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UNIVERSITY OF THE WITWATERSRAND

SCHOOL OF ECONOMICS AND BUSINESS SCIENCES

Faculty of Commerce Law and Management

Masters of Commerce in Development Theory and Policy



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Outsourcing at the University of Witwatersrand: Reasons and Rationale.

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, Johannesburg, in partial fulfilment of the requirements for the degree of Master of Commerce in Development Theory and Policy.

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ABSTRACT

Outsourcing has been a common trend over the years and the University of Witwatersrand followed suit in 2001 under Colin Bundy (the ex-Vice Chancellor). Though outsourcing can be beneficial to enterprises it can have negative effects on the workers. The aim of this study was to develop an understanding into the reasons and rationale of the outsourcing decision at the University of Witwatersrand focusing on cleaning services. Secondary sources of data were used in the form of official reports in the public domain. The results of the study indicate that the University of Witwatersrand was able to save from the proportions of operational costs reduced through outsourcing and this enabled significant profits at the expense of exploited outsourced workers. However due to transaction costs, cost creep, coordination efficiency, loss of tacit skills and organisational memory which the university has incurred, costs will increase and organisational efficiency will not be achieved.

DECLARATION

I, Noreen Nyasha Dumba, declare that this research is my own expect as indicated in the references. It is submitted in partial fulfilment of the requirements for the degree of Master of Commerce in Development Theory and Policy at the University of the Witwatersrand, Johannesburg. It has not been submitted for any degree or examination to this or any other university.

_____

Noreen Nyasha Dumba

31 March 2014

DEDICATION

To my parents, Mavis and Dixon Dumba, who have always believed in me.

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List of Abbreviations

ANC	African National Congress
GEAR	Growth Employment And Redistribution Strategy
ILO	International Labour Organisation
NGP	New Growth Path
OM	Organisational Memory
SER	Standard Employment Relationship
SET	Senior Executive Team
UMA	University Management Associates

1 INTRODUCTION TO STUDY

1.1 Introduction

Outsourcing is defined as the transfer of the production of goods and/or services performed internally to an external party (Ellram & Billington, 2001). This is a key feature of privatisation. Graever (1999) defines it as the act of transferring some of a company's recurring internal activities and decision rights to outside providers as set out in a contract. Dixon (2008) asserts that outsourcing is very controversial and impacts every part of business from manufacturing through to design, software development, financial control, logistics management, customer support and sales. Outsourcing is praised as cost-effective, efficient, productive and strategic (Dixon, 2008).

Opponents decry outsourcing as money-grabbing, destructive, ruthless, exploiting the poor, destroying communities and nations (Dixon, 2008). Outsourcing often generates widespread protests and industrial action. A decision to outsource is usually taken behind closed doors at the most senior levels in the organisation, and announced after much careful research into how the proposals are likely to be received (Dixon, 2008). If handled badly, business process outsourcing can damage corporate image, weaken a brand, unsettle customers, and results in lower quality of products and services. When handled 'well', the results can be good enough to save a failing corporation (Dixon, 2008) – at whose expense, though, is quite another matter.

Outsourcing is one of the (supposed) realities of employment under global neoliberalism. It often results in growing numbers of insecure, oppressive, and unrewarding working\employment conditions that herald a return to earlier epochs of hyper-exploitation and a public imagination that more than ever places work/working conditions at the core of normative and policy-based representations of human fulfilment (Weeks, 2011).

Outsourcing affects employment and its quality, which is central to poverty reduction and in achieving growth with equity and pro-poor growth. Christoph and Berg (2009) explain that the link between economic growth, employment and poverty reduction is a process wherein output

growth induces an increase in productive and remunerative employment, which in turn leads to an increase in the incomes of the poor and a reduction in poverty. They state further that macroeconomic and structural policies to promote employment, economic inclusion, empowerment and social investment are crucial. Ensuring that growth is pro-poor requires changes in the institutions, law and practices that perpetuate poverty. Employment is an essential ingredient in the fight against poverty and in achieving growth with equity (Christoph & Berg, 2009).

The University of Witwatersrand outsourced their cleaning services to Supercare Cleaning Company in 2001 under Colin Bundy (the ex-Vice Chancellor). Before outsourcing, cleaners were members of staff at the University of Witwatersrand. Recently, the contract of Supercare Cleaning Company came to an end and all the workers were at risk of losing their jobs. After demonstrations and talks with the University officials, the Wits Workers Solidarity Committee assisted the cleaners in ensuring that they would be employed by the new contracted company. Although the cleaners were offered five year contracts with the new company, Ukweza, this came with some changes i.e. the cleaners would work during weekends and holidays without a wage increase. Put succinctly, Marxists term this an intensification in the rate of exploitation. Bezuidenhout and Fakier (2006) assert that the outsourcing of cleaning, catering and grounds maintenance services had negative effects on the workers at the University of Witwatersrand. They found that workers' wages were slashed to a third of previous levels and that most non-wage benefits, such as medical aid and financial aid for their children to study at the university was eliminated.

1.2 Problem statement

Outsourcing, through cost cutting, can be seen as a vehicle that benefits the profits of an organization, averts company decline and prevents service collapse. Taking a long range view – is this what motivated Wits to outsource?

Van der Walt, Mokoena, and Shange (2001) published a report on the impact of a programme designed to reposition and restructure the University to meet the educational challenges of the 21st century. The repositioning and restructuring meant academic restructuring and outsourcing

of core activities of the Universities. The final report on "the Outsourced University" by Bolsmann et al. (2002) provides the big picture of support service outsourcing in public sector universities in South Africa. A report on outsourced workers particularly with regards to discrimination, victimization and harassment that the workers faced was published by the Wits Workers Solidarity Committee. The Tokiso report investigated the claims of discrimination, victimization and harassment and the University Management's response to the report provide information on the recommendations that the University can implement to improve the plight of outsourced workers. As demonstrations occurred at the University, management responded. The latest demonstration resulted in a message from the Deputy Vice-Chancellor and Principal of Wits, Prof Tawana Kupe on the 4th of June 2014. The University of Witwatersrand's annual reports show the costs of outsourcing on the University. All these documents provide the basis for analysis of the research problem, that is, an investigation of the reasons and rationale of outsourcing cleaning services.

1.3 Hypothesis

Blumberg (1998) states that the most obvious reason behind outsourcing is that it provides very effective means of reducing costs by contracting with a third-party who would provide better service and high quality at a lower cost. By reducing costs through outsourcing, the ability to improve operating efficiency, increase return on assets, and improve profitability is achieved (Blumberg, 1998). Following a cut in government subsidies, the University of Witwatersrand was compelled to review operational procedures in order to remain competitive. Pendlebury and Van der Walt (2006) stated that fiscal austerity (subsidy cuts) placed great stress upon technikons and universities and that there was a decline in the budget allocation. A particular route of cutting costs was through the outsourcing of select services. The hypothesis of this study is that the University of Witwatersrand outsourced cleaning services to reduce costs. This had a devastating impact on the working conditions of cleaning staff. The 'savings' however did not materialize as the costs to the institution outweighed the purported advantages and benefits. To prove and verify the hypothesis, I will investigate through literature the reasons and rationale behind the University's decision to outsource cleaning services. I will investigate the following number of key questions: What were the reasons and rationale behind the decision to outsource

cleaning services? What were the effects of outsourcing? What were the consequences to the University of Witwatersrand due to the outsourcing of cleaning services?

1.4 Research aims

The aim of the research is to develop an understanding into the reasons and rationale of the outsourcing decision at the University of Witwatersrand focusing on cleaning services. The findings seek to create an informative platform that will assist and add to the knowledge base of the outsourcing decision at South African Universities. This could help other Universities perceive the benefits and challenges that are incurred by the outsourcing decision.

1.5 Research methodology

Secondary sources were used to ascertain the reasons and rationale for outsourcing. This literature was used to assess and evaluate official reports (in the public domain) and those of the Wits Solidarity Committee. This method was used (instead of conducting interviews) because all key decisions have been documented and actions/events recorded. Questions asked by the workers through the Wits Workers Solidarity Committee were contained in a report and responses to these questions as well as statements regarding the outsourcing of services at the University were in management reports (that is, in the public domain). This documented data is therefore of strong validity. The University of Witwatersrand's restructuring documents and communiqués were used. The research questions can be addressed through these documents.

