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MANAGEMENT OPPORTUNITIES OR DILEMMAS IN IT OFFSHORING: A CASE STUDY

by

JACQUES WILKINS

MINI-DISSERTATION
submitted in partial (25%) fulfilment of the requirements for the degree of

MASTER OF COMMERCE

in

BUSINESS MANAGEMENT

in the

FACULTY OF ECONOMICS AND MANAGEMENT SCIENCES

at the

RAND AFRIKAANS UNIVERSITY

Johannesburg October 2004

Supervisor: Professor N. Lessing
ACKNOWLEDGEMENTS

I would like to thank God for giving me the strength and insight to complete this course.

I would like to acknowledge the following people for their inputs:

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➤ My wife, Maralize, for her support, patience and understanding

➤ My parents, Bertie and Helen, for their motivation and faith in my abilities

➤ Friends and family that have been an inspiration

➤ Colleagues, friends and members of the academia that evaluated and contributed knowingly and unknowingly to this study
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SYNOPSIS

NAME : Jacques Wilkins
DEGREE : M Com (Business Management)
TITLE : Management opportunities or dilemmas in IT offshoring: a case study
UNIVERSITY : Rand Afrikaans University
SUPERVISOR : Professor N. Lessing
DATE : October 2004

The opportunity to create a case where students can apply their knowledge and insight pose a number of challenges. The purpose of this study was to create a case study that encapsulates various management opportunities and dilemmas that businesses face on a daily basis and explore possible questions and solutions, as well as reflect on the output of the process.

This mini-dissertation starts by orientating the reader regarding the objective of the study, method followed and academic overview. It includes an overview of the evaluation criteria required to test the use and applicability of the case study. The case study "SwissIT: New horizons in stormy waters" is presented with a number of critical questions. A facilitation manual follows the case study and provides a structured grouping of the questions, an overview of didactic principles and discusses possible answers. The dissertation concludes with an evaluation of the case study and the answers by summarising the input received from facilitators, practicing managers and a management consultant.

The conclusion drawn from this study is that the utilisation of case studies and the case method is not limited to only being a teaching tool. The process of creating and evaluating a case has value in itself. It not only supports the constructivist approach to teaching, but it also creates a platform for the identification of future research topics as incorporated at the end of this study.
Management opportunities or dilemmas in IT offshoring: a case study

SINOPSIS

NAAM : Jacques Wilkins
GRAAD : M Com (Ondernemingsbestuur)
TITEL : Bestuursgeleentheede of dilemmas in internasionale IT uitkontraktering: 'n gevalstudie (uit Engels vertaal)
UNIVERSITEIT : Randse Afrikaanse Universiteit
STUDIELEIER : Professor N. Lessing
DATUM : Oktober 2004

Die geleentheid om 'n gevallestudie te skep waar studente hul kennis kan ontwikkels en toepas bevat heelwat uitdagings. Die doel van hierdie studie was om 'n gevallestudie te skep wat 'n verskeidenheid daaglikse bestuursgeleentheede en dilemmas bevat en moontlike oplossing te ondersoek.

Die skripsie begin deur die leser rakende die doel, metodiek en akademiese oorsig van die studie te oriënteer. Dit sluit 'n oorsig van die evalueringskriteria in, waarvolgens die bruikbaarheid en toepaslikheid van die gevallestudie beoordeel moet word. Die gevallestudie "SwissIT: New horizons in stormy waters" word vervolgens beskryf, asook 'n aantal kritiese vrae. 'n Fasiliteringshandleiding volg die gevallestudie en verskaf 'n gegroepeerde stel vrae, 'n oorsig van didaktiese beginsels en bespreek riglyne en moontlike antwoorde op sewe van die vrae. Die studie word afgesluit met 'n evaluering van die gevallestudie en die voorgestelde riglyne en antwoorde.

Die gevolgtrekking wat uit die studie gemaak word is dat die ontwikkeling en evaluering van 'n gevallestudie opsig self waardevol is. Verder ondersteun dit nie net die konstruktivistiese benadering tot onderrig nie, maar kan ook as platform dien vir die identifisering van verdere navorsing. Die studie eindig met die identifisering van moontlike temas wat deur verdere navorsing ondersoek kan word.
# PART 1: ORIENTATION

1. BACKGROUND  
2. PROBLEM STATEMENT  
3. THE OBJECTIVES OF THE STUDY  
4. LITERATURE REVIEW  
5. RESEARCH METHODOLOGY  
6. RESTRICTIONS TO WHICH THE STUDY IS SUBMITTED  
7. DIVISION OF THE STUDY
PART 1: ORIENTATION

1 BACKGROUND

The use of case studies as tools for facilitating problem solving, decision-making and training within the management environment has not fully been realised as pointed out by Du Plessis (2000:1). The theoretical background and validity of case study usage has been adequately covered by Lessing (1996) and Scheepers (1996) and it is therefore not the aim of this study to validate these theoretic concepts. The intention of this study is to add to the existing body of case studies and to provide measurable solutions that can be debated and utilised to facilitate management training.

This case study focuses on choices that managers make in order to harness opportunities and deal with problems. These decisions are usually made within the context of various environmental factors and dependencies. This case study creates a body of information that describes the background and challenges that managers have to consider in the decision making process.

The case study is specifically based on a South African-based Information Technology (IT) company’s venture into the marketing and providing of application development services to foreign customers. This practice is commonly referred to as IT offshoring. In an IT offshoring scenario the customer typically outsources an IT development to a specialist IT service provider, and could also include various other IT services. The customer rational is that the same IT expertise can be gained from a foreign based IT service provider at a reduced cost when compared to their local IT service providers.

Although IT development offshoring has become a more common phenomenon, application support and hosting offshoring have also become feasible. This practice implies that the developed application and data is operated from the offshored service provider’s infrastructure through data and voice networks. The customer gains access to the application and data in a

1 Unless separately discussed the terms case, case study and business case will be used interchangeably to refer to the practical usage and application of case studies in a facilitated environment.
foreign country and captures transactions in this way. Support of such an infrastructure is also
done via phone and data connectivity that is rendered across to various continents.

2 PROBLEM STATEMENT

The South African management environment has been subject to a scarcity of case studies that
encapsulate the dimensions of management challenges and allows for the application of
theoretical knowledge specifically pertaining to strategic, economic and human resource issues.
In addition, limited information is available that provides feedback on the usefulness of the case
development process, its assessment and other implications. Various challenges exist in order to
address this problem.

This study addresses the following:

• Compile a case study that encapsulate various management opportunities and dilemmas
• Generate a facilitation guide with guidelines and proposed solutions on selected questions
• Evaluate the case study and the applicability of the facilitation manual
• Reflecting on the outputs and possible implications of the above process

3 OBJECTIVES OF THE STUDY

In order to address the stated problem and deal with the challenges the following objectives are
met with this study:

• Develop a case study: The case study must incorporate a variety of management
  information that describes a challenging real life business environment.
• Generate a facilitation guide: The guide must explain the salient didactic determinants;
  propose possible answers that link practice and theory through possible management
action. The facilitation guide must act as a proposed solution that leaves enough room for the facilitator to apply his own knowledge and style.

- Evaluate the case study: The case must be tested in terms of usability and against the criteria of a good case.
- Evaluate the facilitation guide: The facilitation guide must be evaluated in terms of its relevance and applicability.
- Reflect on the output of the study: The possible implications of the study and development process must be identified.

4 LITERATURE REVIEW

The validity of using case studies in a training environment has been proven by various researchers over the past six decades. Amongst others, Lessing (1996), Scheepers (1996) and Du Plessis (2000) have provided well documented research and evaluation into the usage of case-studies and the case method as a teaching mechanism. In order to define a case study for this study it is important to revisit some of the definitions as this forms the base of the evaluation.

4.1 Definitions and characteristics

Various definitions for case studies are presented by Lessing et al. (1995:9). Case studies can be described as an account of reality within real or non existent organisations. The reality takes on the form of various management dilemmas that are described within a specific situational context. In addition, Merriam (1998:34) describes the case study as an: “intensive, holistic description and analysis of a single entity, phenomenon or social unit.” It is clear that in most definitions the central concept in describing case studies is the fact that they need to represent a realistic situation. As concluded by Lessing et al. (1995:10) this study will accept that “a case study is a chunk of reality brought into the lecture hall for the purposes of training.”

2 The words he, his, him or male gender reference are used consistently in this study. This does not, in any way, reflect a gender bias but has been done for consistency.
The comprehensive description of case study classification by Lessing et al. (1995:35) is applied for the purposes of this study on the cover page of the case. One of the objectives of this study is to determine if the presented case can be viewed as good case. The characteristics of a good case study is discussed by Lessing et al. (1995:42 – 45) and are summarised in Table 1.1. The evaluation of the case in terms of its usability will be based on the characteristics presented in Table 1.1:

Table 1.1: Characteristics of good case studies

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>• Usability in training</td>
</tr>
<tr>
<td></td>
<td>• Growth in subject matter</td>
</tr>
<tr>
<td></td>
<td>• Link between theory and practice</td>
</tr>
<tr>
<td>Subject</td>
<td>• Actual subject</td>
</tr>
<tr>
<td></td>
<td>• Known product or business</td>
</tr>
<tr>
<td>Structure</td>
<td>• Structure fits length of the case</td>
</tr>
<tr>
<td></td>
<td>• Use of quotations and visual aids</td>
</tr>
<tr>
<td>Characters</td>
<td>• Limited to five</td>
</tr>
<tr>
<td></td>
<td>• Realistic role-play</td>
</tr>
<tr>
<td>Objectiveness</td>
<td>• Objective version</td>
</tr>
<tr>
<td></td>
<td>• No conclusion</td>
</tr>
<tr>
<td></td>
<td>• Does not lead reader to specific opinion</td>
</tr>
<tr>
<td>Time</td>
<td>• Past tense if applicable</td>
</tr>
<tr>
<td></td>
<td>• Logical flow</td>
</tr>
<tr>
<td>Diagrams, illustrations and graphics</td>
<td>• Must support content</td>
</tr>
<tr>
<td>Appendices</td>
<td>• Must be referenced</td>
</tr>
<tr>
<td>Reading enjoyment</td>
<td>• Readability</td>
</tr>
<tr>
<td></td>
<td>• Flow of the case</td>
</tr>
</tbody>
</table>

Source: Lessing 1996:239

4.2 Application

The use of case studies in a lecture is ultimately the test of applicability (Scheepers 1996:81). However, this does not guarantee that answers and discussions can summarily be applied in a real situation because various other factors are not considered. This does not negate the case method as a useful tool in terms of management training. Using the case method allows for various research possibilities and applications as explained by Lessing (1996:80 - 101) (Table
1.2). The following table as presented by Lessing (1996:101) indicates the relationship between the objectives of the case method and the basic management functions as an example of what can be achieved by using the case method:

**Table 1.2: Comparison between case method objectives and strategic management functions**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Planning</th>
<th>Organising</th>
<th>Leading</th>
<th>Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and simulation</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge improvement</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Experience sharing</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Problem solving</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data interpretation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decision-making</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analytical and critical thinking</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assumption testing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Lessing 1996:101

The comparison between the objectives of the case method and the management functions presented in Table 1.2 indicates a strong relation. It is significant that an exact match is found between the objectives and the planning function of management. It is safe to assume that the case method can successfully be used to enhance strategic management training, as a large part of strategic management is focussed on future planning.

The case method can also be used to identify topics for further research (Cooper & Schindler 2001:139). The case method is specifically useful to start the research process when problems and boundaries are still vague and need discussion. By using the case method as a first step more empirical topics for further research studies can be identified.

5 RESEARCH METHODOLOGY

This study investigates the practical application of generating and evaluating a case study with a facilitation manual. This requires a different research method to be followed. The information
presented will be based on literature review that is integrated in the case and the facilitation manual.

Specific areas that will be covered by literature review are:

- defining a case study and method
- presenting the characteristics of a good case and its applicability to management training
- defining offshoring and providing salient information
- providing a didactic overview in support of the facilitation methods
- supporting answers with references from the theory.

Further to the integrated literature review the case study and facilitation manual will be evaluated and discussed with facilitators and practicing managers. This feedback and reflection will be incorporated as part of the case evaluation.

6 RESTRICTIONS TO WHICH THE STUDY IS SUBJECTED

6.1 Literature limitations
The amount of new research within the case study field is limited and the intention is not to restate or re-evaluate the validity of previous studies. Therefore reference to older sources is used and the literature review is integrated and referenced in this study. The case study is based on the author’s experience and trends within the industry. The facilitation guide refers to theoretical knowledge and concepts as it applies to management problems. References to research and authors are made throughout and were applicable.

6.2 Scope limitations
This study is focused on providing a case study, facilitation manual and the evaluation of the aforementioned. It does not aim to prove theories, add facts or provide a pure literature overview.
7 DIVISION OF THE STUDY

The study is divided into the following parts, each addressing a specific section of the research.

Part 1: Orientation
The objective of the first part is to:

- Introduce the study
- Present the problem statement and objectives of the study
- Explain the research method and scope

Part 2: Case study
The second part contains the case study that contains truth based events, facts and figures. It also introduces the offshoring service concept, which is regarded as an abridged literature review.

