house skills
- [ ] High staff turnover with permanent posts

**Additional Reasons:**

6) The benefits (in your opinion) of using permanent staff

Select relevant boxes and add any additional reasons.

- [ ] Ensure continuity of service
- [ ] Ensures building up of relationships with the users
- [ ] Employee loyalty
- [ ] Inherent part of IT team
- [ ] Increased number of applicants due to benefits
- [ ] Better job security for employee

**Additional Reasons:**

7) The problems experienced with permanent staff

Select relevant boxes and add any additional reasons.

- [ ] High IT salary budget required
- [ ] Protection of Unions
Benefits must be included in package
New ideas limited to in-house staff thinking
Skills not always available
Additional Reasons:

If you have any contract staff, please complete, else click here to go to the next section

8) If your staff are employed contractually (non-permanent), specify which types of contracts are being used.

Tick relevant boxes and add any additional types
- Fixed-Term
- Independent
- Both

Other:

9) Specify the reasons why specific types of contracts (i.e. Fixed-term, Independent) have been chosen.

10) The benefits (in your opinion) of using contract staff.

Select relevant boxes and add any additional reasons.
- Lower IT salary budget required
- Skills often more available in contractors
- Can use for specific time period/project
- Limited or no union/labour courts involvement and protection
- If contract has ended, not obliged to renew if contractor is not performing
- Employer is not obligated to pay for training

Additional Reasons:
11) The problems experienced with contract staff.

Select relevant boxes and add any additional reasons.

☐ No protection by unions
☐ Team conflicts where there is mixture of permanent and contract staff
☐ Limited loyalty
☐ Can’t compensate financially if no benefits are included
☐ Continuous renewals, re-advertising of posts and uncertainty of staff compliment
☐ Uncertainty with labour laws and acts
☐ Previous dismissals of contractors taken to labour courts
☐ HR not consistent on policy and terms of contractors employment contracts
☐ Difficult to do long term planning – as continuity of staff compliment uncertain

Additional Reasons:

12) Have you been able to retain IT skills by using contract staff? ☐ Yes ☐ No

13) Is Senior Management in favour of using contract staff? ☐ Yes ☐ No

If you have any outsourced staff, please complete, else click here to go to the next section

14) Explain what type of staff outsourcing is being used.

15) The benefits (in your opinion) of using outsourced staff.
Select relevant boxes and add any additional reasons.

☐ Not affected by unions and labour laws
☐ Limited or no involvement required from HR
☐ Affirmative Action / Equity not an issue
☐ Reduce IT Costs/Budget
☐ Financial reasons not related to the IT budget
☐ Improve quality and level of IT Service
☐ To obtain better skills, resources and technologies

Additional Reasons:

16 ) The problems experienced with outsourced staff.

Select relevant boxes and add any additional reasons.

☐ Team conflicts where there is mixture of permanent and outsourced staff
☐ Limited loyalty
☐ Outsourced person never really feels part of IT Team
☐ More expensive than in-sourcing
☐ Difficult to do long term planning – as continuity of staff compliment uncertain
☐ Confidentiality of competitor pricing/information required

Additional Reasons:

17 ) Have you been able to retain IT skills by using outsourced staff?
☐ Yes  ☐ No

18 ) Have you been able to stay more up to date with the latest technologies by using outsourced staff?
☐ Yes  ☐ No
19) Is Senior Management in favour of staff outsourcing? □ Yes □ No

If you have any temporary staff, please complete, else click here to go to the next section

20) Explain for what reason are you making use of temporary staff.

21) The benefits (in your opinion) of using temporary staff.

Select relevant boxes and add any additional reasons.
- Reduce IT Costs/Budget
- Improve quality and level of IT Service
- Able to appoint staff member for limited period of time or until project is complete
- To obtain better skills, resources and technologies

Additional Reasons:

22) List the problems experienced with temporary staff.

Mixture of various types of employment contracts - (If you make use of more than one of the types of employment contracts - complete the section below)

23) What problems have arisen from having a mixture of employment contracts? (i.e. Permanent staff and contract staff)
Merger of Tertiary Institutions - (Complete only if your institution has been earmarked for a future merger with another institution)

24) do you think the proposed merger of Tertiary institutions should follow the total outsourcing route for their IT requirements?

☐ Yes  ☐ No

Explain

25) Comment if possible on how you think the merger of your institution with another one will affect the existing structure/employment contracts in your IT Department.