There are advantages of using document analysis instead of conducting interviews. One of these advantages is that there are no ethical issues. If interviews were conducted, access to outsourced workers and interviews with the management of the University of Witwatersrand would have been difficult to attain. Collective opinions are expressed through the reports and therefore the reports were deemed suitable for this research.

1.6 Structure

The thesis is divided into four chapters. Chapter one introduces the research problem, the hypothesis and the research aims. This chapter introduces the topic and background information leading to the problem statement which is explained and the hypothesis to be investigated defined. The research aims are explained and the research methodology is provided to illustrate how the study was conducted. Chapter two comprises the literature review, giving an overview of the relevant literature in the field of outsourcing and also details a theoretical framework for outsourcing. Chapter three spotlights the findings and conclusions of the study. The final chapter provides recommendations and limitations of the study.

2 LITERATURE REVIEW

2.1 Theoretical framework and literature review

It is imperative to adopt a theory that seeks to explain why institutions make the decision to outsource, as this guides the research. This study is premised on the 'decision theory' as discussed by Vining and Globerman (1999). Within the decision theory framework, the concept of risk-benefit analysis compares the risks associated with outsourcing and the benefits expected of the decision that is made, in order to achieve an optimal result. This suggests that in making outsourcing decisions university administrators assess and weigh the perceived risks and benefits. These factors inform the final decision to outsource a function or not.

The literature review elaborates the advantages of outsourcing, which may be summarized as outsourcing benefits (Blumberg 1998). Outsourcing in South Africa is assessed to follow the transition that has taken place over the years. The work of Pendlebury and Van der Walt (2006), Von Holdt and Webster (2005) and Bezuidenhout and Fakier (2006) gives an overview of that transition. The decision to outsource and measurements of outsourcing are then explored. To introduce the topic a definition and the history of outsourcing is explored through Belcourt (2006) and Lonsdale and Cox (2000).

2.2 Definition of outsourcing

Outsourcing occurs when an organization contracts another organization to provide services or products of a major function or activity (Belcourt, 2006). Work that is traditionally done internally is shifted to an external provider, and the employees of the original organization are often transferred to the service provider. Belcourt (2006) states that outsourcing differs from alliances or partnerships as well as joint ventures in that the flow of resources is one-way, (from the provider to the user). Typically, there is no profit sharing or mutual contribution (Belcourt, 2006). Outsourcing is a method of adjusting the boundary of the firm (Lonsdale & Cox, 2000). There are, in fact, a number of dimensions to the boundary of outsourcing. These dimensions

include conglomeration, horizontal integration, vertical integration, and the internal integration of supporting activities. The topic at hand is that of internal integration of supporting activities. Lonsdale and Cox (2000) assert that there has been a radical change in the way that firms think about the provision of supporting activities. A facilities management industry has grown up and most large firms now have their cleaning and catering provided by a third party. Employers recognize that they cannot pursue excellence in all areas. Therefore, they decide to focus on their core competence, such as customer service or innovation, and move secondary functions, such as benefits administration, to firms in which these functions are a core competence.

How is ‘core’ defined? Alexander and Young (1996) explain that there are four meanings: activities traditionally performed internally, activities critical to business success, core work contributing directly to the bottom line, activities creating current or potential competitive advantage, activities that will influence future growth or rejuvenation. They further state that a competence is a combination of technology, management, and collective learning. An example is Nike, its core competence is product design, and it outsources nearly everything else. Executives will decide to concentrate on what the organization does best, and contract everything else out to vendors. Core functions that should not be outsourced are orientation, leadership development, employee relations, final selection, performance management, and succession management, organizational change as these depend on an understanding of organizational culture, a long-term orientation, consistency, trust, and confidential information. By outsourcing non-core activities, managers hope to focus on value-adding roles (Alexander & Young, 1996).

2.3 History of outsourcing

It is crucial to give a brief history of outsourcing to understand its development and its effect in the world economy. This global perspective illustrates how outsourcing began and why institutions adopted it. Lonsdale and Cox (2000) explain that by the 1970s, it was becoming increasingly recognised that many large and diverse corporations were underperforming in the market. When this underperformance became even more pronounced – especially in the 1980s (onset of a global recession) - a consensus emerged which suggested that corporate strategies

should go into reverse and that firms should focus on fewer activities. The refrain grew up that firms should 'stick to their knitting' (Lonsdale & Cox, 2000).

In the 1930s, the economist Ronald Coase introduced outsourcing through an article titled 'The nature of the firm'. This article considered the question of why firms adopted their chosen structure and concluded that it was related to the trade-off between the costs of accessing the market and the problems of diseconomies of scale, which often occurs when organisations grow too large. Coase's insights were accepted in the 1970s when the transaction cost economies school emerged. Lonsdale and Cox (2000) mention that Oliver Willamson, the leader of the school, developed the concept of asset specificity and built a theory of the firm based around the need for firms to economise on transaction costs. Despite the strong implications for outsourcing of transaction cost theory, it was not this school that was most influential in causing the sea-change in the 1980s.

Tom Peters from the USA drove forward the opinion. He was one of the most influential in recommending that firms focus on their core business. Later in the decade, the desirability of a more focused approach to business strategy began to feature in the major business journals (Lonsdale & Cox, 2000). "The nature and pace of change in the world of work has had, and continue to have, a profound impact on employment relations" (ILO 2003). 'Patterns of employment have changed, the range and variety of work contracts have expanded and new forms of work have proliferated, leading to both opportunities and risks. These developments impact directly on employment and labour markets and challenge traditional concepts and old certainties' (ILO 2003: 13). One of these developments is outsourcing. The 2010 United Nations report on the World Social Situation states that the advent of outsourcing is usually subsequent to privatisation and that the rationale for privatization is rooted in public choice theory which postulates that privatization will spur development of the private sector. Privatization is supposed to improve the efficiency of enterprises by focusing on financial performance. Through better resource allocation and improved efficiency, privatization is expected to spur economic growth and reduce poverty. This is supported by Filipovic (2005): privatization, accompanied by appropriate structural reforms, creates incentives to improve economic efficiency, increase

investment, and adopt new technologies. These structural reforms can therefore affect employment strategies and patterns.

2.4 Outsourcing in South Africa

Aliber (2003) noted that the overall pattern of formal sector employment in South Africa over the past several years is that fewer people have employment but those who do have enjoyed real increases in remuneration. He explained that there is also a broadening grey area involving more employment through the secondary labour market, whereby tasks that had previously been performed by permanent, regular workers are increasingly being performed by temporary, casual, and, part-time workers; so-called independent contractors. While this trend is not dissimilar to that which prevails elsewhere in the developed and developing world, it comes at a time when there are diminishing employment opportunities, and within an environment where governmental and nongovernmental institutions set up to protect workers' rights are weak. In some sectors, the adoption of more flexible arrangements is driven by employers' disinclination to honour new comprehensive labour legislation (Clarke, 2000).

The idea that the nature of work is changing emerged in the international literature in the 1980s (as mentioned by the work of Lonsdale Cox (2000)) and, in response, to global economic changes beginning in the previous decade; triggered by the 1973 OPEC oil crisis (Von Holdt & Webster, 2005). Managers developed a radical strategy that changed the 'rules of the game' by departing from the standard employment relationship (SER), introducing the notion of a core and non-core workforce. The assumption behind the SER was that the employee would be working full time; the employee worked on the premises of the employer; and employment was permanent. According to Von Holdt and Webster (2005), this changed when employers began resorting to labour brokers - a global phenomenon (Aliber, 2003). The introduction of a third party not only enables the employer to reduce costs, and the non-wage benefits that accompany the SER, it also reduces exposure to the risks accompanying employment.