Part 3: Facilitation manual
The third part of the study contains the facilitation manual with a didactic overview, facilitation guidelines and conceptual answers to the questions which need to be evaluated.

Part 4: Critical evaluation
The fourth part of the dissertation deals with the output from the critical evaluation. It reports on the following outputs from participants:

- Evaluation of the case study in terms of the attributes of a good case study
- Applicability of the facilitation manual
- Conclusion to the study and its possible implications

All tables and figures are numbered according to the part that it is found in, except Part 2, which is a self-contained section.
PART 2: CASE STUDY

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3 CASE STUDY 12
4 APPENDIX: ADDITIONAL INFORMATION 27
5 CASE BIBLIOGRAPHY 33
6 QUESTIONS 34
PART 2: CASE STUDY

1 CASE COVER PAGE

Title: SwissIT: New horizons in stormy waters
Management opportunities and dilemmas in IT offshoring

Identification: Length: Medium
Academic level: Post-graduate
Subject: Strategic management, general management, international business management and human resource management
Business form: Multinational company
Business size: Medium
Industry sector: Technology
Classification: The case is based on a real company, but details have been changed to protect privacy

Theme: General management reaction to various opportunities and dilemmas

Core aspect: The depreciation in the Rand and globalisation of the world economy has created various opportunities for South African businesses. Whilst international business has never been a foreign concept, due to South Africa's huge commodity exports, most businesses were more familiar with importing capital goods or products for wholesale or retail trade purposes. It has, however, become quite evident that a wide variety of services can be offered to foreign buyers. In these cases tourism is well established, but technology-based development services are quite new to this category. This case study explores various management dilemmas, opportunities and challenges that a business has to face before venturing into this market.

Aspects for discussion:
- Business strategy and structure
- International management
- Marketing and sales
- Human resource management

Duration: Preparation for learners: 1.5 to 2.5 hours
Class discussion: 2 to 4 hours

Authorisation for use: I declare that no confidential information is contained in this case and it can be used or adapted for training purposes.

Authorship: J Wilkins

October 2004
2 LIST OF ACRONYMS

ADM: Application development and maintenance
CIS: Computing information services
Desktop: Personal computer support services
ERP: Enterprise resource planning
ICT: Information and communication technology
ISIS: ISIS Technology (Pty) Ltd
PC: Personal computer
SS: Software sales
TCNS: Telecommunications and network services
WMC: World monitoring centre
3 CASE STUDY

Present day

1. Harold Meier, CEO of SwissIT South Africa, walks pensively to the bar and asks for a drink. As he rests against the counter he stares through the glass window panes towards the colourful sunset in the west. He has just officially opened the world monitoring centre (WMC) at their Johannesburg-based offices in South Africa in full view of more than 150 selected guests. The WMC monitors 2000 Europe-based computer servers by utilising SwissTelco’s global data networks and complex monitoring systems. The people joining him for the post-opening cocktail party are high ranking foreign business people, local business leaders and IT managers as well as his head office colleagues from SwissIT Switzerland.

2. Even more surprising was his announcement that SwissIT South Africa has clinched a major SAP implementation project for a Swedish car manufacturer. While the majority of the project will be managed in South Africa, 25% will call for ‘onsite’ management in Sweden by the appointed South African project team. The fact that the SwissIT South Africa’s proposal was approximately 30% cheaper than those submitted by rival Europe companies and the excellent South African reference implementation in Austria practically sealed the deal.

3. Hilda Ertz, chief financial officer for SwissIT South Africa, taps him on the shoulder jolting him back to reality. He turns around and smiles politely, knowing he was caught daydreaming. “Your dream has become a reality,” she says smiling. “Who would have believed a year ago that we would finally pull off this type of growth through offshoring deals?” she asks.

4. Harold gleams with excitement, not answering immediately. “I must admit that we accomplished this against all odds. At one point the Rand was just getting too strong, the brain-drain phenomenon was taking its toll and the motivation for selling outsourcing locally
was low, not even mentioning selling outsourced services internationally,” he exclaims. “I even thought of giving up on fighting our case in Switzerland due to the aggressive competition from India and Brazil. Luckily we endured!” he concludes. [Click the number for an overview of the Rand’s performance 38]  

5. The pair is soon joined by another two executive members: Tom Smith, general manager for application development and maintenance (ADM) and Rudi Schoeman, general manager for computing information services (CIS). Catching the tail-end of Harold’s answer, Tom fondly remembers the early days when the company started. The quartet shares their perspectives and so the trip down memory lane begins. Soon their boisterous laughter can be heard above the din in the crowded bar as they reminisce about how they beat the odds, how they changed strategies and amended operations to successfully position the company as a force that can compete internationally.

6. Tom immediately admits that he had to readjust his pessimistic views on offshoring saying: “If somebody told me five years ago that I would be managing an offshoring unit that consists of 75 IT consultants developing and maintaining systems that are 12 000 kilometres from Johannesburg, I would have said you are joking. Not to mention the fact that two of my consultants and I have to learn German and French in six months!” “Das ist nich wahr mein Herr, Sie sprechen nur Ausländer Deutsch!” teases Hilda.

7. The main issues regarding offshoring became a focal point of the discussion. Harold explains how his definition of offshoring changed. In the beginning he thought offshoring was simply sending contractors to do software development for months on end in foreign countries. In his mind it was nothing different from moving financial resources to the Channel-Islands for tax purposes. “I was quite surprised to learn that 80% of all development took place in our country and that the customers were actually offshoring to us. The penny really dropped during my visit to India and seeing the buildings filled with software developers, programming new packages for huge American corporations at half the dollar cost!” he concludes.

3 The number in the bracket is hyperlinked and refers to a paragraph number in the appendix. This allows electronic users to interact with the case and toggle to additional information by clicking the hyperlinked number.
4 Translated as: “That is not true sir, you only speak foreign German!”
8. They say “change is the only certainty in life” and SwissIT was no exception. Most notably new services were developed and introduced into the market, but it is also fair to say that the company has its roots deeply imbedded in generic IT services such as infrastructure outsourcing management. Most of these generic offerings are still valid today, even though it has taken on a few improvements and additions. It is clear, however, that in order to envision the future you have to understand and use your past experience and knowledge as a reference point. Today marked the beginning of this future for SwissIT and this is road that led to it …

The beginning

9. It all began in May 1997. Harold Meier looked at his new employees and started his speech by saying: “We will be the best IT company in South Africa and become a model for both the Europeans and the Americans. SwissIT will not be a test lab or business cum holiday destination for its international investors. It will lead from the front.” These were bold words seven years ago after closing his first IT outsourcing deal with Bavaria Motors, but proved to be quite prophetic in the years to come. The deal turned the company from a four man sales team into an IT services concern with 48 employees overnight. It also paved the way for the establishment of its initial services, namely:

- personal computer (PC) and desktop application support (operating system, office)
- application server support
- mainframe operation and hosting
- database operation and administration
- local and wide area network operation and support.

10. SwissIT, as an international company, had its roots back in 1989, when German industrial giant Bavaria Motors created its own IT division to provide economical IT services to its subsidiaries. Then known as ISIS, it was introduced into countries where Bavaria Motors already had a presence, with Malaysia and South Africa being its first forays outside Europe.
11. It was under the aegis of ISIS that Harold embarked on his South African mission, and once he had convinced Bavaria Motors SA to entrust its IT infrastructure to this fledgling operation with the promise of improved service quality and lower costs, the proverbial wheels were set into motion.

12. The addition of Momentual insurance’s outsourcing contract changed ISIS’ fortunes forever. For Harold an even more significant milestone was the acquisition and absorption of a tiny company called E-tech. This changed the company’s focus from being a pure outsource provider to becoming an application solutions provider. It changed the business culture, the approach, even the go-to-market model.

13. Another piece of the puzzle fell into place when SwissTelco bought ISIS from Bavaria Motors in 2000, changing its name to SwissIT in the process. This meant that SwissIT was in the unique position to combine IT and telecommunications into cost-effective solutions. More importantly though, SwissIT had a shareholder that would give it the freedom to explore its entrepreneurial spirit, which formed one of the cornerstones of the company’s growing success. It was not long before the entrepreneurial fires started burning and the hunger for more growth directed Harold and his team to acquire Software-corp, a software distribution company, in 2001. The company was incorporated into the structure as a new unit called: Software Sales.

14. Rapid momentum in its growth led the company to adopt a very simple strategic vision. The strategy was based on getting the most out of its new combination with SwissTelco and as Sarel Botha, the head of strategy explained: “Our business vision is simple. We want to be the leading provider of Information and Communication Technology (ICT) services, creating and managing innovative solutions that deliver superior business flexibility and value to our customers.” {Click the number for a more comprehensive overview of the strategic objectives 40 }

15. The growth and business drive during its first five years of existence, led SwissIT to the development of a robust operational organisational structure (Figure 1) that had the intention
to motivate co-operation between different units, thus creating value for its customers. The operational structure was divided into supporting and operational units. The operational units were responsible for profit and loss, whilst the supporting units were purely overhead functions. The only exception was the sales and marketing unit, which was measured on a revenue generation basis.

Figure 1: SwissIT operational structure

16. The robust structure was primarily motivated due to aggressive expansion and cross-selling as Hilda Ertz explained during a stakeholder meeting in 2002: “Our structure has grown...
tremendously in the past few years. It is primarily based on market demands and changes. We have reacted to new opportunities presented in 1999 and 2001. ADM has gained momentum after a strategic acquisition, whilst Software Sales (SS) was created through a buy-out during the severe IT downturn in 2001." The welcome growth in the late nineties created through new business, assisted the company to develop its service portfolio in more detail. This also allowed for a more defined management structure within the organisation. {Click the number for more information regarding the functional decomposition of the organisation 41}

The changing tide

17. The economy has proven itself over the years to be cyclical. The only unknown factor that remains is the length of the cycle and how it relates to every business. This was also true in the case of SwissIT. From its humble beginnings in 1997 to its steadfast growth in the early 2000's the company proved to be quite successful. Hilda was understandably proud at the executive meeting held at the end of 2002 stating that: "The company has exceeded growth expectations by far." She was specifically referring to the historic growth performance (Figure 2) of the company, which showed strong growth in the past three years.

Figure 2: Historic growth performance
18. A comparison of revenue growth (Figure 2) in 1999 and 2000 indicates a rise of 56%, which was due to a new contract with financial services giant Momentual. In comparison to 2000 growth was 15% and 10% lower in 2001 and 2002 respectively. Although growth was more than expected, it confirmed a slowdown in new business that was having an adverse effect on growth.

19. This reality was confirmed by Rudi Schoeman in early 2003 when he presented the overall profit before tax (Figure 3) to his management team. He quite anxiously explained that: “An assessment of profit before interest and tax shows good performance over the past five years, although growth has been slower in the past two years. Our long term infrastructure outsourcing contracts are coming to an end soon, and we will have to look at new income producing streams.”

Figure 3: Profit before tax

20. The management team was withholding one additional factor - this was the rise in the underlying cost of the company that had a negative influence on the profit situation. They knew that this situation underlined the need for a new income stream and possibly a cost rightsizing exercise in the near future.
21. The penny dropped on a rainy February morning whilst Harold was sitting at his desk re-assessing the financial results of 2002. As he wearily turned page after page contemplating ways to stop the slowdown, one chart in particular caught his eye (Figure 4). The company was doing so well that he never saw the need to analyse each business unit’s contribution in depth. Today was different. He was looking for answers.

Figure 4: Revenue contribution per operational unit: 2002

![Pie chart showing revenue contribution: ADM 25%, SS 3%, Desktop 20%, TCNS 8%, CIS 44%]

22. The contribution to revenue as depicted in Figure 4 gave him a clear indication that CIS [excluding desktop because its call centre acted as the central point of contact for all business units] was the biggest single source of income, making this unit the company’s cash cow. This also meant that there was no new market demand and that most of the revenue was produced due to a high return on assets. CIS was also under pressure with its long term outsourcing contracts coming to an end. The perception that SS was not making an impact also became clear. Two areas that did show promise was ADM and desktop because they had a combined revenue contribution of 45%. Harold realised that something had to be done. The market was changing; competition was rife and customers were becoming more and
more demanding. Other avenues had to be explored. {Click the number for an overview of SwissIT' major customers and competitors 43}

New opportunities

23. In March 2003 SwissIT held a special business review meeting with all managers. Harold opened the meeting with the following statement: “Our year-to-date financial performance clearly shows that we need a new stream of income. The company is too reliant on its current customer base and services. I’m also of the opinion that the outsourcing market is changing very fast and that the days of double digit growth are gone. There is a clear trend that IT offshoring is becoming a viable option for our company, being driven by changing macro economic determinants and customer requirements. By adapting the offshoring model we can use it in all our units, especially where the service does not have to be rendered on the customer premises. I also have it on good authority that our holding company is very interested in investing in such a capability. They will even consider developing more than one of our units if it is viable. This is our opportunity to use cost, location and capability as a competitive advantage over our competitors.”