Bezuidenhout and Fakier (2006) noted that the legacy of apartheid is clearly fusing with the logic of the market to link the present outcomes and future possibilities for the working poor to the constraints of the past. This view is shared by Pons-Vignon and Anseeuw (2009) who also noted

that liberalisation and the withdrawal of the state were the exact opposite of segregationist policies, the main instruments of apartheid. Clarke (2004) shares a similar view: weaknesses and loopholes in the laws have led to the growth of distinctive forms of non-standard and precarious employment, such as independent contractors. Clarke (2004) asserts that alongside these changes, old forms of casual and contractual employments have continued as holdovers from the apartheid labour market. Still other forms of casual work have been reshaped to conform to the modern, advanced, capitalist (post-apartheid) economy. Overall, employment changes have created new divisions between workers and widened existing differentials among them, thus amplifying racial and gender segmentation in the labour market (Clarke, 2004). This division is also observed in institutions of education.

Pendlebury and Van der Walt (2006) noted that there has been general pressure on all South African universities to restructure in the post-apartheid period. While the initial impetus for transformation was the pressure to deracialize the fractured higher education system, the actual content of transformation has been shaped by the global neoliberal restructuring of capitalism refracted through the international state system. The commitment to the creation of new South Africa higher education institutions based on the values and principles of non-racism and democracy is thus coupled to a commitment to fiscal austerity and liberalization, arising in the first instance from the class nature of state policy (Pendlebury & Van der Walt, 2006). Fiscal austerity through subsidy cuts placed great stress upon technikons and universities. Pendlebury and Van der Walt (2006) stated that there was a decline in the budget allocation of 1997/98 of R5.4 billion to tertiary education, from 68 percent to 65.6 percent.

Pendlebury and Van der Walt (2006) asserted that neoliberalism seemed an ideal solution to the challenges of the new period of capitalism. As policy, it appeared to address the need for new markets and capital outlets through the promise of economic liberalisation and privatisation. They explain that neoliberal economic policies facilitated the promotion of corporate restructuring to meet the needs of the intensified competition of the period of crisis through deregulation, tax restructuring, fiscal austerity, welfare reform, and the promotion of labour market flexibility.

Pendlebury and Van der Walt (2006) state that neoliberal discourse has caused universities to increasingly be reconceptualised as potentially profitable corporations, and sites of investment

that should be separated according to private sector managerial principles and profit-making imperatives. Traditionally, universities were, at least in theory, based on the knowledge production paradigm of pure research driven primarily by the intellectual concerns of academics operating within the framework of university autonomy, itself underwritten by state support and a commitment to the scientific enterprise per se. However, an increasingly influential paradigm has argued for a new research approach that is, at once, applied transdisciplinary, team-based and located in, and funded by, different organisations. In the context of fiscal austerity, research necessarily implies greater reliance upon corporate support and on other 'entrepreneurial' means of generating additional income. In short, the university is being reconceptualised as a market university suited to the production of information commodities, a lucrative market for instructional wares, and a key source of skilled personnel. Once universities concede these terms, research which does not yield new products is pointless, and courses which do not feed job skills are a waste of time (Pendlebury & Van der Walt, 2006). Cost-efficiency requires that personnel be downsized; peripheral activities are eliminated; high-tech distance learning replaces 'inefficient' classroom contact and funding is regarded as an investment decision based on short-term production goals. High numbers of fee-paying students are pursued as a source of revenue; collegial decision making processes are superseded by administrative managerialism. Decisions about academic staffing, curricula and research priorities are over determined by considerations of profitability and of supplementing declining state support - the consequence of fiscal austerity (Van der Walt, 2000c; 2000d; 2000e). Institutions compete for fee-paying students, as well as with one another and other research bodies for contracts (Gibbons, 1998).

Sang (2010) examined outsourcing in Kenyan Universities. Sang found that both public and private universities have embarked on a rapid expansion of their programmes and decentralization of campuses leading to rising enrolment rates despite diminishing financial resources**.** Public universities are also referred to as state universities since they are funded by the exchequer while private universities are those started by and fully run by private and/or religious organizations (Sang, 2010). Over the years, the government has placed great emphasis on education whose role in promoting socio-economic and political development cannot be opposed (Sifuna, 1998 cited in Sang 2010). However, the government faced constraints in funding the universities and foreign partnerships and financing have played a crucial role in alleviating the

universities' financial shortcomings. Nevertheless, Sang (2010) explains that financial limitation still remains the universities' main challenge yet they are expected to provide quality education to their clients (students) whose population has rapidly grown. Thus limited finances and large student numbers cause challenges in maintaining and improving the quality of their services. It is because of this situation that some universities in their attempts to be frugal in expenditure, have considered "outsourcing" as an option in their efforts to cut costs, improve efficiency and meet the demands for greater accountability. The "outsourcing" focuses on some services previously provided and managed by the university itself (Sang, 2010).

2.5 Labour flexibility in outsourcing

Well-established companies are increasingly developing new staffing policies by strategically using contract labour to reduce costs as competition grows (Clarke, 2000; Pendlebury & Van der Walt, 2006; Purcell, 1998). Advantages are the ability to staff flexibly in order to meet business volume demands as well as reducing training needs (Downey 1995 cited in McCosh (2010)). The quality of the workforce is therefore questionable due to the fact that employee loyalty is not cultivated. While there may be short term cost benefits associated with outsourcing, there appear to be long term costs associated with skill loss, reduced commitment and declining trust, loyalty and commitment (Hall, 2000).

However, analysing this from a different dimension, Munger (2008 cited in McCosh (2010)) suggests that managers find it difficult to motivate in-house staff as watching over each employee is expensive and tiresome. He adds that it is easy to fire contracted employees as you can easily sign a new contract with a competitor supplier. Similarly, Jiang, Frazier and Prater (2006) explain that the use of independent contractors provides employers with the flexibility to hire help only when they need it, for as long as they need it and this also allows firms to avoid having to provide costly benefits. They state that the outsourcing firm will demonstrate an improvement in employee productivity. Despite increased flexibility, potential risks involved do present themselves including longer lead times, communication barriers, co-ordination difficulties, lower demand fulfilment as well as unexpected transportation and expediting costs (Gilley & Rasheed, 2000).

2.6 Effects of Outsourcing

2.6.1 Benefits of outsourcing

Blumberg (1998) noted that up until very recently, conventional wisdom among corporate executives was to provide as many functions, tasks, and activities as possible through internal personnel. The rationale behind this mode of thinking was that internal operations, particularly through centralized management, could provide the greatest amount of management control over efficiency and productivity. However, new competitive pressures and a troubled world economy have forced a number of organizations to re-think their strategies of building up internal organizations. The most obvious reason behind outsourcing is that it provides very effective means of reducing costs by contracting with a third party who can provide better service and high quality at a lower cost. By reducing costs through outsourcing, enterprises gain the ability to improve operating efficiency, increase return on assets, and improve profitability. Outsourcing is also an effective means of generating new revenues. For example, the firm which outsources can contract with a third party to provide products and services which it cannot offer on a profitable basis. This form of outsourcing enables a client firm to test market demand for a service or product in a less risky, more cost-effective way than creating the service internally with scarce resources. Outsourcing can also occur in the form of collaborations or alliances with two or more like parties in the same business line to offer complementary products or services. These hybrid situations enable the two organizations supporting the same market to share resources and increase revenue through synergistic relationships. Benefits of these hybrid situations also include the ability to increase capacity utilization, improve return on investment, and create economies of scale. Quality improvement is cited as another benefit of outsourcing. Performance standards can be written into the contract more tightly than may be possible with current and long-tenured employees.

In summary, outsourcing can create a number of economic advantages: eliminating fixed infrastructure investment; allowing for greater quality and efficiency of services; and more significantly, cost savings. In addition to hard dollar benefits, in both the long and short term,

outsourcing provides soft benefits such as increased access to functional expertise and freeing up management time to focus on the priorities of strategic nature (Blumberg, 1998).

Kremic, Tukel and Rom (2006) list benefits of outsourcing. These are summarized as non-financial benefits presented in Table 1.