24. SwissIT was in a unique position because it had the credibility of a large international company and local capability and capacity. Offshoring is a business model where a job or function is moved from a high cost production facility to a lower cost location outside the country. The cost saving achieved for the customer is significant whilst the income generated offshore by the service provider stimulates economic growth. This model is not new and has been used quite successfully in “older” manufacturing industries.[Nike, the sports apparel manufacturer, has used cheaper Asian production facilities, as apposed to the more expensive United States based factories to produce its products cost effectively (Kotler 2000:713).] IT offshoring mainly renders services, but the basis stays the same, namely the benefit gained out of utilising lower labour cost through virtual space. The service is intangible, but its worth is vested in what information it can provide; process it can support or business continuity it can ensure.
25. The cost saving value that is derived within the offshoring model grows with distance and a decrease in customer interaction (Figure 5). By using the model presented in Figure 5 it can be deducted that offshoring adds value and potential cost savings. This is a model that SwissIT had to adapt to their own services as lucrative opportunities exist across the spectrum of developments, support, and infrastructure service functions.

Figure 5: Offshore client interaction model

Source: Iyengar 2003:10

26. The offshoring model (Figure 5) required SwissIT management to rethink their services and how these could be adapted to the offshoring model. Management had to understand the various stages in offshoring. The first two stages are applicable when application development solutions are in a specification phase and regular interaction with the client is required, the so called onsite and offsite developments. As the solution is finalised and
consensus is reached the development can take place at a low cost near-shore or off-shore site, increasing financial benefit.

27. The meeting was a significant event and the SwissIT management team was quite impressed with the growth possibilities offshoring offered (Figure 6). The expected growth was just phenomenal. According to the research done by Deloitte (Rosenthal 2003:1) there is an anticipated growth of 150% in offshoring from 2003 to 2005 in the financial services industry alone. Seeing that SwissIT had some exposure to this industry, developing an offshoring capability was a strategic imperative, as other industries will follow this trend in due course.

**Figure 6: Forecast growth in financial service offshoring**

![Bar chart showing forecast growth in financial service offshoring from 2003 to 2005.]

Source: Rosenthal 2003

28. In order for SwissIT to adopt the offshoring model it immediately identified the ADM unit as the most likely unit pioneering such a model. The ADM unit had a number of services that could be delivered directly to foreign based clients and created teams that focussed on
offshoring delivery activities, such as consulting, development, roll-out planning, training and maintenance. Tom was quick to point out to his colleagues: “ADM’s application solution portfolio is perfect for offshoring simply because we don’t have to be on site 100% of the time to develop a SAP solution. In fact, ADM will be able to develop any technology solution given the specification is comprehensive enough.” Although this was quite optimistic, the ADM team conducted an analysis of what services could be viable as an offshoring proposition. They developed a comprehensive table (Table 7) that depicted which services fit within the application solution function and which services could be rendered as part of an application management function.

Table 7: ADM’s possible offshoring services

<table>
<thead>
<tr>
<th>Function</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application development</td>
<td>• Enterprise resource planning (ERP) application development e.g. SAP and Oracle</td>
</tr>
<tr>
<td></td>
<td>• Non-ERP development e.g. data warehousing, management reporting, web development</td>
</tr>
<tr>
<td></td>
<td>• Cross functional application development e.g. workflow, application integration</td>
</tr>
<tr>
<td>Application management</td>
<td>• Technical and functional application management</td>
</tr>
<tr>
<td></td>
<td>• Application support centre (Telephonic)</td>
</tr>
<tr>
<td></td>
<td>• Infrastructure management</td>
</tr>
<tr>
<td></td>
<td>• Consulting support</td>
</tr>
</tbody>
</table>

New challenges

29. During the winter months a colder reality was slowly dawning on some of the executives. The rand remained stronger than anyone imagined and various challenges were identified as managers were engaged in planning sessions and workshops. Sarel Botha remained confident though, and during one of the workshops he mentioned: “We realise we have stiff competition and that the market conditions are harsh. Our own economic situation is also challenging, not to mention the competition, but let’s remember that the top eight competitors command a market share of more than four billion dollars (Table 8). Sure there are challenges, but I believe we have the skills, capacity and partnerships to overcome them. Even if we capture 1% of that market, it will make sense for us.”
30. Sarel was specifically referring to the competitors that were already well established thereby making entry into the market difficult (Table 8). Companies based in India provided the major source of competition as they established a reputation of capability and cost competitiveness over the past few years, making them formidable competitors.

Table 8: Worldwide leading offshore vendors

<table>
<thead>
<tr>
<th>Leading offshore vendors</th>
<th>Annual revenue 2002 (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wipro</td>
<td>US$ 902</td>
</tr>
<tr>
<td>TATA Consultancy Services</td>
<td>US$ 880</td>
</tr>
<tr>
<td>Infosys</td>
<td>US$ 754</td>
</tr>
<tr>
<td>Satyam</td>
<td>US$ 459</td>
</tr>
<tr>
<td>Convansys</td>
<td>US$ 383</td>
</tr>
<tr>
<td>HCL Technologies</td>
<td>US$ 333</td>
</tr>
<tr>
<td>Cognizant</td>
<td>US$ 209</td>
</tr>
<tr>
<td>Syntel</td>
<td>US$ 162</td>
</tr>
</tbody>
</table>

Source: Vanhook et al. 2002

31. The management team also had to understand the major customer requirements. Input was received from a well known IT research house\(^5\) that listed a number of key trends that would become visible in the market in the course of the next years:

- offshore becomes popular and widely accepted by customers in general
- intense focus on competitive delivery cost for offshoring services
- general service requirements expand into a wide variety of additional requirements including infrastructure management
- demand for standardised and pre-packaged generic solutions that require limited customisation and can be rolled out easily
- a requirement for niche solutions were generic packages are not available

• global support and delivery capability with applicable support structures
• a greater focus on an established set of best practices.

32. In addition to these trends the management team had to take cognisance of what customers required before choosing a vendor for offshoring services:
• delivery capability of the vendor
• vertical market experience
• knowledge transfer time
• amount of on/off site time spend by the vendor
• project management methods.

33. All these requirements aside, a number of basic operational issues were identified in a workshop with functional consultants. Some of these included the ability to communicate understandably with customers during projects, working across time zones and addressing basic infrastructure issues such as SwissIT’s ability to deliver services with a certain level of reliability. The Vanhook et al. (2002) indicated that in 15% of offshoring cases, discrepancies, misunderstandings, confusion, terminology differences, and other issues arise when dealing with non-English-speaking countries.

New horizons to present day

34. A little more than a year since the offshoring idea gained momentum in SwissIT, a number of business components were put in place. Herald visited India to gain some insight into how the competition was conducting business. A sales and marketing plan was devised and it was decided that the initial target market would be European companies. The plan was to leverage experience gained out of their current client and industry base and gain competitive advantage when targeting similar European companies.

35. In addition to the sales and marketing plan, a number of partnership agreements with suppliers were finalised. Great emphasis was placed on companies where SwissIT were already providing services. The agreements stipulated that any offshoring requirement from
Europe based companies would be passed on from the vendor to SwissIT and full support would be rendered. The following partnerships were finalised:

- SAP Germany – Certified installer of SAP applications;
- Oracle South Africa – Agreement to implement and support all Oracle databases;
- Microsoft South Africa – Agreement to implement all Microsoft business suite application;
- HP South Africa – Agreement to host all HP server products;
- IBM South Africa – agreement as an accredited mainframe support specialist vendor and DB2 database installation partner.

36. The partnership agreements quickly yielded results. A lead was received from SAP Switzerland for the implementation of a SAP solution for a private banking group in Austria. Seeing that the opportunity ideally suited Tom’s ADM unit, they grabbed the opportunity and immediately assembled a proposal team incorporating the local SAP and HP offices. The results were astonishing. The Rand / Euro differential provided ample margin and only 25% of the total project time was scoped for on-site work in Austria, keeping costs low. The total cost of the proposal was 20% cheaper than the most competitive European contender and because the customer wanted support and hosting included, limited time zone disruption was required. More requirements followed as the sales and marketing plan was implemented.

37. Back at the empty bar Harold was smirking, glass in hand, looking at the sun setting in the west. “I wish it was that easy” he sighed …
4 APPENDIX: ADDITIONAL INFORMATION

Economic challenges

38. The Rand / Euro exchange rate has changed since a low at R12.20 to the Euro in 2001 to a rate of approximately R8.00 to the Euro in 2004 (Figure 9). A strengthening currency does not bode well for export services, but a stable level created more predictability in SwissIT cost structures. This is important for selling and managing offshoring contracts.

Figure 9: Rand / Euro exchange rate (1999-2004)

Source: The European Central Bank 2004: Internet

39. The SwissIT management team collectively decided to use foreign exchange contracts to manage the risk caused by an erratic currency. Foreign exchange contracts are useful when a currency depreciates in short spans of time. During the period January to April 2003 the Rand depreciated with more than one Rand to the Euro (Figure 9). Such a move can hurt margins seriously in any business. Exchange rate fluctuations are one of many factors that can negatively influence any international company. SwissIT management also had to take cognisance of the following economic factors:
- Inflation – This is an important factor because it determines in real terms how positive or negative the business is growing. It is also an important determinant of global competitiveness, as a high inflation rate can force (for example) labour cost higher than a competitive level.

- Economic growth – The growth in economic output is a determinant for economic prospects and confidence. It measures the output of the economy in gross domestic production and is a very good measure to see if the economy in a growth or slowdown phase. It is more important for the economy to growth beyond inflation, as it creates capacity for investment and new business creation. A growing economy creates confidence and is usually a reflection of monetary and fiscal stability.

Key performance areas and strategic objectives

40. The SwissIT strategy defined four key performance areas (KPAs) as depicted in Table 10. Each key performance area has a long term goal associated to it, supported by corresponding short term strategic objectives. The management requires that any new venture should fit with the goals of the organisation and support the objectives.

Table 10: SwissIT’ key performance areas (KPA), goals and objectives

<table>
<thead>
<tr>
<th>KPA</th>
<th>Goal</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial area</td>
<td>Develop an excellent ITC business over the next 5 years</td>
<td>• Achieve 25% average growth in revenue per year across all units</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Achieve 5% Return on Sales</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Increase profit (EBIT) by 10% per annum</td>
</tr>
<tr>
<td>Client relations</td>
<td>Establish the SwissIT brand at our customers and establish service excellence</td>
<td>• Increase new business with current customers by 25% per annum</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reduce complaints by 50% in the next year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Achieve a 98% compliance to Service Level Agreements (SLA)</td>
</tr>
<tr>
<td>Internal processes and support</td>
<td>Improve the efficiency and effectiveness of internal support functions</td>
<td>• Improve financial process by financial year end</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Establish a employee training centre with at least 30% of employees attending a course relevant to improving their skills profile</td>
</tr>
<tr>
<td>Partnership and BEE</td>
<td>Leverage current partnerships and improve the BEE profile</td>
<td>• Achieve at least one sale (R50m – outsourcing / R5m system,) through partnership channels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Increase AA appointments by 15%</td>
</tr>
</tbody>
</table>
Functional decomposition of the organisation

41. The functional decomposition of SwissIT is presented in Tables 11 and 12. The purpose of the functional decomposition is to provide a concise view of the business according to its current value chain activities. It also indicates at a high level management's portfolio responsibilities and how they relate to the overall supporting and value adding functions. An added benefit is the detail operational functions that is indicated and cross referenced to management function and unit.