Table 1: Summary of Non-financial Benefits of Outsourcing

	Benefits
1	Quality Improvement
2	Increased speed
3	Greater flexibility
4	Access to latest technology/infrastructure
5	Access to skills and talent
6	Augment staff
7	Increase focus on core functions
8	Get rid of problem functions
9	Copy competitors
10	Reduce political pressures or scrutiny
11	Legal compliance
12	Better accountability/management

(Source: Kremic et al (2006))

2.6.2 Disadvantages of outsourcing

There are disadvantages of outsourcing and if they are managed effectively, do not lead to financial losses (Blumberg, 1998) e.g. partnering with a third party. This introduces a host of new outlooks, personalities, and demands that can produce new problems. These challenges include a more complicated level of communication, insecurity in the workforce, and the risk of alienating customers. This leads to social exclusion of outsourced workers by the organizations they service. The United Nations 2010 report on the World Social Situation states that forms of social exclusion can be defined in terms of the final outcomes of the development process. The focus is generally on the elements of basic needs, or a wider set of elements that include non-material dimensions of wellbeing. They could be defined in terms of the features of the

structures, processes and policies that generated these final outcomes; this would link up with the various influential elements of casualization processes: exclusion from employment, from credit, from access to land, etc.

Therefore, systems must be put in place to monitor and evaluate the performance of vendors. However, developing these systems can be a difficult task for some. The biggest obstacle to outsourcing is that it requires a change in management mind set. Many managers fear the loss of control or conflict of interest and fail to compare the cost and benefit of using outside suppliers with the cost and benefit of using internal support organizations. Managers faced with an outsourcing decision often construe the financial cost and loss of control over individuals as their justification for not outsourcing, but fail to consider the long- and short-term improvements and results, and the indirect financial benefits and long-term savings to the organization (Blumberg, 1998).

The concept of social exclusion could also be applied to social constituencies that have been excluded on account of relatively immutable attributes of their identity, implying the existence of discrimination. Lokshin and Yemtsov (2001) found that there is a general consensus that the inability of individuals or social groups to participate fully in the economy, in social life, and in political processes reduces social solidarity, augments social tensions, and retards social development. Therefore every subsequent crisis that they encounter is likely to have a particularly heavy toll on the livelihoods of marginalized groups, pushing them even further away from the mainstream. This is a very dangerous tendency because it deepens poverty and is unresponsive to economic progress generated by growth (Lokshin & Yemtsov, 2001).

A major disadvantage of outsourcing is the failure to realize the financial gain estimated. Historically most outsourcing decisions have been based on financial drivers. The primary financial risk would not only be the failure to realize the financial gain projected by outsourcing but increased financial risk if the outsourcing proves to be more expensive (Schilder, 2008). Harland, Knight, Lamming, and Walker (2005) summarized the risk factors of outsourcing, the table 2 below:

	Non-Financial Risk Factors
1	Lack of skills and competence to manage outsource relationships
2	Increased cost of relationship management
3	Requirement to develop new decision making processes
4	Failure to identify core and non-core may lead to outsourcing core functions that may impact on competitive advantage
5	The ability to manage relationships rather than processes
6	Difficulty to in-source later
7	Difficulty to decide how close to core to outsource
8	Lack of understanding, skills and competence to design appropriate service level agreements with the outsourcing company.

2.7 Outsourcing measurements

A key aspect of effective outsourcing is to develop performance measures for processes before outsourcing (McIvor, Humphreys, Wall & McKittrick, 2008). More specifically, where organizations outsource their processes without developing performance measures, they cannot know whether service providers are executing processes better or worse than internal functions. Process analysis is therefore essential. McIvor et al. (2008) asserted that process analysis is time consuming and difficult, but is an important element of outsourcing in several areas. These areas include analyzing and determining causes of poor performance, understanding internal and external process interdependencies, understanding and determining process requirements, determining performance measures for the contract and service level agreement, determining required service provider capabilities, clearly communicating requirements to the service provider and selecting the most appropriate service provider relationship.

If the outsourcing framework logic is strictly adhered, cost analysis in the outsourcing decision should involve comparing the costs of sourcing a process internally or from an external service provider. However, this is a major challenge for a number of reasons, as gathered by the findings here. Unless the sourcing organization and the service provider have standardized processes, it is impossible to derive fully objective cost comparisons. Another limitation is the amount of cost

data that service providers are willing to provide due to the risks of competitors accessing such sensitive data.

2.8 Decision to Outsource

Vining and Globerman (1999) state that the decision to outsource is based on the evaluation of three types of costs: production costs, bargaining costs, and opportunity costs, with the latter two being costs of governance. These costs are relevant in different outsourcing situations. Production costs are either the costs of internal production or the direct purchase price. Bargaining costs include the following kinds of costs: (1) costs arising from negotiating contract details per se; (2) the costs of negotiating changes to the contract in the post-contract stage when unforeseen circumstances arise; (3) the costs of monitoring whether performance is being adhered to by the other party, and (4) the costs of disputes which arise if neither party wishes to utilize pre-agreed-to resolution mechanisms, especially 'contract breaking' mechanisms. While only the first bargaining cost is experienced at the time of contracting (the others are experienced subsequent to outsourcing), virtually all of these bargaining costs can be anticipated and dealt with at the time of contracting. Bargaining costs arise when both parties are acting with self-interest, but in good faith. The incremental bargaining costs of outsourcing are relevant because an advantage of internalizing the activity is that the distributions of costs across the corporation do not need to be bargained. However, bargaining within organizations, for example over wages, bonuses or internal transfer prices can also be costly thus it is incremental bargaining costs of outsourcing that are relevant (Vining & Globerman, 1999).

3 FINDINGS

3.1 Introduction

This chapter explores the findings of the research. It is based on the hypothesis of the study: the University of Witwatersrand outsourced cleaning services to reduce costs. To prove and verify my hypothesis, the following research questions were investigated: What were the reasons and rationale behind the decision to outsource cleaning services? What were the effects of outsourcing? What were the implications of outsourcing to the University of Witwatersrand? Due to ongoing investigations on outsourcing at the University, official University reports on the decision to outsource services were not accessible. Other published reports on the reasons and rationale of outsourcing were therefore used.

3.1.1 Research question 1

What were the reasons and rationale behind the decision to outsource cleaning services?
The University of Witwatersrand outsourced support services including cleaning services after a support service review was performed. The University Council approved the Senior Executive Team (SET) and University Management Associates (UMA, the consultants hired by management) proposal to outsource based on a support services review. The reasons and rationales to outsource were summarised in a report by Adler et al. (2000).

1. SET and UMA argued that the University of Witwatersrand embark on outsourcing as it lacked internal management capacity either to achieve or sustain effective internal restructuring. SET and UMA accepted that the University did not have the managerial capacity to restructure work internally and outsourcing was seen as the only viable option to address these deficiencies. Adler et al. (2000) asserted that it is worth mentioning that outsourcing was not the only option considered in the consultant's reports. Internal restructuring as well as management contracts and other options were also considered and analysed through costs. The cost calculations generated by the consultants consistently showed that outsourcing saved more money than the other approaches. A lack of

managerial capacity to restructure internally and the tendency for organisations to revert to their old inefficient practices were seen as other reasons for rejecting the alternatives (besides the perceived cost savings).

2. Outsourcing brings forth significant benefits in terms of cost, productivity and efficiency of operations, possibly resulting in substantial improvements in service levels and the cost of delivery.

3. Outsourced workers could benefit from greater career opportunities, development/training and accreditation.

4. Outsourcing has the potential to achieve a degree of employment stability through contractor re-employing personnel.

5. The University's scarce resources must be dedicated to its core activities in the context of a projected budget deficit. Against this backdrop and despite serious opposition, Wits management under then vice chancellor Colin Bundy pushed through a major restructuring plan. A key component was the outsourcing of non-core services to cut costs. It was also assumed that this would generate greater efficiency. The objective of the outsourcing decision was to reduce and transform the labour force into a cheaper, (more exploited) yet streamlined entity.