Table 11: Functional decomposition – supporting functions

<table>
<thead>
<tr>
<th>Unit</th>
<th>Function definition</th>
<th>Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate affairs</td>
<td>The units represents the office of the CEO</td>
<td>• Strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strategic acquisitions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strategic business development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Partnerships, Acquisitions, New Products)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Quality management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Governance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• BEE development</td>
</tr>
<tr>
<td>Human resources</td>
<td>This unit is responsible for all human resource functions</td>
<td>• Compensation and benefits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Recruitment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Development</td>
</tr>
<tr>
<td>Finance</td>
<td>This unit is responsible for all financial functions</td>
<td>• Accounting (Treasury, debtors and creditors)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Finance (Invoicing, Management statements, Reporting, Pricing)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Procurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Internal IT systems</td>
</tr>
<tr>
<td>Sales/Marketing</td>
<td>This unit is responsible for overall client interaction, market relations, sales</td>
<td>• Market segmentation</td>
</tr>
<tr>
<td></td>
<td>and pre-sales support. Sales staff are allocated a operational portfolio based on</td>
<td>• Advertising</td>
</tr>
<tr>
<td></td>
<td>their sales strength</td>
<td>• Client relations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sales order entry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Pre-sales support (tender responses, proposal writing)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Service and quality management</td>
</tr>
</tbody>
</table>

42. It is possible to use the functional decomposition as an initial base to re-arrange activities or to restructure the business with the use of business models such as the value chain. Care should, however, be taken before arbitrarily applying traditional models as some of them are based on manufacturing concerns and not service businesses such as SwissIT finds itself in.
Table 12: Functional decomposition – value adding functions

<table>
<thead>
<tr>
<th>Unit</th>
<th>Function definition</th>
<th>Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIS</td>
<td>This unit is responsible for all servers and mainframe infrastructure as well as the location and management of these systems. This unit also has a print shop facility.</td>
<td>• Data centre management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Mainframe operation and support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Back-up and storage operations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Database operation, maintenance and support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Print shop</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Desktop support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Helpdesk</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Call centre</td>
</tr>
<tr>
<td>TCNS</td>
<td>This unit is responsible for procuring data line services from Transtel, adding value added networked services, assets as well as re-selling these services to clients.</td>
<td>• Re-selling data line capacity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Network set-up and monitoring</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Establishment of Virtual Private Networks (VPN), WAN and LAN</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Network router and switch enablement and set-up</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hosting of internet based applications</td>
</tr>
<tr>
<td>ADM</td>
<td>This unit is responsible for software application development, customisation and maintenance.</td>
<td>• Application customisation and installation of SAP systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Application development for Oracle and database set-up</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Business analysis and requirements definition</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Microsoft based development</td>
</tr>
<tr>
<td>Software Sales</td>
<td>Responsible specialised software sales.</td>
<td>• Microsoft</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SAP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Legato</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• IBM</td>
</tr>
</tbody>
</table>

Marketing and sales

43. SwissIT* has developed a diversified client base and provides a wide variety of services to each of its customers. Each customer is serviced by a customer relationship manager who is responsible for ensuring service levels are met and also responsible for on-selling and new business development in customer accounts. The sales process is as follows: new business is sourced through dedicated account executives who have been allocated target accounts based on market research and matching the service portfolio to prospective client’s business drivers and anticipated requirements. This strategy is well supported by press and promotional articles. This process is further strengthened by an internationally recognized brand, in the form of SwissTelco as overall holding company and SwissIT. These companies, with their extensive resources, reach and networks across the world give SwissIT a definite market differentiator.
44. The sales strategy has proved fruitful and a number of major accounts were won (Table 13). More importantly a wide range of industries have been targeted in the process. A closer analysis of services offered, as presented in Table 13, indicates that all of SwissIT clients make use of CIS, but not all make use of ADM, which indicates some opportunities in the current client profile.

Table 13: SwissIT’ major clients

<table>
<thead>
<tr>
<th>Client</th>
<th>Industry sector</th>
<th>Services offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOMENTUAL</td>
<td>Short term insurance</td>
<td>• Data Centre management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Mainframe management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Mainframe application management (COBOL)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Database maintenance and normalization (DB2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Server management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SAP application development and management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Business system and process analysis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Desktop services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Wide area network management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Helpdesk</td>
</tr>
<tr>
<td>AGRI SAS</td>
<td>Agriculture</td>
<td>• SAP Development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Mainframe hosting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Application Hosting (Servers)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Desktop Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• LAN management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• WAN management</td>
</tr>
<tr>
<td>SABA</td>
<td>Banking</td>
<td>• Data Centre management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Mainframe management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Mainframe application management (COBOL)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Database maintenance and normalization (ORACLE)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Server management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SAP application development and management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Desktop services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Helpdesk</td>
</tr>
<tr>
<td>FORYOTA</td>
<td>Automotive manufacturing</td>
<td>• Mainframe hosting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SAP Application hosting and support</td>
</tr>
</tbody>
</table>

45. The company has a number of competitors in the IT outsourcing and services segment (Table 14). Most of these competitors compete head-on with SwissIT for major business and five of its current competitors are also international companies. Various competitive or substitute services are also provided by SwissIT’s competitors.
Table 14: SwissIT’ major competitors

<table>
<thead>
<tr>
<th>Companies</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• AST</td>
<td>• Infrastructure outsourcing</td>
</tr>
<tr>
<td></td>
<td>• Application development</td>
</tr>
<tr>
<td></td>
<td>• Telephony services</td>
</tr>
<tr>
<td>• IBM Global and Outsource Services*</td>
<td>• Infrastructure outsourcing</td>
</tr>
<tr>
<td>• Comparex Africa</td>
<td>• Infrastructure outsourcing</td>
</tr>
<tr>
<td></td>
<td>• Application development</td>
</tr>
<tr>
<td></td>
<td>• High-end infrastructure re-sellers</td>
</tr>
<tr>
<td>• Dimension Data*</td>
<td>• Network service provider</td>
</tr>
<tr>
<td></td>
<td>• Infrastructure outsourcing</td>
</tr>
<tr>
<td></td>
<td>• Infrastructure re-sellers</td>
</tr>
<tr>
<td></td>
<td>• Application development</td>
</tr>
<tr>
<td>• Accenture*</td>
<td>• Infrastructure outsourcing</td>
</tr>
<tr>
<td></td>
<td>• IT management consulting</td>
</tr>
<tr>
<td>• EDS*</td>
<td>• Infrastructure outsourcing</td>
</tr>
<tr>
<td></td>
<td>• Strategic consulting</td>
</tr>
<tr>
<td>• CS Holdings</td>
<td>• Infrastructure outsourcing</td>
</tr>
<tr>
<td></td>
<td>• Equipment repairs</td>
</tr>
<tr>
<td>• CSC*</td>
<td>• Infrastructure outsourcing</td>
</tr>
<tr>
<td>• Telkom***</td>
<td>• Network service provider</td>
</tr>
</tbody>
</table>

* - Denotes International companies

*** - Denotes competition limited to one area only namely network services

46. Further competitor analysis (Table 14) shows that eight companies compete with the CIS unit, but only three compete with the ADM unit in SwissIT. This confirms the growth opportunity locally and abroad for focusing on application development services.

{Click the number to return to the text 23}
5 CASE BIBLIOGRAPHY


6 QUESTIONS

1. Conduct an internal (strengths and weaknesses) and external (opportunities and threats) analysis of SwissIT South Africa. The analysis must be based on the current operational structure as well as the new opportunities presented. Refer to possible generic (business level) strategies that may be followed based on the SWOT analysis.

2. Devise a value chain for the offshoring unit, by adapting Porter's value chain model. Logically cluster the service units and devise an organisational structure.

3. By critically evaluating the value chain identify the major cost elements of an offshoring unit.

4. How can cost be optimised and economies of scale be realised across all units if offshoring is implemented successfully?

5. Define the major operational dilemmas that a management team may face in a typical offshoring operation and how it can be addressed.

6. Devise a ROI financial model based on the initial investment and operational cost of an offshoring model.

7. What macro economic factors can influence the direct success of offshoring by taking the South African situation into account? Please refer in your answer to applicable local and world economic issues and specifically address: economic growth, currency fluctuations, and inflation

8. What would be the competitive advantages for SwissIT to enter into this new service offering if compared to countries like Brazil or India?

9. What mechanisms can be used or negotiated to manage exchange control risk.

10. If you were a potential customer of offshoring services, what would be important business drivers for you to make use of this service?

11. What additional opportunities exist for SwissIT for other related services that can also fit into an offshore business model?
12. If you were a consultant in SwissIT, what would you propose the company does in terms of its investment strategy i.e. focus on current units through re-investment or invest in offshoring? Motivate your answer.

13. Define the potential target markets for SwissIT's offshoring service. Explain how these markets can be targeted by referring to sales channels.

14. What are the human resource issues that need to be taken into consideration if contemplating an offshoring model?
PART 3: FACILITATION MANUAL

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2 THEMES AND QUESTIONS 37
3 DIDACTIC OVERVIEW 39
4 QUESTION AND ANSWER GUIDELINES 44
5 SUMMARY 65
PART 3: FACILITATION MANUAL

1 OVERVIEW

Part 3 contains the facilitation manual for the case study. The first section of the manual presents a non-exhaustive list of possible themes and grouped questions per theme. The second part of the manual introduces some thoughts on using different facilitation methods and its alignment with introductory pedagogic theory. The final section of the manual contains answers to seven of the identified questions, suggested facilitation methods, and recommended management actions, which integrates the theory and practice. This section is not prescriptive but explores and produces different possibilities to guide the facilitator. It is therefore acknowledged that this section is not exhaustive, but created as a guideline only.

2 THEMES AND QUESTIONS

The identification of a relevant theme framework was done by analysing general management topics and business functions. A comparison of an older, introductory management textbook, a more recent post-graduate general management textbook and a recent general management textbook were conducted. The three books: “Introduction to management” by Cronje, Neuland, Hugo & Van Reenen (1990), “Management: building competitive advantage” by Bateman & Snell (1999) and “Management tasks for managerial success” by Oosthuizen (2004) are different in structure and content, although they address universal management issues. Based on the analysis the following four themes were identified. The list is not comprehensive and some themes are identical to general business functions.

The themes are:

- business strategy and structure
- international management
- marketing and sales
- human resource management.

As part of the case study fourteen questions were produced and grouped within the identified themes (Table 3.1). It is acknowledged that some questions are also related to more than one
theme, but the questions were grouped within the most likely theme to cover the general management spectrum. Only seven of the fourteen questions are discussed and were selected to cover each theme. This was also done to illustrate the uniqueness and interdependence of management challenges. It is accepted that various answers to dilemmas or opportunities exist, however, the intention is to present one possible solution to many solution permutations. The theme and question grouping is presented in Table 3.1.

### Table 3.1: Themes and related questions

<table>
<thead>
<tr>
<th>Theme</th>
<th>Questions</th>
</tr>
</thead>
</table>
| Business strategy and structure | 1. Conduct an internal (strengths and weaknesses) and external (opportunities and threats) analysis of SwissIT South Africa. The analysis must be based on the current operational structure as well as the new opportunities presented. Refer to possible generic (business level) strategies that may be followed based on the SWOT analysis.  
2. Devise a value chain for the offshoring unit, by adapting Porter’s value chain model. Logically cluster the service units and devise an organisational structure.  
3. By critically evaluating the value chain identify the major cost elements of an offshoring unit.  
4. How can cost be optimised and economies of scale be realised across all units if offshoring is implemented successfully?  
5. Define the major operational dilemmas that a management team may face in a typical offshoring operation and how it can be addressed.  
6. Devise a ROI financial model based on the initial investment and operational cost of an offshoring model. |
| International management       | 7. What macro economic factors can influence the direct success of offshoring by taking the South African situation into account? Please refer in your answer to applicable local and world economic issues and specifically address: economic growth, currency fluctuations, and inflation  
8. What would be the competitive advantages for SwissIT to enter into this new service offering if compared to countries like Brazil or India?  
9. What mechanisms can be used or negotiated to manage exchange control risk.  
10. If you were a potential customer of offshoring services, what would be important business drivers for you to make use of this service? |
| Marketing and sales            | 11. What additional opportunities exist for other related services that can also fit into an offshore business model?  
12. If you were a consultant to SwissIT, what would you propose the company does in terms of its investment strategy i.e. focus on current units through re-investment or invest in offshoring? Motivate your answer.  
13. Define the potential target markets for SwissIT’s offshoring service. Explain how these markets can be targeted by referring to sales channels. |
| Human resources                | 14. What are the human resource issues that need to be taken into consideration if contemplating an offshoring model? |

The questions marked with an asterisk (*) are discussed as part of the answer guidelines.
3 DIDACTIC OVERVIEW

The purpose of the didactic overview is to present some opinions regarding the positioning of case studies and the case method within the pedagogic framework. It is acknowledged that a wide variety of changes have been made to the education system in general, most notably the rise and implementation of outcomes based education (OBE) in South Africa (Killen 2000: i – iii). This section is not intended to evaluate the merits of different didactic policy models. It is rather an attempt to provide a short overview of how the case method and case studies fit into didactic thinking and application. In order to illustrate this thinking some older and recent sources are used to discuss time tested techniques. The case method is classified as a discovery approach where the student attains knowledge through study, contemplation and discussion of actual situations (Scheepers 1996:3).

Teaching approaches

Educational policy has a tendency to change with political policy, but the transfer of knowledge remains at the heart of education. This transfer may, in some extreme cases, include indoctrination as opposed to self-exploration, but the chosen teaching technique has learning as its ultimate goal. This view is supported by Killen (2000: xi) as he explains how unfortunate it is for learning to be labelled as teacher-centric or learner-centric. Learning should always be at the centre of teaching. Killen (2000: xi) points out that some teaching approaches do, however, place the teacher in more direct control. The direct approaches are referred to as direct instruction, deductive teaching, expository teaching or as Scheepers (1996:19) puts it: a Socratic dialogue. The so-called learner-centred approaches are based on discovery or inquiry learning. At the heart of these approaches is still a teacher or a facilitator that has to control the learning experience. The level of control is determined by which approach is chosen and implemented during the lesson (Killen 2000: xi). This is also valid for the case method (Scheepers 1996:140).

The constructivist approach to learning

Recent didactic thinking and research have led to a combination of cognitive and social views on learning. This thinking, referred to as constructivism, has at its premise that knowledge is obtained and expanded through active construction and reconstruction of theory and practice.
There are several different contemporary interpretations of the concept of constructivism, but they share four principles:

- the active creation of knowledge structures from personal experience leads to meaningful learning
- personal interpretation of experiences results in knowledge, one person's knowledge can never be totally transferred to another person
- people's views and understanding is influenced by the world around them
- the construction of ideas is aided by systematic, open minded discussions and debate.

Constructivist teaching involves getting students to use what they know to determine what they need to know. Through the usage of constructivist teaching approaches students are given the opportunity to integrate and synthesize information from different sources, and find solutions creatively. The teacher's role changes to a facilitator of learning rather than a supplier of information (Killen 2000:xvii – xix).

Borich & Tombari (in Killen 2000:xx) presented a number of characteristics of constructivist practices that teachers follow:

- organise learning and instruction around important ideas instead of focusing on isolated facts
- acknowledge the importance of prior knowledge as it forms a cognitive structure basis that can be used to make sense of new learning
- challenge the adequacy of the learners prior knowledge often by creating some conceptual conflict
- provide for vagueness and doubt by presenting students with problems that have ambiguity, complexity, uncertainty, and multiple solutions.

Killen (2000:xx) points out that a constructivist approach to teaching and learning does not deny the importance of factual knowledge. The factual knowledge or content becomes a vehicle and is applied to a lifelike context that stimulates learners to reflect, organise, analyse and solve the problem.
The various attributes of the constructivist approach to learning supports various teaching techniques that have discovery, exploration, debate and discussion as its premise. Based on this discussion the case method and the usage of case studies fit into the constructivist approach. The next section deals with the case method and case studies as a constructivist approach.

Case studies as a constructivist teaching approach

A significant level of alignment is found between the constructivist approach and how facilitators make use of the case method as a teaching technique. Case studies have been used in a variety of teaching environments, ranging from the medical to legal fields of study (Du Plessis 2000:3, Scheepers 1996:2). Bischoff (1993:90) explains that case studies, within an educational environment, are used as a means to gather and analyse information with the purpose to solve a situational business problem. Lessing (1996:33) presents various key phrases for case studies, that cover both the case study content as well as its educational value. An analysis of Lessing’s list produced two outputs, namely the attributes of case studies and the educational benefit and outcomes of case study usage.

The following attributes were assigned to case studies:

- version of a real situation
- the details are based on the truth
- a representation of a real or imaginary business
- describes the problem situations and successes
- contains detailed information regarding the administrative circumstances in the business
- description of the business’ internal and external environment.

The following attributes contribute towards the educational benefits and outcomes of using case studies:

- affords the student the opportunity to critically evaluate business situations
- simulates analytical thought in order to devise solutions for business problems
- represents a method to convey management principles
- is a method to understand the complexity and integration of strategic decision making
- supports the “learning through doing” principle.
Attaining the outcomes requires the application of a number of possible teaching techniques and in terms of the constructivist approach, a combination thereof. It is the purpose of the facilitator to determine which technique should be applied and how best to facilitate the discussion. Various basic teaching techniques can be utilised in the case method as identified by Bischoff (1993:78-104), Killen (2000:1 – 139) and Scheepers (1996: 141 – 147).

The following list is non-exhaustive but contains the most noted techniques:

- **The question and answer method:** This method necessitates the facilitator to ask questions relating to the case, leading students to consider various options or solutions. It is useful with case studies when leading questions are used to stimulate, organise and analyse thought.

- **The discussion method:** This method requires active participation from every student and encourages them to logically argue their answers or viewpoints supported by fact or theory (Scheepers 1996: 143). Conversely the facilitator must ensure that dominance by a few does not overrule the opinions of the more reserved students.

- **Brainstorming method:** This method makes the facilitator a momentary scribe, since his role is only to capture various thoughts emanating from the students. The brainstorming method is a useful problem solving method as it forces the students to address issues creatively. At the end of such a session the facilitator should guide students through the pitfalls of each option.

- **Role play method:** The method relies on the facilitator’s ability to create roles for students to fulfil within the context of the case. Various roles may be devised for students such as a management role, unionist role or consulting role, placing the student “in” the case, thus allowing him to enact the dilemma and possible actions.

- **Lecturette:** A lecturette is a short lecture that aims to introduce, clarify, explain or demonstrate a concept during the case (Scheepers 1996:146). Although a lecture is a form of direct instruction it is in some cases the most appropriate strategy to use if contextual facts or theory is required to solve the problem to reach a more accurate solution (Killen 2000: 2).

Both Scheepers (1996:140) and Killen (2000:xvi) agree that, no matter the technique followed, the facilitator stays in control of the learning session. Reynolds (in Scheepers 1996:140) presented variables (Table 3.2) that may impact the level of direction provided by the facilitator.
and the level of student direction during case-based lectures. These variables are presented in Table 3.2 and provide guidance in terms of how the above techniques are applied.

Table 3.2: Variables influencing the level of facilitator control

<table>
<thead>
<tr>
<th>Variable</th>
<th>More facilitator direction</th>
<th>More student direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time in course</td>
<td>Early</td>
<td>Late</td>
</tr>
<tr>
<td>Facilitators purpose</td>
<td>To illustrate a concept</td>
<td>To develop concepts</td>
</tr>
<tr>
<td>Student's level of preparation</td>
<td>Students unprepared</td>
<td>Students well prepared</td>
</tr>
<tr>
<td>Students stage of experience</td>
<td>In experienced students</td>
<td>Advanced students</td>
</tr>
<tr>
<td>Nature of case</td>
<td>Unstructured or hidden</td>
<td>Obvious structure</td>
</tr>
</tbody>
</table>

Source: Scheepers 2000:140

The techniques that could be regarded as more facilitator directed are the “lecturette” and the question-and-answer method, whilst role play, brainstorming and discussion methods are more student directed.

Scheepers (1996: 154 - 159) presented different roles that the facilitator can play in either situation:

- Helpful expert – The facilitator becomes part of the student group and provides expert input to the discussion or adds another view to the answer
- Facilitator – The facilitator leads the process by asking probing questions or restating and clarifying statements, answers or questions
- Resource person – The facilitator plays the role of adding new information or analysis to the case, therefore systematically adding more dimensions to the problem or solution possibilities
- Summariser – The facilitator consolidates ideas without being judgemental to move the process forward
- Judge of performance – The facilitator encourages the students to think continuously judging their performance and providing feedback

Practical application

The preceding discussion is worthless if not implemented. It is apparent that the constructivist approach is supported strongly by the case method and the various facilitation techniques that were discussed. Suggested facilitation methods are included for facilitators to consider in the
following question and answer guideline. It is assumed that practical facilities are available and group work is possible. The suggested facilitation methods were further enhanced by thinking deducted from Killen (2000), Lessing et al. (1995) and Scheepers (1996) although not discussed at length in this section.

4 QUESTION AND ANSWER GUIDELINES

The question and answer guidelines provides a suggested structure for facilitators in approaching the seven identified questions. The framework is based on the didactic principles discussed previously and utilises case information and references from the theory to build a possible answer. This section merely presents possibilities that can be explored by the facilitator.

4.1 QUESTION 1

Conduct an internal (strengths and weaknesses) and external (opportunities and threats) analysis of SwissIT South Africa. The analysis must be based on the current operational structure, as well as the new opportunities presented. Refer to possible generic (business level) strategies that may be followed based on the SWOT analysis.

4.1.1 Facilitation method

- Implement the brainstorming technique by facilitating the discussion and capturing strengths, weaknesses, opportunities and threats on a white – or blackboard.
- Divide the class in groups of four (called quads) and request the participants to devise various strategic actions and choose a generic strategy.
- Select a few groups to give feedback and explain their actions and chosen generic strategy.
- Conclude the discussion by summarising the SWOT analysis and the strategic options it generates.

4.1.2 Content and guidelines

The SWOT analysis is a method that plots the strengths, weaknesses, opportunities and threats (SWOT) of the business and allows management to formulate various strategic options (Bateman
& Snell 2000:137). The strengths and weaknesses are related to the internal situation of the company, whilst the opportunities and threats are related to the external environment. The advantage of the SWOT analysis is that a variety of prospective strategic choices can be developed. The key in using the SWOT analysis is vested in making strategic choices because an analysis is only useful if action is taken (Bateman & Snell 2000:137).

The possible SWOT attributes that have been identified as part of this analysis are represented in Table 3.3 with reference to the source in the case study in brackets. Probable sources of SWOT attributes as identified by De Bruyn (2003:43) were taken into consideration to make the process simple. The most probable internal factors to focus on are cost, skill, technology, products / services and operations, whilst the most probable external factors are competitors, suppliers, demands of customers and economic factors.

Table 3.3: SWOT analysis

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Strength / Opportunity strategies</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshoring (1,2,6,7,23,27)</td>
<td>Expand in offshoring services as low cost leader</td>
<td>Software Sales not performing (22)</td>
</tr>
<tr>
<td>Utilising current capacity (28,29)</td>
<td></td>
<td>Slowing growth (17)</td>
</tr>
<tr>
<td>Partnerships (29,35,36)</td>
<td></td>
<td>Cost pressure (20)</td>
</tr>
<tr>
<td>Weaker currency (2,4,7,38,</td>
<td></td>
<td>Pressure on products (22)</td>
</tr>
<tr>
<td>Utilise global brand (1,23)</td>
<td></td>
<td>Market share to small (19,22,23)</td>
</tr>
<tr>
<td>External investment (23)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strengths</td>
<td></td>
<td>Weakness / Opportunity strategies</td>
</tr>
<tr>
<td>Strategic management and vision (3,8,9,12,13,14,16,20,40)</td>
<td></td>
<td>Boost growth plans with international “cheaper” investment</td>
</tr>
<tr>
<td>Investment possibilities (13)</td>
<td></td>
<td>Close or sell Software Sales</td>
</tr>
<tr>
<td>Growth history (17)</td>
<td></td>
<td>Optimise capacity to curb cost</td>
</tr>
<tr>
<td>Established organisational structure (15,41)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proven sales and customer service (9,11,12,43)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wide service offering (9,41,44)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global support (4,10,13,23)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capability (29)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Weaknesses              |                                                                                                  | Weakness / Threat strategies                                               |
| Software Sales not performing (22,) |                                                                                                  | Follow retraction strategy – close or sell non-profitable units           |
| Slowing growth (17,)      |                                                                                                  |                                                                            |
| Cost pressure (20)       |                                                                                                  |                                                                            |
| Pressure on products (22) |                                                                                                  |                                                                            |
| Market share to small (19,22,23) |                                                                                                  |                                                                            |

| Threats                |                                                                                                  | Weakness / Threat strategies                                               |
| Offshore competitors (29) |                                                                                                  |                                                                            |
| Economic instability (4) |                                                                                                  |                                                                            |
| Local market shrinking ( |                                                                                                  |                                                                            |
| Capability loss – brain drain (4) |                                                                                                  |                                                                            |
| Strength / Threat strategies |                                                                                                  |                                                                            |
| Create focus strategies on strongest services to attack competitors |                                                                            |                                                                            |
| Maintain current customer relationships |                                                                            |                                                                            |

**Source:** Compilation from the case study
The aim of the SWOT analysis is to use it as a departure point for possible strategic actions as it represents a snapshot of the business at a specific point in time. The actions identified specifically pertain to the second part of the question that asks for the identification of generic strategies. The possible strategies have been incorporated in Table 3.3 as it allows for relationships between the SWOT elements to be identified.

The SWOT analysis presented in Table 3.3 has been used to define various strategic actions. These actions are presented in the grey coloured blocks by combining the SWOT elements to develop strategic choices.

A set of strategic actions that are quite "well know" are the three generic level strategies as discussed by Porter (1980:34). The premise of these strategies is based on identifying the company’s position in relation to its cost or uniqueness and its target market (Porter 1980:39).

The application of the generic level strategies within the context of the case is as follows:

- **Low cost leadership strategy:** This strategy is possible if a cost differential can be created and products or services may be rendered at such a competitive rate that it creates a preferential price or margin that is above the market average. The weaker currency and the optimisation of current capacity may be possible determinants for implementing this strategy.

- **Differentiation strategy:** Following this strategy enhanced value needs to be created for the customer, making the service different from other competitive products. Leveraging the strengths of the company and combining it with some opportunities may create a different value. As an example the combination of local capability and services with offshoring services may (Table 3.3, strengths and opportunity blocks) lead to a new offering for the customer, different from any competitor. As another example the international brand supported with an international presence may result in quick problem reaction that creates high levels of brand loyal and customer satisfaction, differentiating the service from competitors.

- **Focus strategy:** Porter (1980:38) explains that a focus strategy targets a specific market segment. This strategy is applied with the low cost or differentiation strategy or both
because the target market is narrow. In the case of SwissIT a focussed low cost strategy may be applied for European markets, thus achieving low cost in a geographically defined market.

If moving from generic to corporate level strategies the following actions can also be identified in the SWOT analysis, as explained by De Bruyn (2003:109):

- Concentric diversification – where the company adds a product or service that is more or less similar to its existing products or services. This improves scale in various areas of the business such as skills, facilities and technology. This may be applied in the CIS and desktop function of SwissIT by implementing a call centre in addition to the helpdesk (42).
- Liquidation strategy - where the company decides it has no possibility to turn a loss making business around and sells the assets. This may be the case for Software Sales as suggested in the weakness column of Table 3.3.