The work of Van der Walt et al (2001) and Van der Walt et al (2003) shed other insights on the outsourcing decision. The main reasons for the outsourcing decision was anchored and infracted in the successive ANC led governments' neoliberal macro-economic policies, starting with Growth, Employment and redistribution strategy (GEAR) in 1996, and continuing with the launch of the New Growth Path (NGP) in 2010. Reddy (2012) shows that, GEAR's emphasis on fiscal austerity and its vision of a more competitive and market oriented higher education sector led to cutbacks in public spending for universities. According to Reddy (2012) the real beneficiaries of outsourcing at Wits have been the owners, shareholders and executives of the contract companies, many of whom are closely connected to high profile politicians and key

policy makers who shape and drive government strategies like GEAR. He states that the case of Mvelaserve, the holding company of Royal Mnandi, exposes this. In 2010, two individuals with intimate connections to leading government figures joined the Mvelaserve board when it unbundled from the Mvelaphanda Group, headed by ANC member Tokyo Sexwale, and listed separately. Flora Mantashe, the wife of ANC secretary general and former trade union leader Gwede Mantashe, was one. The other person to join was Nozuko Mbalula, wife of then Deputy Police Minister Fikile Mbalula (Reddy 2012). Outsourcing was therefore a lucrative option for them.

3.1.2 Research question 2

What were the effects of outsourcing?

Outsourcing at the University of Witwatersrand had adverse effects on the labour force. Bezuidenhout and Fakier (2006) found that workers' wages were slashed to a third of previous levels and they lost most non-wage benefits, such as medical aid and financial aid for their children to study at the university. Simultaneously, the local branch of the union was all but closed down. Clearly, although outsourcing may have provided advantages to the university, the consequences for workers were devastating and led both to a dramatic intensification of work (in the workplace) itself and as a result of the reduction in wages and benefits and the shifting of the burden of social reproduction to households and communities in the urban areas.

According to Bezuidenhout and Fakier (2006) the cleaners at Wits were now subjected to a whole new range of pressures. Primarily, they now had to complete the same amount of work with less than half the original workforce, before restructuring Wits employed approximately 600 cleaners. Supercare, the outsourced company employed only 280 workers, most of who had previously worked directly for the University and who had been retrenched when cleaning services were contracted. This therefore resulted in each cleaner having to clean approximately 30 offices between 7am and 3:30pm daily. Bezuidenhout and Fakier (2006) asserted that they battled with low quality cleaning materials and equipment. They were also tasked to monitor the quality and performance of other workers and were often summarily accused of theft when

supplies went missing with no explanation. Additionally they also had to carry out the work of absent or negligent fellow workers.

These pressures partly were a result of Supercare's inability to supervise the work process directly due to the physical obstacles of the workplace. Wits spans over 100 hectares; Supercare cleaners were therefore scattered in different parts of the university making direct control supervision extremely difficult. As a consequence of Suprecare's supervisors inability to directly engage the workforce management it exercised its authority and management through four forms, all of which contributed to worsening conditions of work (Bezuidenhout and Fakier, 2006). Firstly, through intensified supervision; secondly, through management exhorting the workers to watch each other; thirdly, by encouraging Wits employees to serve as adjunct managers; and finally there was control through abuse on the part of the Supercare management. The primary activity in which supervisors engaged was to ensure that workloads were enforced. According to Bezuidenhout and Fakier (2006) some were sensitive to the plight of the cleaners though others were not. Adler et al. (2000) stated that evidence presented in the reviews conclusively demonstrated the existence of a racial division of labour best characterised as an apartheid workplace regime. The reviews revealed that black workers did not feel valued and appreciated as members of university staff; their communication with management was problematic; they felt they possessed skills that were not utilised, recognised, or appreciated; that their work was unchallenging; that they experienced low levels of support from their supervisors who demonstrated an autocratic management style. They had limited opportunities for training, and for development of clear career paths. For all these reasons they were alienated and angry. As a result the cleaners along with the Wits Solidarity Committee demonstrated around their working conditions.

3.1.3 Research question 3

What were the consequences to the University of Witwatersrand due to the outsourcing of cleaning services?

The implications were such that the office of the Vice-Chancellor received numerous complaints from the Wits Workers Solidarity Committee regarding the working conditions of the outsourced

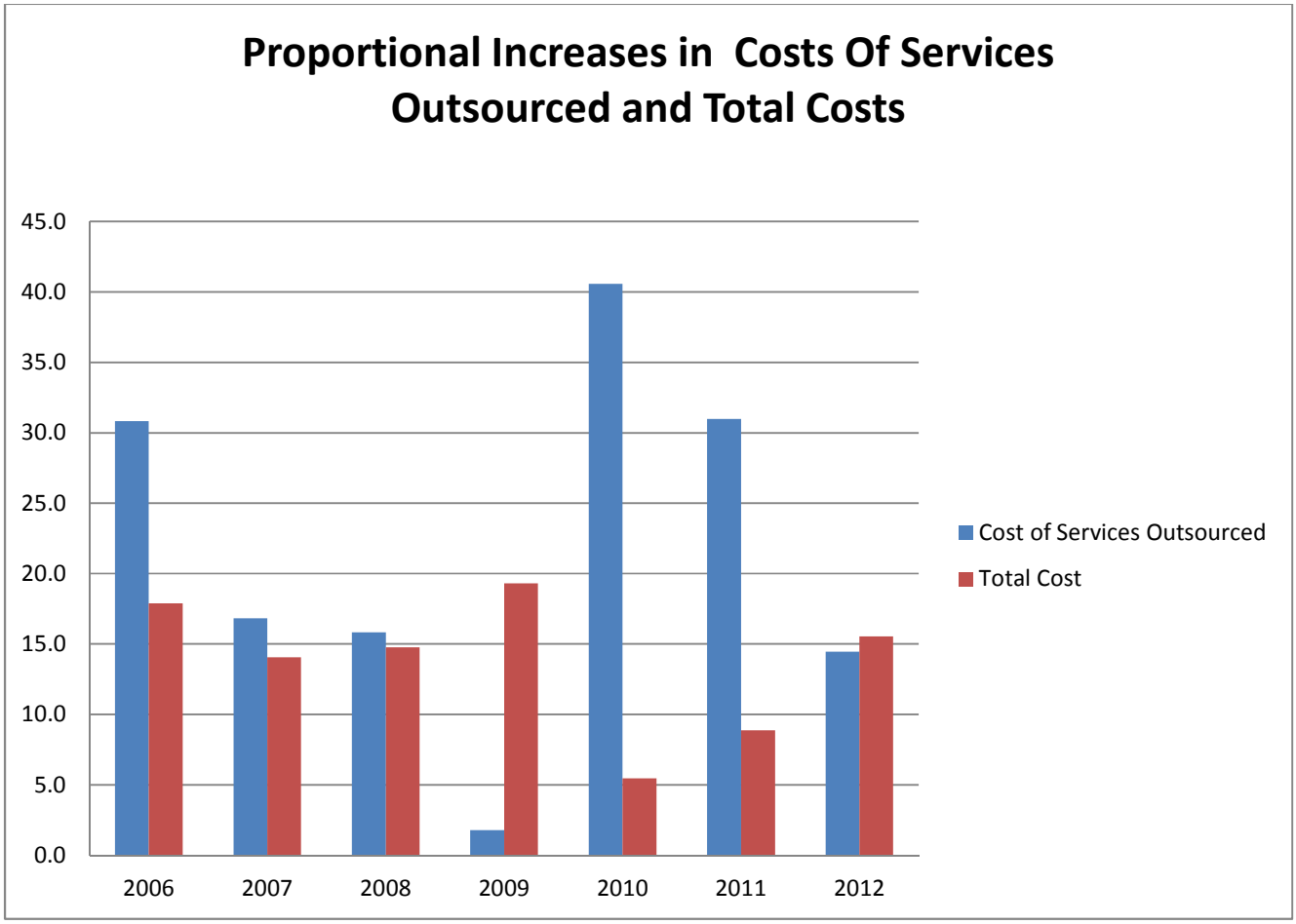
workers. The then Vice-Chancellor, Professor Loyiso Nongxa, appointed Tokiso Dispute Settlement to conduct an investigation into the matters (commencing in March 2012 and concluded in November 2012). Tokiso Dispute Settlement, were mandated to investigate the complaints of outsourced workers regarding discrimination, victimization and harassment at the University of Witwatersrand. Their investigation identified that the complaints from the contractor employees, relayed by the employees themselves, academics and students, were extensive and hence the issues were summarised into four categories being: a) remuneration; b) loans to employees c) working conditions and d) treatment.