4.1.3 Management recommendation

- Follow a focus strategy by identifying a single market segment and driving costs down to gain a competitive advantage in offshoring services
- Invest in ADM as the carrier of offshoring services through “discounted” investment via the international company
- Preferably sell Software Sales and invest profit or saving in gaining infrastructure scale

4.2 QUESTION 2

Devise a value chain for the offshoring unit, by adapting Porter’s value chain model. Logically cluster the service units and devise an organizational structure.

4.2.1 Facilitation method

- Most students have been exposed to the value chain in undergraduate management subjects and should not have any problems referring back to it. Where uncertainty amongst students is identified the facilitator should start with a “lecturette” to explain the most salient points and differences in service vs. manufacturing models.
• Divide the class into two initial groups covering the supporting and primary activities. Ask both groups to divide in smaller groups of four to five and construct the activities in the applicable chain.

• Let opposing groups merge and devise the complete value chain.

• Select a few groups and facilitate the construction of their value chain on the whiteboard.

• By being the "helpful expert" utilise the discussion method and devise an organisational structure through class suggestions and deliberation.

4.2.2 Content and guidelines

In order to answer the question it is valuable to revisit the value chain concept. The value chain can be described as a template that a company uses to plot and understand its activities and cost thereof. (Hitt et al. 2001:121). Value chain analysis can be used to determine which functions in an organisation can provide a competitive advantage by doing it more effectively and efficiently, thus adding more value through differentiation or without adding cost. (Porter 1985:33, De Bruyn 2003:44). It therefore becomes a visual mechanism to implement strategies by understanding how total value is created and making changes to improve it.

The value chain (Figure 3.4) consists of two functions, namely, primary and supporting functions. Porter’s (1985:45) derivative is presented in Figure 3.4 and was more slanted towards the manufacturing. It can be adapted for the service environment by determining which primary activities are different in comparison to the manufacturing environment.

The first step would be to identify the supporting activities and then the primary activities. Based on the operational structure in the case (15), the functional decomposition (41) and references within the case study it is possible to determine the functions. The suggested solution follows Porter’s thinking, but moves away from the manufacturing focus to a service focus that better suites a technology development environment.
The functions are deducted from the original model and references in the case study and are shown in brackets were applicable:

- **Supporting functions:**
  - Infrastructure (42)
  - Human resources (42)
  - Technological development (Porter 1985:41)
  - Procurement (Porter 1985:41)

- **Primary activities:**
  - Marketing and sales (43)
  - Solution definition (34)
  - Application development (34)
  - Testing, Training and roll-out (34)
  - Hosting (Table 3)
  - Management and support call centre (Table 3)
The offshoring value chain as deducted from the original model and the case study is depicted graphically in Figure 3.5. It shows a more comprehensive view of the value adding activities. The firm infrastructure, procurement and technological development activities have been populated with basic activities as part of the answer, because these functions inherently support business in one form or the other (Porter 1985:42). A greater focus has been placed on the remaining activities to illustrate value interaction and linkages of services.

Figure 3.5: Offshoring value chain

The value chain can be used as a basis for organisational design because it defines the clusters of activities required to operate a business (Porter 1985:59). It should be noted that the activities should be grouped in meaningful departments and according to organisational design principles. The two important principles are differentiation and integration. Differentiation is based on identifying the level of job specialisation and the division of labour within the organisation whilst integration is based on the degree to which units work together and coordinate their efforts.
(Bateman & Snell 1999:278). Using these two principles in conjunction with the value chain allows for dividing and regrouping activities into departments. For the purposes of this exercise a hierarchical organisational structure (Figure 3.6) was devised because of its strong relation to the value chain.

The organisation structure is based on simple hierarchical principles and structures. An offshoring manager heads up the unit and will be responsible for profit and loss. The primary functions have been grouped were possible to create logical clusters of work that allows for specialisation. Marketing and sales of offshoring services are also incorporated under the control of the offshoring manager due to profit and loss responsibility, and the specialised selling required for this type of service. The support units have one unfamiliar addition namely project services. This unit is primarily a cost centre unit and provides support in the delivery of the offshoring service as this forms a crucial part of the project.

Figure 3.6: Offshoring unit organisation structure

Source: Own compilation

4.2.3 Management recommendation

- During the establishment of new services keep the structure simple and adapt as the requirements and revenue increase
- Determine specific cost measures based on the primary activities and manage them
In a customer driven environment, a matrix structure can be developed as delivery of projects increase. This is however a structure that is difficult to manage and maintain from an operational perspective.

4.3 QUESTION 7

What macro-economic factors can influence the direct success of offshoring by taking the South African situation into account? Please refer in your answer to applicable local and world economic issues and specifically refer to: economic growth, currency fluctuations, and inflation.

4.3.1 Facilitation method

- Conduct a brainstorming exercise to determine the macro-economic factors.
- Divide the class in three groups and ask each group to appoint a facilitator. Let each group discuss the three specific issues separately. Act as the “helpful expert” and visit each group during the discussion.
- Thereafter each group gets an opportunity to present their findings. Act as the “summariser” concluding the arguments.

4.3.2 Content and guidelines

SwissIT has a direct exposure to the South African economic situation, but in terms of an offshoring business model, it will also have significant exposure to global economic fluctuations. A potential customer must feel confident that an international business contract will be honoured. As a logical starting point both economies must be healthy and stable.

In order to understand the context of macro-economic determinants it is important to define the concept. The term macro-economics encapsulates the functioning of the economy as a whole, which includes recessions (lower demand cycles), the total production of goods and services and the growth thereof, the inflation rate, unemployment rate, the balance of payments, exchange rates to name but a few factors. Macro-economics therefore tracks and measures the performance of a country's economy as a whole (Begg et al. 2003:4 – 6, Hough & Neuland 2000:143).
A number of macro-economic determinants may influence a company venturing into a new service offering as pointed out by Hough & Neuland (2000:140):

- inflation
- external debt
- exchange rates
- shortage of skills
- political instability
- war
- mass poverty
- population growth

All these points are valid if they are presented and argued in terms of the bilateral effect on both customer and supplier. For the purposes of the answering the required question and briefness only the following points are discussed in more detail, and have been referred to in the case study (38): economic growth, currency fluctuations and growth.

**Economic growth:**

The economic growth rate of an economy can be defined as the rate at which the real gross domestic product (GDP) increases (Begg *et al.* 2003:529). It is an important measure as it directly shows out two critical economic elements namely: the ability of a economy to both produce and expend its production; it also shows the ability of an economy to grow beyond its inflation rate, meaning that the inflation rate is not eroding all nominal growth but allowing for an amount in access to be available for expenditure and re-investment. This statement is important for businesses that have to invest profits in the establishment of new services. These points are referred to in the case study (39).

Thirlwall (2003:276) also proposes a dilemma with measuring growth *per se* as it constitutes an increase in investment and productivity. These two factors are especially important in the development of an offshoring model as it indicates that investment is required to fuel growth and that you need a productive workforce to leverage and increase output. The role of technology in economic growth is also critical. Thirlwall (2003:300) indicates that technology can be a major
driver of economy of scale, quality and advantages of knowledge specifically found in the multiple offshoring services presented in the case (41). Growth is an important determinant as it gives the international community a sense of economic sustainability – this is critical for marketing purposes.

**Inflation**

Hough & Neuland (2000:141) indicate that inflation is a dimension of the economic environment that affects interest rates, exchange rates and the cost of living and the general confidence in a country’s political and economic system (case 38). This statement is an important consideration for the development of micro (industry specific) economic business models because the control of inflation within a country leads to stable and predictable cost models. This is necessary to plan profitable operations and to manage cost elements effectively. The importance of inflationary management mechanisms employed by a government cannot be overstated as it creates a stable platform for business management. South Africa has acted in line with countries such as Germany where inflation targeting has been applied. This supports the drive to provide stable pricing and predictable income streams from offshoring as stated in the case.

**Exchange rates**

This specifically refers to the performance of the Rand against the Euro as an indication of the impact of the currency as presented in Figure 9 in the case. In order to operate a successful offshoring model the company would need a stable currency to cover local cost without loss. The inherent weakness or strength is not always the problem, but managing the fluctuation between the highs and lows can be a major challenge for any company trying to sell services and delivering it within a specific cost framework. Companies exposed to risks in this area must act by managing cost carefully and hedging themselves against unpredictable currency movements.

### 4.3.3 Management recommendation

- Determine which economic factors may have an adverse effect on the company and in what way can they be controlled.
- In the event of an uncontrollable aspect, determine which risk mitigation mechanisms are feasible, for example hedging or insurance.
4.4 QUESTION 8

What would be the competitive advantages for SwissIT to enter into this new service offering if compared to countries like Brazil and India?

4.4.1 Facilitation method

- Start with a “lecturette”, if competitive advantage needs to be defined.
- Ask the class to identify the competitive advantages by conduct a brainstorming exercise, acting as the facilitator.
- Act as the “resource person” by adding facts about India and Brazil not available in the case during the brainstorming exercise.

4.4.2 Content and guidelines

Competitive advantage means attaining an advantage over one’s competitors by focussing on low cost or differentiation, therefore creating more value for the customer than your competitors (De Bruyn 2003:57, Porter 1985:12).

The case study provides various references to SwissIT’s unique advantages such as:

- low cost in European terms due to the exchange rate difference
- location advantages in terms of competitive infrastructure, lower time zone disruptions and easy accessibility to European markets
- skill and capability due to well established IT practices and companies adopting IT quite early in their life cycle.

Limited information is made available regarding Indian and Brazilian countries’ economic advantages, except that it is mentioned that India is also a low cost producer compared to American based firms. India is also the centre for offshoring, if the competitor profiles are analysed, but potential customers are placing emphasis on other factors than just cost, such as knowledge and industry experience as presented in the case.

SwissIT can attain a competitive advantage by differentiating services according to unique determinants. The comparative factors that can possibly differentiate SwissIT from Brazilian and Indian companies are:
• Language differences: Effective communication is critical in any development project. Language also forms a part of culture and being able to at least speak or understand the customer’s language is an advantage. SwissIT would be able to communicate effectively with most European customers as English and some European languages are spoken locally without linguistic difficulty. Brazil’s official language is Portuguese with English limited to a second language. India being colonised by England is in a better position with regards to this element, but linguistic differences do occur (G Schoonbee: interview 7 October, 2004).

• Time zones: Synchronised or near synchronised time zones make communication, application development and user support easier. As stated in the case, customers have a requirement for minimal time difference disruption. In this case the location advantage of SwissIT at “GMT +2” compared to Brazil at “GMT -4” and India at “GMT +5½”. Is significant. The target market identified by SwissIT are companies that are mainly based in Europe and if Switzerland is taken as a norm there would only be a one hour time difference between SwissIT South Africa and their European customers at most.

• Technical proficiency: The competitor analysis gives an indication that the Indian resources have an excellent track record as they dominate most of the world market in offshoring services. The technical proficiency of SwissIT’s resources is continuously pointed out in the case study. The differentiation created through technical proficiency is also influenced by industry and business knowledge that is well established in SwissIT.

4.4.3 Management recommendation

• Ensure that differentiation is created along the right determinants

• Focus on, sometimes, arbitrary differentiating factors that make the difference such as the time zone disruption
4.5 QUESTION 11

What additional opportunities exist for SwissIT in other related services that can also fit the offshoring model?

4.5.1 Facilitation method

- Divide the class into groups of eight to ten students in order to create enough critical mass in the groups.
- Ask the groups to identify two role players in the groups: one acting as a customer and one as a consultant. Let the groups explore possible requirements from the client and possible offerings from the consultant by asking questions and discussing possible offerings devised from the case.
- Summarise options after the group feedback is presented to the class.

4.5.2 Content and guidelines

Offshoring allows for any service or product to be produced or rendered away from the customer's site, facility or geography where substantial cost, efficiency and effectiveness benefits are unlocked. This is clearly illustrated by Figure 5 which defines the various levels of Offshoring. The services pertinently identified as areas of focus for SwissIT were application development (28).

Various services can be identified that do not need to be close to the customer, and where the customer is only interested in the service or output. A list of possible services that can fit into the offshoring model, except for the application development services, are presented in Table 3.7.
Table 3.7: Additional offshore services

<table>
<thead>
<tr>
<th>Service</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application and hardware hosting</td>
<td>In this case applications (SAP) and the hardware that it operates from (servers, mainframes) can be in any country as long as the end user can connect to the application via data networks. The services provided as part of hosting includes monitoring, operations, update management etc.</td>
</tr>
<tr>
<td>Service call centres</td>
<td>In this case global telephone connections are utilised to services the customer with information, assistance or marketing anywhere in the world. The proviso is that the call centre agents must be able to communicate with the customer in a language that he/she understands.</td>
</tr>
<tr>
<td>Remote support</td>
<td>Computer support agents may sit anywhere in the world as long as they have access to the application or hardware that is experiencing problems. The agent can access the system and fix the problem via remote support applications and data networks.</td>
</tr>
<tr>
<td>Application support</td>
<td>Application support services operate in the same way as remote support but the focus is on the application and not the hardware. A customer may have a problem with a specific function in an application, in which case the support agent will be able to fix it or supply advice on how to overcome the problem.</td>
</tr>
<tr>
<td>Disaster recovery and back-up site</td>
<td>This service has become quite important due to the various terror attacks experienced over the past years. If business operations, systems and data are all hosted in the same building, a company stands the change to be totally unproductive in the event of a major disaster. It therefore makes sense for a company to have a systems and data site remotely from their business operations. In the event of a disaster, people can be moved to a new location and be reconnected to their original systems with little time lost. Such a site offshore makes sense if the offshore destination is politically more stable.</td>
</tr>
</tbody>
</table>

Source: Compilation from the case

4.5.3 Management recommendation

- Start with an identified service and develop integrated solutions based on it. A practical example in this case would be to start with application development and then to complement this service with application support.
- Obtain customer input in developing new services that integrate with current ones. Understand the outcome that the customer requires and build services to match it (Ulwick 2003:91)
4.6 QUESTION 13

Define the potential target markets for SwissIT's offshoring service. Explain how these markets can be targeted by referring to sales channels.