Their findings revealed that the bulk of reported complaints were from the following contractors: Carovone, Impact Cleaning, Royal Mnandi, Servest and Supercare. These companies, with the exception of Impact Cleaning participated in the investigation and submissions process. Another company, Fidelity Security Services, elected to give extensive submissions however the complaints outlined below were not directed at them. Through their investigation they found sufficient support to indicate that working conditions of employees were unacceptably poor. Some issues raised were a reduction in salaries and benefits, one gate for entry and exit and inadequate ablution facilities that also housed their clothes and lunch meals. These practices led to forms of perceived direct discrimination, victimization and harassment, as well as poor relationships at the University.

Tokiso Dispute Settlement provided several recommendations, one of which was to cease the use of contractors and employ the necessary staff directly. The University Management responded to this recommendation and stated that no organisation whether private or public can perform all the necessary services in-house and the engagement of contractors is unavoidable. They stated that governments and universities in particular have contracted out the provision on non-core services as an efficiency measure. For the future, the University has commissioned an investigation endorsed by Council which will lead to a broad framework on outsourcing that will inform the decision-making process when services are either contracted out or performed internally.

3.1.4 Analysis of financial statements

Financial statements for the years 2006 to 2012 were obtained and operating costs data was analysed. The consolidated financial statements are at the appendix section of this thesis. In order to gain some insight of the cost impact of outsourcing, the proportional changes of costs of services outsourced were compared to the proportional changes of total operating costs. This was done to examine how the costs of services outsourced contributed towards the total operating costs. To calculate the proportional change the current year figure was subtracted from the previous year figure and then divided by the previous year figure. This was then multiplied by a 100 to get the percentage. The analysis was carried out for each financial year with a restated figure of the previous year. Graph 1 illustrates the proportional increases in costs of services outsourced and total costs in percentages and years.



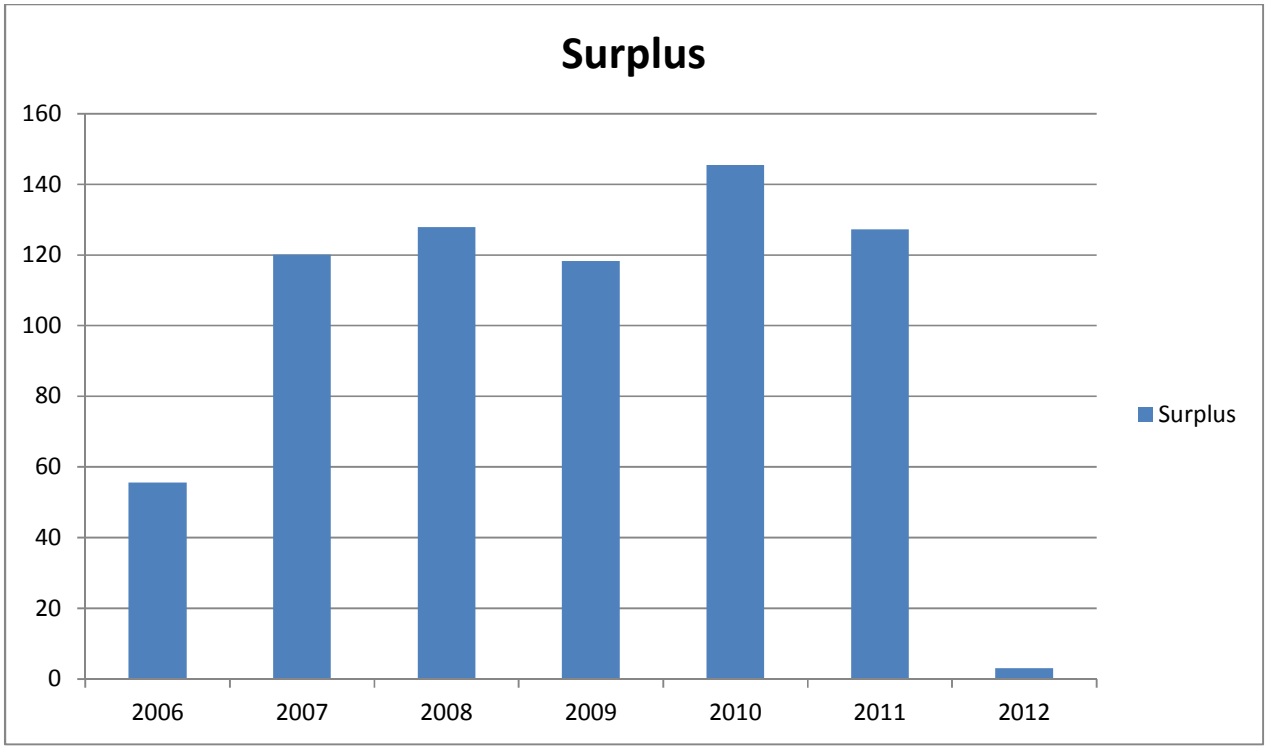
(Compiled by author, base 2005)

The results show that costs of services outsourced had higher proportional changes than proportional changes in total costs with the exception of 2009 and 2012. This indicated that in relation to total cost, the cost of outsourcing was a significant element. It can also be observed that in 2010 and 2011 outsourcing had a large impact on total cost. In 2006 although there was a 17% increase in total costs there was a significantly higher percentage increase in the cost of services outsourced at 30.8%. Therefore the costs of outsourced services were increasing at a higher rate. This was consistent besides the financial year of 2009 and 2012 where the proportional change in total costs was higher than the proportional change in the cost of services outsourced. This reveals that costs of services outsourced made a significant impact on the total costs of the University with each year. Therefore the effect of outsourcing still leads to increasing operational costs.

Although operational costs of outsourcing still increased with some years, the University was able to cut their costs by outsourcing. The incentives that the workers lost such as tuition fees at the University, medical aid and a higher salary as an employee were all savings or gains in profits for the University at the expense, cost and overall welfare of workers. A brighter future for their children and a comfortable lifestyle and retirement was eliminated. The Annual Report of 2006 states that at the end of 2003 Wits established a new executive portfolio that focused on Partnerships and Advancement. These were seen as vital for mutual advancement of Wits, and society (in general). It was based on Wits 2010 which aims to position Wits as a leading centre of intellectual activity in the developing world and in the world at large. Part of this was to be achieved by engaging with many sectors of society (domestic and international) and developing strategic partnerships that will make Wits an active, committed, creative, and innovative force that advances the public good. This is seen as a hallmark of an engaged university and the strategic imperatives congruent with South African government policy on the transformation of higher education, which reflects the dual challenge of the nation: competitive engagement in the global economy whilst meeting the basic needs of the majority of the population. Unfortunately Wits compromised on a better quality of life of their workers in order to reduce costs contradicting their vision of advancing the public good. Bezuidenhout and Fakier (2006) summarized the workers plight as a result of outsourcing. With the benefits that the workers lost

as a result of outsourcing, the reduced salary that they now earned had to be stretched to cover all the incentives they once were entitled to. Bezuidenhout and Fakier (2006) therefore concluded that costs were cut primarily through work intensification and a reduction in wages and conditions.

The 2012 Annual Report states that Wits mission is to grow its global stature as a leading research-intensive university and a gateway to research engagement and intellectual achievement in Africa. Along with other values, it states that achievement of the above mission is through social engagement and responsiveness. The University has not been interested in alleviating the plight of outsourced workers. Over the years the University has made significant surpluses through incomes of the Universities. Graph 2 illustrates surpluses in millions and years.



(Compiled by author base 2005)

Besides 2006 and 2012 the university made great surpluses in income. This was attributed to savings in salaries from unfilled posts, operational costs, and an increase in student fee income due to a higher number of registered students, disposal of investments and changes in software. Outsourced cleaning services are part of operational costs and the university made savings

through these costs. Though the University reinvests surpluses through capital projects relating to infrastructure and development, it can thus be reasonably argued that the investments and infrastructure was mainly achieved through downsizing and intensified exploitation of workers. The Wits Workers Solidarity Committee continues to advocate better wages and an end to outsourcing of cleaning services at the University of Witwatersrand.