4.6.1 Facilitation method

- Divide the class into two groups – one group to discuss target markets and the other group sales channels. Each group must appoint a facilitator to lead the discussion. Visit the groups and act as the "resource person and helpful expert" adding ideas and providing different angles for discussion.
- Ask the separate groups to discuss the topic assigned to them.
- Combine the output from the groups into a discussion and determine the complexities.
- Summarise the options and discuss the advantages and disadvantages of the suggestions.

4.6.2 Content and guidelines

The case study provides a number of clues regarding the possible target market and sales channels (34, 35, 37, 43, Table 13, in case study). SwissIT has been quite active in a few industries and specific reference is made to the financial services sector, automotive sector and agriculture sector. The deductions made from the case have been incorporated in target market matrix (Table 3.8) utilising information from Table 8 in the case. Multiple industries are targeted but only one service is offered as a start. Kotler (1999: 274) refers to this practice as product specialisation. One of its disadvantages is, that without a strong differentiating factor, the competition may through defensive strategies, such as a drop in price or substitute service, prohibit SwissIT from entering or growing the market. The segmentation was done on assumed comparative company sizes in Europe.

Targeting foreign customers with the backing of an international brand is an important consideration and should form part of the marketing and segmentation plan (case 43). Although a number of operational complexities can arise between international affiliates it is important to use this as a cost advantage, because aggressive advertising is not required in countries where the brand is well known. Keller, Sternthal & Tybout (2002:81) explain a number of pitfalls to avoid when positioning a brand:
• Establish the brand position before creating awareness. The customer needs to know what you sell and the service attributes. This is also important for your sales channel partners and how to maximise their selling ability of your service.

• Promote service attributes that the customer care’s about. In offshoring’s case this needs to be defined when determining the customer’s requirement.

• Companies invest too heavily in points of difference that can be easily copied. In cases where a low cost strategy is followed, it advantage must be absolute due to a unique determinant that is not easily copied. The low time zone differential can not be copied by the Indian’ unless they change the structure of their working environment that may mean a higher labour cost.

Table 3.8: Possible target market

<table>
<thead>
<tr>
<th>Target industry</th>
<th>Target country</th>
<th>Company size</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>Germany</td>
<td>Large</td>
<td>Offshoring: application development</td>
</tr>
<tr>
<td>Automotive</td>
<td>Sweden</td>
<td>Medium</td>
<td>Offshoring: application development</td>
</tr>
<tr>
<td>Banking</td>
<td>Switzerland</td>
<td>Medium</td>
<td>Offshoring: application development</td>
</tr>
<tr>
<td>Agriculture</td>
<td>France</td>
<td>Medium</td>
<td>Offshoring: application development</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Switzerland</td>
<td>Medium</td>
<td>Offshoring: application development</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Britain</td>
<td>Medium</td>
<td>Offshoring: application development</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Austria</td>
<td>Medium</td>
<td>Offshoring: application development</td>
</tr>
<tr>
<td>Insurance</td>
<td>Germany</td>
<td>Medium - Large</td>
<td>Offshoring: application development</td>
</tr>
<tr>
<td>Insurance</td>
<td>Switzerland</td>
<td>Medium - Large</td>
<td>Offshoring: application development</td>
</tr>
</tbody>
</table>

Source: Own compilation

Marketing channels have been devised on the information presented in the case (35). A mixture of direct and multi-level marketing channels is presented in Figure 3.9. The multi-level models may seem very attractive but, a major consideration is the number of interactions that take place at every level. The difference between product channels and service channels also need to be distinguished. In a service industry the delivery remains with the service provider because it owns the resources and capacity. The intermediary acts more as a partner and needs to receive a commission or have the opportunity to partner with the service provider in providing complementary goods or services. In the case, SAP is described as a partner who will receive income from selling the application software licenses and SwissIT will act as the implementer of the application. Michaelson (2004:216) argues that in marketing plans should be kept as simple
as possible, because even the simplest plan is difficult to execute. Intermediary relationships add complexity to the process and may become a draw back as supposed to an advantage, if channel levels are not managed.

**Figure 3.9: Marketing channels**

![Marketing channels diagram]

Source: Own compilation adapted from Kotler 1999:493

### 4.6.3 Management recommendation

- SwissIT has an established local client base and capability that should not be neglected. This implies continuous marketing and development of services in conjunction with new service development. A growth in the local client base can lead to economy of scale benefits and more unique differentiation.

- Channel management mechanisms need to be devised and implemented to manage the complexity created by intermediaries. Typically communication breakdown and unrealistic expectations from customers need to be avoided through these mechanisms.
• The product focus must be complemented by industry specific knowledge in order prove competency to customers.

4.7 QUESTION 14

What are the human resource issues that need to be taken into consideration if contemplating an offshoring model?

4.7.1 Facilitation method

• Utilise the question and answer method to obtain a list of issues.
• Divide the class into groups of four to five and assign an issue per group.
• Each group appoints a facilitator that leads the discussion.
• Act as the helpful expert to add value to the discussions by moving between groups.

4.7.2 Content and guidelines

The case doesn't specifically give a description of the human resource profile although it refers to a number of human resource elements such as skills (29), competencies (32), language (33), and working conditions such as travelling (2). There are however a few determinants that will shape the globalisation challenges according to Nel (2000: 593) and Gibson et al. (2000:58).

These determinants include:

• culture
• education / human capital
• political / legal system

Culture

The culture of an organization can be seen within the context of a nationality which represents a set of values, attitudes, beliefs, and norms shared by a majority of the members of an organisation according to Gibson et al. (2000:58). The attributes of a culture influences the work ethic of employees.
In an offshoring model it will be important to understand and interpret various cultural practices and values. According to Nel (2000:593) some of these values and practices may relate to the importance of work, status, the desire for change and the interpretation of how people view the world. These factors are specifically important when dealing with global customers where service delivery is an issue, as this may directly impact the service level.

Due to the general globalisation of the world economy and the creation of paper borders across most countries it has also become quite possible for managers within global companies to move about freely. It may also be possible for an offshored based company delivering services to a customer to employ some country specific management to guide the workforce in specific cultural issues. In such cases employees may be faced with totally opposing management styles that they are used too. As examples Nel (2000:594) explains that a German management culture that is focused on creativity and efficiency opposed to a British culture that is more formal and status orientated can create interesting cultural dynamics.

Within the case study it is apparent that the services being proposed will force employees to engage with various different types of customers across the world. The workforce’s culture in relation to how they experience the customer culture will be quite important. The above point about German business culture may be a direct challenge to the South African work culture that is more relationship based as apposed to efficiency based. In this case the customer may be perceived as unreasonable or demanding. Gibson et al. (2000:61 - 62) focuses on five additional cultural aspects that influence the workforce.

- **Time orientation** - SA may be less time sensitive opposed to Europe and the USA. This may pose specific problems in service delivery and turnaround time as well as the sensitivity around continuity of business that may be placed in jeopardy.

- **Activity orientation** - Results vs. a being culture. Results driven culture is a culture were employees are rewarded through promotions, merit, bonuses and public recognition. A being culture is more based on work as a part of life in total. Choosing the right
employees in delivering complex solutions will be critical as results driven culture is usually required in low cost environments.

- **Language** - The ability to communicate and be understood in business is important from a transactional as well as service perspective. More importantly culture represents itself in language and in how people use language to express themselves. It is also unrealistic to expect that one language represents one culture. Across the English speaking world this is particularly notable where Australia, Britain and the USA are English speaking countries their cultures differ dramatically (Gibson *et al.* 2000:61). Delivering services across cultural boundaries is challenging, but delivering services across language boundaries can be even more challenging as supported in the case study, where language is defined as a potential challenge in the offshoring world (33).

- **Religion**
  Religion forms the base and explains various behaviours found in culture (Gibson *et al.* 2000:62). It requires an understanding of managers who have multi-religious workforces, but at the same time it also influences the company’s ability and operation in terms of delivering services. Delivering offshoring services to Muslim orientated countries or customers may require different availability times for support staff or application workshops due to religious convictions being honoured. Saudi Arabia works five and a half days per week and their week begins on a Saturday. This will be quite a challenge for people used to a Saturday and Sunday weekend.

**Education and human capital**

Human capital represents the productive capabilities and individuals in the form of knowledge, skills and experience that have and produce economic value. In terms of servicing customers successfully a certain level of skill is required. The management of the so-called knowledge worker is valid in this case (29, 31, 32 & 33). Drucker (2002:74) explains that a knowledge worker is someone that has specialist knowledge in a specific field and refers to application programmers as an example. Knowledge workers need to be managed differently to become more productive, because they are the creators of wealth. If employees are seen as assets then a re-capitalisation in the form of consistent improvement, training and support is required to increase the expected return. In a globally competitive environment the right people for the job will be those with the right knowledge and character.
Political legal system

Norms and values are represented in a legal system which influences the practices of human resources. The application of norms and values needs to be determined beforehand when rendering services to foreign customers.

4.7.3 Management recommendation

- Offshoring relies heavily on human resources to deliver the services. It is imperative for management to understand the challenges that they will be faced with in terms of cultural diversity. Cultural sensitivity training should be implemented
- Skills and capabilities need to be developed and managed carefully through structured training programs

5 SUMMARY

The facilitation manual presented the logic applied in devising possible management themes and the grouping of questions per theme. A brief didactic overview combined recent pedagogic thinking with practical facilitation methods, which was followed by the discussion of the selected seven questions and possible management recommendations. The facilitation manual acted as a guide that encapsulated possible options in dealing with management opportunities and dilemmas. The facilitator should use this manual as such and remain in control of the case discussion without prohibiting creativity as supported by the findings in the didactic overview.
# PART 4: CRITICAL EVALUATION

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PART 4: CRITICAL EVALUATION

1 INTRODUCTION

This study produced a case describing possible opportunities and dilemmas that managers may face on a daily basis. A facilitation manual was compiled that provided broad didactic principles in the usage of case studies and the case method. This was followed by guidelines for seven questions, followed by recommended management actions for the practical implementation of the guidelines. This part of the study summarises feedback from different facilitators, practicing managers and management consultants regarding the objectives of the study.

The objectives of the study were to:

- develop a case study
- generate a facilitation guide
- evaluate the case study
- evaluate the facilitation guide
- reflect on the output of the study.

The first two objectives were met by writing the case study and compiling the facilitation manual presented in parts 2 and 3 of the study.

The case study and facilitation manual was presented to and discussed with:

- two facilitators, who use case studies comprehensively in the teaching environment
- two practicing managers within a large IT company responsible for service development
- a management consultant who consult to a wide range of IT projects.

The purpose of the discussions was to critically evaluate the case study and the facilitation manual in terms of its usability and applicability. Respondents were also asked to suggest improvements, identify shortcomings and provide constructive input during the discussions.
2 CRITICAL EVALUATION: CASE STUDY

The respondents were asked to evaluate the case study against the characteristics of a good case study as discussed by Lessing (1996:238) and presented in Table 1. The elements are discussed separately and feedback is summarised.

2.1 Objective
The respondents agreed that the case has fulfilled this criterion by being usable in a training environment. The case presented various management opportunities and dilemmas. The case did contribute to growth in information and subject matter experience and the link between practice and theory was evident.

2.2 Subject
The consensus reached during these discussions was that the subject was recent and widely discussed in the IT industry. Although offshoring as a subject matter may not be self-explanatory, the case presented various definitions and explanations to enhance understanding. General management concepts such as value chains, marketing channels and economic determinants would be recognisable.

2.3 Structure
In general the structure was well accepted, however, two respondents felt that the case was too long and could have been more concise. The use of personal quotations was welcomed as it gave the case a more personal feel, but in some instances the quotations were not adding additional information. The use of graphics and visual aids was viewed as applicable and useful to gain contextual understanding.

2.4 Characters
The case contained five characters. It was noted by some respondents that limited character development took place in the case except for the chief executive officer that “showed” the signs of being in a dilemma. The characters were, however, experienced as a true reflection of a potential management team. A suggestion was made by one of the respondents that a profile or
short biography per manager should have been included in the appendix to support the character development.

2.5 Objectiveness
Opinions varied in terms of the case study's level of objectiveness. All respondents concluded that the case was a true reflection of how various management opportunities and dilemmas can be described. Opinions varied regarding the case leading the reader to a specific conclusion or opinion. The respondents felt that readers may be led to a false sense of achievement as management's job is never done. Some problems will never be completely solved in a realistic environment. The case ends with an ambiguous statement from the main character which was not strong enough to convince the readers of a non-conclusive end to the case.