3.2 Discussion

The University of Witwatersrand's Council approved the proposal to outsource services despite the cautioning of academics and unions. Adler et al. (2000) found that though the stakeholders who participated in the consultative process presented well considered and concrete alternatives, such as internal structuring but these were not taken seriously. Instead, SET and UMA displayed a systematic bias in favour of blanket outsourcing and were set against alternatives that were more sensitive to Wits institutional realities and values. These institutional realities and values were stated by the Department of Education as charging Universities with the responsibility of contributing to social transformation and people-driven development in the improvement of quality of life for all, while also creating a knowledge and skills base for competition on the global front Hence, the recommendations put forward to Council in February 2000 skewed the results of the consultative process and amounted to a unilateral restructuring of support services including cleaning services.

Adler et al. (2000) found that the approach supported by the consultants on outsourcing was problematic and their costing models were incomplete. This is pivotal to the hypothesis of this research. According to Adler et al. (2000) four main issues were not evaluated which caused an overestimation of the benefits of outsourcing. These issues were the transaction costs, cost creep, co-ordination efficiency, and loss of tacit skills and organisational memory.

Outsourcing entails not only running or production costs but also transaction costs and these accrue from the moment a company begins considering outsourcing and continues through the actual management of a contract once it has been signed they asserted. Vining and Globerman (1999) describe them as bargaining costs. Transaction costs include the time and money necessary to locate a viable vendor, to negotiate and write and frequently amend a contract; to

monitor and enforce service levels once a contract is in place; and to provide parallel services should a contractor fail. Transaction costs include high-level management and legal interventions as well as more mundane inspecting functions. They also include the costs of disputes which might arise between the client and the contractor, and between the contractor and his employees as well as costs arising from litigation. The University has already accrued these costs based on the disputes that have occurred over the years due to outsourcing. The inability of an organisation to factor in the transaction costs could negatively affect the cost saving potential of outsourcing. As of December 2012, the University had various legal cases pending that may incur costs but the values of these costs were currently unknown.

A second factor taken into account is the tendency for cost creep to occur in outsourcing arrangements (Adler et al. 2000). Often, after initially bidding for contracts, outsourcing agencies admit that the work is more complex than the minimum requirements. There may be a number of hidden costs that the client mistakenly assumed were included in the contract but (in fact) were not. Adler et al. (2000) explained that cost creep usually leads either to more expensive outsourcing or to a cut in quality of service. Ironically, costs may rise whilst the quality of service declines contradicting the goals of outsourcing. Cost creep is more likely to arise out of the impossibility of attaining sufficient information at the time of contracting. For instance, at the University of Pennsylvania, both the University and the contractor discovered, after the contract was signed, that the relationship would not be profitable against a backlog of more than 25 years of deferred maintenance. Although the contract was amicably dissolved, these same dynamics may cause costly contractual amendments and litigation. According to Adler et al. (2000) the possibilities of such disputes arising at Wits were repeatedly raised in the support services review workshops (and acknowledged by the consultants) but were not incorporated into costing models.

The costing models implemented by the consultants ignored a third issue: coordination efficiencies. Adler et al. (2000) stated that these occur when a firm is able to valorise the intelligence and energy of its employees to discover ways to diminish waste and increase both the efficiency and quality of production. The greatest gains in coordination efficiency are experienced when managers and employees mobilise the firm’s energies across a range of

activities: a positive spillover effect enables learning in one area to be quickly transferred to improve other services. Such exchanges occur best in organisations characterised by high trust relationships among employees and between employees and managers. They found that a similar point is made by the American economist, Samuel Bowles, in describing the productivity and profit advantages to be gained in the 'handshake' economy. Organisations are able to reduce significantly their monitoring costs, and gain competitive advantages by relying on trust. Workers are more likely to cooperate with management in production where they are treated equitably and are able to share in the benefits generated by their hard work. In contrast, outsourcing diminishes trust, requires dramatic increases in monitoring costs, and therefore blocks learning across an organisation (Adler et al. 2000). Outsourced services are ring-fenced, rendering formerly integrated services into discrete entities. An organisation loses the benefits of coordination efficiencies, as communication is externalised, while transaction inefficiencies are multiplied. An inability to calculate the coordination inefficiencies arising from outsourcing leads to a serious underestimation of the cost of the exercise.

Finally, Adler et al. (2000) found that the models ignored the costs to the university incurred by the loss of tacit skills and organisational memory (OM) caused by outsourcing. The concept of tacit skills developed furthest by Jean Leger to identify the range of skills workers possess which are neither formally recognised nor remunerated are essential to production. This concept is of considerable importance in South Africa where black workers real skills were formally disregarded, yet essential to the smooth running of workplaces. Organisation memory (OM) refers to workers knowledge of the informal operations in any organisation, a capacity that is increasingly recognised as a crucial component of productivity (Kransdorff, 1998 cited in Adler et al. (2000). OM is not a management possession, but is spread across different occupational levels. It cannot be preserved by retaining a number of senior managers after retrenching the bulk of the workforce in the hope that the managers will hand it over to the new outsource companies. According to Kransdorff (1998) (cited in Adler et al. (2000)), OM is a special instance of tacit skills, and both are at the heart of the coordination efficiencies (described above), but typically exists only in the minds of individuals. The notion of transferring OM is misplaced: this generally occurs through a slow process akin to socialisation or indoctrination, and is probably inconceivable in a low trust environment, such as that produced under

outsourcing. Simply put, workers will generally be unwilling to share such embodied knowledge under conditions where they are insecure or poorly remunerated.

Adler et al. (2000) noted that due to the issues above, the costing models used to compare the different approaches to restructuring were fundamentally flawed and of questionable value for making effective comparisons between alternatives and deciding to outsource. The benefits for outsourcing were overestimated. The University had to incur transaction costs, cost creep, coordination efficiency and loss of tacit skills and organisational memory. Based on this, the university aimed to cut operational costs by outsourcing but ultimately failed in the endeavour. The annual reports from 2006 to 2012 show that outsourced services were a high proportion of total costs for all the years besides 2009 and 2012. However the university made surpluses through the years and attributed savings in operational costs as one of the reasons. Downsizing and the exploitation of workers through outsourcing has enabled these savings. This is a capitalist notion that Easterling (2003) states as asserting that the amount of value the capitalist controls (and hence the amount of money the capitalist makes) is generated by exploitation derived from the extraction of surplus value from workers. This is why Marxists argue that the exploitation of workers is the source of the capitalists' profit. The university recorded a surplus of R145.5 million in 2010 while the costs of services outsourced to the university were R90 833 in the same year. Several outsourced companies including cleaning services were remunerated from the R90 833 implying that workers are inevitably paid low wages for such an amount to cover the outsourced companies.

The other question fundamental to this research was the effect that outsourcing had. Evidence presented by Bezuidenhout and Fakier (2006) who extensively followed outsourcing repercussions on the cleaners showed that it had a negative effect. The consequences to the University of Witwatersrand have been both financial and social. There has been a rise in transaction costs as a result of an increase in complaints and worker unrest. The University incurs costs through the consultative expertise of Tokiso Dispute and any other legal cost due to disputes and consultative processes of outsourcing. The hypothesis of the research was that the University of Witwatersrand outsourced cleaning services in order to cut their operational costs. Operational costs have not been adequately cut due to transaction costs, cost creep costs,

coordination efficiency, loss of tacit skills and evidence from the annual financial reports that outsourcing continues to make a high proportion of total costs. However the university was able to make savings from the proportions of operational costs to enable significant profits. These profits enabled capital projects in infrastructure and development at the university at the expense of exploited outsourced workers.

3.3 Conclusion

The stakeholders aided by consultants gave five reasons to outsource which the University Council based its decision on.

> The reviews consistently argue that outsourcing promises 'the most significant benefits in terms of cost, productivity and efficiency of operations, possibly resulting in substantial improvements in service levels and the cost of delivery'. The reviews repeatedly stress that outsourced workers could benefit from greater career opportunities, development/training and accreditation. They assert that outsourcing has the potential to achieve a degree of employment stability through contractor re-employing personnel. The only disadvantages identified are: human resources implications, industrial relations concerns and limited existing contract management capacity (Adler et al., 2000).