2.6 Time
The usage of the present and past reflection was well received. The chronological flow created in the case was understood by all the respondents. The facilitator found that the specific time references were restrictive. It placed a limited life span on the case and a more ambiguous reference to specific time spans were suggested.

2.7 Diagrams, illustrations and graphics
Respondents found the usage of the graphics acceptable and a welcome break in reading the case. Criticism was received regarding the applicability of all the financial information due to the limited interpretation. The facilitator felt that it left the reader with a "so what" feeling. The usage of tables was well received as it summarised vast amounts of information, but the facilitator questioned the value of the information. If not well explained, it seemed too cryptic.

2.8 Appendix
The appendix was viewed as relevant and contained useful information that would have distracted the storyline if presented in the case. The electronic references to the appendix were also seen as value adding because it supported the storyline with more facts and figures. The consensus was that the appendix supported the case.
2.9 Reading enjoyment
One respondent described the case as a “business editorial combined with the elements of a paperback”. The flow and interaction between quotations, time lines, visuals, tables and text was complimented by the business users. The facilitators were more critical in their assessment and felt that the length and complexity of the content makes the case usable to a select student group. It will have limited use in undergraduate studies and be more applicable in post-graduate studies. This observation supported the academic level classification on the cover page of the case being post-graduate.

3 CRITICAL EVALUATION: FACILITATION MANUAL
The facilitation manual was discussed with the respondents by asking them a number of general questions regarding the applicability of the questions, the suitability of the themes and question mapping, as well as generally evaluating the seven answers and management recommendations. The questions were discussed separately and feedback is summarised.

3.1 Feedback regarding the questions
Respondents were asked to comment on the applicability of the 14 questions and whether they were representative and applicable of typical management dilemmas and opportunities that confront companies on a regular basis. The respondents were also asked to identify which type of questions could be added.

The consensus was that the questions were relevant management challenges that are faced on a regular basis. It was, however, pointed out that management challenges will differ from industry to industry. The facilitators felt the case study did not contain enough information to answer the financial related questions and that some intervention by the facilitator would be required in terms of adding additional information or making assumptions. This observation applied specifically to questions 3 and 6. This problem could have been overcome by adding a more detailed discussion regarding specific cost drivers or cost factors into the case study. One of the
respondents pointed out that information regarding the differentiation of SwissIT South Africa in terms of its Indian and Brazilian competitors was not sufficient and could be added. The respondents identified a number of questions that could have been added but after debating the available information in the case study three question themes was identified as possible additions. The case contains enough information to allow for an industry analysis, more commonly known as Porter's five forces model. Consensus was reached that a more general question regarding anti-globalisation drivers could have been included as it forces the reader to view the economic dilemma from a foreign job loss perspective due to employment opportunities move to an offshoring destination. The vague ending of the case also allows for a question regarding learners' interpretation of what is meant by the main character's closing statement.

3.2 Feedback regarding the themes
Respondents were asked to comment on the acceptability of the themes; the grouping of the questions to the themes and determining which themes could be added. The four themes and the grouping of the questions were found to be acceptable and useful by the respondents. The usage of themes also made it easier to determine which subject matter was being discussed and allowed the facilitator to link content between questions. The respondents found this useful because it illustrates the interdependency of different elements within the management and economic sciences.

Additional themes were identified by the respondents, however, after considering the information presented in the case consensus was reached that more questions to the current themes would be more useful as supposed to more themes. It was concluded that depending more intervention and information presented by the facilitator an operational management, project management as well as a financial theme can be added. In addition, popular management thinking such as corporate governance, continuous improvement, and innovation management can be added.

3.3 Feedback regarding the facilitation manual
The respondents were requested to discuss and evaluate the seven answers according to the following criteria:

1. Determine if an answer can be deducted from the case study
2. Comment on the applicability of theoretical references and if it adds value to the answer
3. Establish if the answer and the suggested management action is practical and feasible

Feedback regarding each request is presented in a summarised format with specific reference to the answer where applicable.

**Answer deduction from the case study**

The respondents agreed in principle that the basic information was available to answer the seven questions discussed in the facilitation guide, but that the level of information presented was not consistent. The practising managers identified relationships between the questions and the case study and were able to expand the answers by referring to experience. After reflecting on their opinions, it was agreed that students would be required to rely on their general knowledge which may not be comprehensive enough.

The facilitators gave similar opinions related to the level of detail that was available to answer the questions. The facilitators agreed that the detailed level of answering would be determined by how the facilitator acts in class and uses different techniques to lead the discussion. The consensus by the facilitators was that some questions would require more background information or suggested reading for students to answer in more detail.

The following questions, as motivated by the facilitators, would require more information or involved facilitation:

- **Question 2 regarding the value chain.** Before the value chain can be adapted for a specific firm the base concept must be understood by the learners. The case study does not include this explanation and it must be deducted from theory. Using the value chain as a basis for deducting an organisational structure could even be more challenging and will also need guidance from the facilitator. This information is not forthcoming from the case study and some students not familiar with the concept may have some difficulties. The suggested facilitation method does provide some guidance in this instance.
- **Question 8 regarding comparative competitive advantage.** The case contains limited information regarding India and focuses more on the Indian based competitive companies. The case contains no information about Brazil except for a reference by the
main character. This will make it difficult for students to give detailed answers except to deduct answers from presented information and rely on general knowledge.

- Questions 3 and 6 regarding financial elements. These questions were not answered in the facilitation manual; however, the facilitator felt that the financial information was inadequate to expect students to deduct an answer from the case. It was agreed that through assumption, based on the presented market sizes and comparative cost sizing, a number of deducted answers may be fabricated but that more information, from the facilitator, should be presented.

Theoretical applicability
The respondents pointed out that some questions and therefore the answers leaned more or less towards a theoretical base. Some questions could therefore be answered using a stronger theoretical base or reference. The questions with a stronger theoretical base were identified as questions 2, 7, 13 and 14.

The balance of questions had less of a theoretical base and the answers were deducted from the case itself. The external references in these cases were in support of deductions made from the original answers. The respondents agreed that more practical answers were not excluded from any theoretical concepts.

In general the respondents agreed that theoretical concepts, where applicable, were elaborated upon. The facilitator did mention that the theory should be balanced and it will depend on the facilitator to what extend the theory would be described in a class situation. The theory adds value in cases where clarification of meaning is required, for example the value chain.

Answer and management action feasibility
This question was discussed with the practising managers only. The reason for this decision was that a practical perspective from within the industry was required to objectively reflect on the possible answers and its feasibility. The questions were discussed at length and various opinions were received because of their practical experience. It was made clear that the answers were based on information provided in the case, therefore the answers fit into a distinct context.
The general input received from these discussions supported the use of case studies; however, it also proved that management opportunities and dilemmas are multi-dimensional within an ever changing environment. No answer is therefore correct or wrong as situations determine applicable actions not simple answers. The level of initiative and resourcefulness of the students was also discussed as a factor that could add multi-dimensions to the answers.

The seven answers and management actions were discussed individually and feedback is summarised per answer.

- **Question 1** the SWOT analysis. The analysis was found to be acceptable and the strategic actions applicable within the context of the case study. From a practical perspective the respondents agreed that selling and divesting in business units, is not as simple as suggested. It is a process that requires a willing buyer that takes time and negotiation to conclude a deal. An aggressive action such as closure has financial, legal and labour implications and should be considered carefully. The respondents pointed out that a multi-national company may face a number of bureaucratic and control restraints especially when developing a new business – this in turn may be a weakness rather than a strength. Based on the respondents experience in business development a differentiation strategy was preferred too a cost leadership strategy, as experience has shown that South Africa is not as cheap as most think. One respondent did point out that differentiation by being the cost leader due to exchange rate differentials would force the company in a low cost producing scenario in any case.

- **Question 2** regarding the value chain. The respondents agreed with the proposed value chain answer and explanation of how the value supports organisational development. They disagreed with the proposed organisation structure. Practically the value chain is a useful tool to understand the major activities of a unit but the model is not always generically applied. The integration of the offshoring organisation structure to the overall structure was found lacking. The structure was found too oversimplified and not integrated. The consensus was that the facilitator would have to play a prominent role in
guiding students through the integration possibilities. The management action was plausible.

- Question 7 regarding macro economic factors. The answer was well received. One of the respondents felt that this is one of the most neglected fields in developing business strategies and that a full political, economically, social en technological (PEST) analysis could have been done on the case. The respondent did however concede that the case did not contain all the necessary details to conduct such an analysis. The one sidedness of the analysis was pointed out a weakness. The respondents felt that international business is conducted between two economic systems. A management team must therefore understand the economic determinants of the country that it is dealing with and understand their economic weaknesses and strong points. This may influence business decisions radically – one country’s boom may mean another’s bust. This makes for interesting industry dynamics and cross border buying behaviour.

- Question 8 regarding competitive advantage. This question generated lively discussion due to the respondents experience in IT services. The consensus was that the answer and management recommendations were acceptable. The views expressed fell outside of the case study scope but linked closely with question seven. This is useful in building links between different questions as it indicates to students the high level of interdependence between management elements. One respondent felt that the link between competitive advantage and the comparative advantage between nations should also have been included in the discussion. The example given by the respondent was based on experience in Europe and India were European application development prices have dropped, due to over capacity, compared to South Africa. The cost competitive advantage therefore is not valid anymore. The joint view of the respondents was that sustainable competitive advantage is build and maintained through a number of strategic actions.

- Question 11 regarding additional opportunities. The respondents agreed that answer was acceptable. The management recommendation was criticised because it lacked a step to
analyse the different business and operational models of the different services. According to all the respondents the differences in managing different business models (i.e. application development vs. application hosting) was not clear in the case but not required in the question. This would be a welcome addition.

- Question 13 regarding the target market and sales channels. The question and management recommendation was accepted. The respondents identified a number of constraints that were not discussed regarding sales channels. The first constraint is that the more channel members get added, the more complex the management, interaction and communication of the channel becomes. The supplier also gets removed from the customer, who in a service company case is detrimental. One of the respondents also felt that channels added political complexity to the sales and marketing process. This means that the local company has to duplicate sales effort, firstly to the channel member and then to the customer. It was concluded that service sales channels is personalised in contrast to product based distribution. The second point was identified as the sharing of the same partner channels by competitors. This will require management to convince partners why their alliance is more beneficial.

- Question 14 regarding human resource elements. The respondents felt that this answer and management recommendation was comprehensive. Consensus was reached that practically the cultural fit between organisations is underplayed and not well understood in general.

The feedback regarding the didactic overview and suggested facilitation methods was positive and assisted the practicing managers to create a link between facilitation and application. A suggestion from one of the respondents was that the management recommendations be replaced with learning objectives. The facilitator would benefit from this addition because he can guide the discussion to reach certain key objectives.
4 CONCLUSION

Case study and facilitation guide

The experience of applying the method and discussing practical implications strengthened theories and research done by previous authors. The conclusions deduced from this study specifically pertaining to the case study and method is summarised as follows:

- The development of a case study is an iterative process that can be enhanced by external input from practicing managers and facilitators before it is presented to the learners.
- The case study remains a “chunk of reality”. It can not incorporate all the facts for all management subjects.
- The case method fits very well with current educational thinking without ignoring the importance of establishing a theoretical foundation.
- The facilitation manual is a guide and it can not dictate the learning process. Students and facilitators have varied levels of control in this process and it is impossible to determine in which direction a resourceful student or facilitator may guide the discussion.
- One respondent concluded the interview by stating: “The process is the product”.

In the process of developing the case study and facilitation manual for “SwissIT: New horizons in stormy waters” management opportunities and dilemmas have been developed and explored through addressing the first four objectives. The study is deemed successful from that perspective.

Possible implications of this study

Cooper & Schindler (2001:139) explain that the case method can be used as a mechanism in identifying problems for further qualitative or empirical research. The case method is specifically useful in identifying problems and boundaries that are vague and need research. The case “SwissIT: New horizons in stormy waters” could only identify a limited number of opportunities and dilemmas within the constraints set by this study. By reflecting on the experience of conducting this study and the input received, a number of additional management
challenges related to the case have been identified. These challenges can benefit from further research:

- The impact of international political, economical and social determinants on South African companies wishing to render services offshore.
- The management of marketing channels for selling services in foreign countries.
- The management of operational issues in delivering IT services remotely.
- Managing culture differences between customer and service team in offshoring projects.
- Determining South Africa's competitive advantage in rendering international services: a comparison with the BRIC (Brazil, Russia, India & China) countries.
- Managing activity based costing (ABC) in a service based value chain: pitfalls and opportunities for efficiency.
- The impact of labour arbitrage in European based economies: what lessons can South Africa learn?
- Black economic empowerment (BEE) and multi-national companies in South Africa: opportunity or threat?

The utilisation of case studies and the case method is not limited to being a teaching tool. It is useful to the future researcher as a technique to define more qualitative or quantitative topics for research. Seen from this perspective, the notion of "the process is the product" is taken a step further.
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