Once outsourcing is implemented the point is to streamline that particular activity so as to focus on core activities and therefore achieve organisational efficiency. When outsourcing is unsuccessful due to transaction costs, cost creep, coordination efficiency, loss of tacit skills and organisational memory which the university has incurred, costs will increase and organisational efficiency will not be achieved. Departments of the University of Witwatersrand will therefore have to deal with disputes of outsourced employees, a service they had streamlined. Organisational efficiency entails meeting the required goals while maintaining a satisfying working environment. If workers are exploited, organisational efficiency will be difficult to achieve. An alternative of outsourcing at the University of Witwatersrand is urgently required.

4 LIMITATIONS AND RECOMMENDATIONS

4.1 Limitations

The limitation of the research was that there were no interviews with management and outsourced workers. This therefore meant that there was no qualitative research design or the use of a probability sampling technique. Without these the ability to make broader generalizations from the results was limited. On the other hand official (university) reports, annual reports and reports from other scholars provided the necessary information for the research. These documents furnished the reasons and rationale for outsourcing, critiques of outsourcing, effects of outsourcing and financial statements of the University. The limitations could be overcome through future research that requires interviews. Such research could be an in-depth evaluation of outsourcing at the University of Witwatersrand; this evaluation would require interviews to assess if outsourcing has yielded the results the university has anticipated.

4.2 Recommendations

Outsourcing at the University of Witwatersrand has proved to be non-beneficial to the University and outsourced staff members. The reality of outsourcing is that outsourced workers have been left disadvantaged compared to when they were employees of the University. A few recommendations can mitigate this.

4.2.1 A measurement of outsourcing

A measurement of outsourcing should be undertaken to assess the extent of the effect of outsourcing at the University. Therefore performance measures have to be developed by the University of Witwatersrand. Without performance measures (in place) an analysis of whether outsourced providers are executing processes better or worse than internal functions cannot be undertaken. McIvor et al. (2008) asserted that process analysis is an important element of outsourcing in several areas. These areas include analysing and determining causes of poor

performance, understanding internal and external process interdependencies, understanding and determining process requirements, determining performance measures for the contract and service level agreement, determining required service provider capabilities, clearly communicating requirements to the service provider and selecting the most appropriate service provider relationship. This will ensure a better relationship between the University and outsourced companies. The findings acquired from such a process can be used by the University to make well informed decisions, which could potentially swing the pendulum towards the retention/maintenance of services with the university against outsourcing.

4.2.2 Benefits

Considering that outsourced staff members were stripped of employment benefits previously extended, a recommendation is that the university could offer staff benefits to outsourced workers. Such benefits could include tuition fees for the workers and their children, medical aid benefits and severance pay. Once a workers contract is terminated, the university could offer severance pay to that worker and that would be a helpful package to the employee. Though the workers are paid a minimum wage, the university could also assist the workers by providing an extra allowance to the workers. The cost and impact on the university process and budget would obviously need to be investigated and the viability assessed.

4.2.3 Internal staffing

The ultimate recommendation is that the university directly employs the necessary staff. This will do away with outsourced companies and all grievances that outsourced workers faced will be eliminated. Employing the staff directly will avoid claims and complaints that outsourced workers could file against the university as they would be employees of the university.

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APPENDIX

The Consolidated Annual Financial statements for the year ended 31 December 2006

OTHER OPERATING COSTS	2006	2005
Supplies and services	848164	714878
Costs of services outsourced	68338	52231
Fixed property costs	65587	52231
Bursaries	71440	70526
	1053529	**893623**

The Consolidated Annual Financial statements for the year ended 31 December 2007

OTHER OPERATING COSTS	2007	2006
Supplies and services	976241	848164
Costs of services outsourced	79846	68338
Fixed property costs	70493	65587
Bursaries	74913	71440
	1201493	**1053529**

The Consolidated Annual Financial statements for the year ended 31 December 2008

EXPENDITURE BY NATURE	2008	2007
Employee benefit expense	1264185	1133692
Depreciation and amortization	117475	96658
Transportation expenses	81412	53390
Increase/decrease in impairment or receivables	21271	7238
Bad debts	1955	483
Costs of inventories	35379	35089
Auditors remuneration:		
Audit fees	4841	4459
Other fees	2128	2364
Costs of services outsourced	79153	68338
Fixed property costs	81315	65587
Finance costs	19015	14179

Operating lease: equipment	9623	8476
Bursaries	121951	71440
Other expenses	966779	884024
	2806482	**2445417**

The Consolidated Annual Financial statements for the year ended 31 December 2009

EXPENDITURE BY NATURE	**2009**	**2008**
Employee benefit expense	1199013	948899
Depreciation and amortization changes	91343	91367
Transportation expenses	51218	53762
Increase/decrease in impairment of receivables	42020	95757
Bad debts		
Costs of inventories	8037	
Advertising costs	35834	16790
Audit fees	4282	4425
Other fees (Auditors)	4990	1404
Costs of services outsourced	80567	79153
Fixed property costs	104020	77359
Finance costs	8002	7660
Operating leases: equipment	69	
Bursaries	128528	121951
Other expenses	627765	500898
	2385688	**1999425**

The Consolidated Annual Financial statements for the year ended 31 December 2010

EXPENDITURE BY NATURE	**2010**	**2009**
Employee benefit expense	1292839	1199013
Depreciation and amortization charges	101087	75911
Transportation expenses	17791	15276
Increase in impairment of receivables	27366	42020
Bad debts	142	
Costs of inventories	9620	8037
Advertising and marketing costs	38308	53407
Auditor’s remuneration:		

Audit fees	2760	3709
Other fees	7803	5839
Costs of services outsourced	90833	64613
Fixed property costs	120368	104020
Finance costs	10341	8002
Operating leases: equipment	447	69
Bursaries	148277	128221
Cleaning	36585	35414
Communication	38748	41602
Insurance	6421	6741
Printing and stationary	51349	52620
Travel and accommodation	81890	83335
Repairs and maintenance	107726	70768
Other expenses	308960	371640
	2499661	**2370257**

The Consolidated Annual Financial statements for the year ended 31 December 2011

EXPENDITURE BY NATURE	**2011**	**2010**
Employee benefit expense	1439136	1292839
Depreciation and amortization charges	97578	101087
Transportation expenses	21181	17791
Increase in impairment of receivables	8367	27366
Bad debts		
Costs of inventories	13783	9620
Advertising and marketing costs	38397	38308
Auditor’s remuneration:		
Audit fees	3485	2760
Other fees	6425	7803
Costs of services outsourced	118967	90833
Fixed property costs	130491	120368
Finance costs	10718	10517
Operating leases: equipment		
Bursaries	187272	148277
Cleaning	42243	36585
Communication	40506	38748

Insurance	9010	6421
Printing and stationary	52646	51349
Travel and accommodation	104179	81890
Repairs and maintenance	122272	107726
Security	17661	15274
Other expenses	256776	293579
	2721093	**2499141**

The Consolidated Annual Financial statements for the year ended 31 December 2012

EXPENDITURE BY NATURE	**2012**	**2011**
Employee benefit expense	1626976	1439136
Depreciation and amortization charges	129518	97578
Transportation expenses	31386	21181
Increase in impairment of receivables	31191	8367
Bad debts		
Costs of inventories	6401	5345
Advertising and marketing costs	41449	38397
Auditor's remuneration:		
Audit fees	4729	3485
Other fees	8121	6425
Costs of services outsourced	115953	101307
Fixed property costs	158230	130491
Finance costs	53285	10718
Operating leases – equipment		
Bursaries	177181	187272
Cleaning	43754	42243
Communication	38641	40506
Insurance	8170	9010
Printing and stationary	60268	52646
Computer consumables, repairs and software costs	37002	29350
Lab consumables	23841	24330
Minor furniture and equipment	54802	39656
Travel and accommodation	103001	104179
Repairs and maintenance	119655	123241
Managerial and administration fees		
Security	19953	17661

Other expenses	251421	188569
	3144123	**2721093**