OUTSOURCING: THE CATALYST FOR CHANGE IN ORGANISATIONS

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SHORT DISSERTATION

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Dedicated to my parents, Hans and Gerrie
Change should not be a threat but rather be seen as an opportunity. The ability to anticipate change and to change every time the market calls on the organisation to change has far reaching benefits for organisations. This is possible and organisations that have adopted 3rd wave management principles have as their source of strength change and are by far more competitive than the 2nd wave organisations that opt for security and stability. The reality is that not all organisations are successful at changing from 2nd to 3rd wave management principles even though an inordinate amount of time and effort is spend at achieving this desired state.

Some organisations have as late been making use of the concept of outsourcing. The information era is viewed as the breeding ground for outsourcing and it is also seen by most as the primary driving force behind change in the business environment today. Organisations that have opted for outsourcing on a strategic level have also realised significant change after successful completion of the outsourcing initiative and in some cases it is seen as the catalyst for changing 2nd wave organisations into 3rd wave organisations.

This thesis will investigate outsourcing and what role it plays in changing 2nd wave organisations into 3rd wave organisations.
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1.1 Introduction

"In war, the stronger overcomes the weaker. In business, the stronger imparts strength to the weaker. If you wish to prosper, build alliances with the strong." Fredrick Bastiat

"No amount of sophistication is going to allay the fact that all your knowledge is about the past and all your decisions are about the future. The future is foggy and the only way to gain a competitive advantage is by being quicker to adjust when the fog burns off" (Greaver, 1999:33). Being able to adjust each time the fog burns off is simplified by the analogy but in reality it is extremely difficult to adjust, adapt and change each time the fog clears. "In businesses today individuals must handle today's stress and surprises even while they are planning for tomorrow. Managers must manage today's business effectively even while they are creating a new and radically different kind of business for tomorrow. Today's society must be sustained even while the society of tomorrow is reinvented. It is a daunting task, but the future simply will not wait" (Manning, 1987:1). This is a great challenge for management and it demands imagination, courage, perseverance and self-control. It also requires something different rather than “more of the same” and it demands that every aspect of the business is scrutinised and that businesses are reinvented from the top. It is tough doing business today, but it will be even tougher in the years ahead.
Industry as it is known today has evolved through phases. First there was primitive agriculture and hunting to satisfy the basic need of humans. Humans quickly adapted and learned to harness energy and apply it with success and created unlimited uses. Industries mushroomed and big companies became the lifeblood of the industrial age. Information flowed from these organisations and the transfer of knowledge became an integral part of doing business. Knowledge was powerful and it changed people's life forever.

Each of these phases were characterised by its own style of management and with each change in phases a new wave of management crushed onto the beach of the business environment.

In the first wave management was simple and limited to production and survival (Kruger, 2000:5). The second wave followed as industrialisation took place and this period was characterised by autocracy, bureaucracy and hierarchical structures. As organisations continued to grow, control became more difficult. Information became freely available and competition increased as the vacuum wherein organisations existed was compressed by the forces of the information age. Information started to flow freely across organisational barriers and maintaining information that was considered proprietary was becoming increasingly difficult as the controls of the time was just not adequate to prevent the exchange of information. Information was exchanged freely and not all of it was in the best interest of the organisation. Organisations became transparent and stakeholders, even the community that bordered the facilities, insisted to be informed of the activities of the organisation. A new wave of change was eminent and organisations were forced to divorce themselves from being economic entities and to focus on becoming multi-purposful, playing active roles in ecology, politics and the social environment.
This involvement in the complete spectrum of activities exposed companies and individuals to a new sense of responsibility. Values and beliefs were challenged and behaviors that were governed by 2nd wave paradigms were in direct contradiction to what was expected of 3rd wave organisations. The ability to adapt to change was one of the fundamental differences between second and third wave organisations. Inflexibility and stability had to be replaced by creativity, innovation and adaptability. Entrepreneurship was at the order of the day and organisations had to have the ability to visualise change – the Meta strategy vision (Kruger, 2000:8).

Change is always sparked by some or other force that acts as a change agent. Energy and the successful use thereof started the industrial age. The ability to communicate through wire connections and radio signals started the information age. Computer technology and the Internet will change business forever.

Change is a natural process and is the underlying principle that makes existence on earth possible. Change is unfortunately not easy and all changes, even the most longed for, have their sadness, for what we leave behind is part of ourselves and we must die to one life before we can enter into another. This is also true for organisations because organisations consist of people and to die of one life before entering into another naturally comes with resistance. The reason for this can be found in the content theory of Maslow on motivational factors. Change from what is known to what is unknown could imply the loss of either one or all of the needs in the need hierarchy simply because change in the organisation may affect the position a person has become so accustomed to.
Figure 1 shows the effect that change may have on one or all of the individual components of Maslow's need hierarchy. The way in which a person reacts to change depends much on the level such a person has reached with respect to the need hierarchy.

Figure 1: Effect of change on personal motivation

The mere thought of losing a position in an organisation invariably leads to people fearing change. In South Africa this is also the case. South Africa has a very high level of unemployment. Many organisations reengineer and restructure their operations in an attempt to remain globally competitive and it is during such changes that people lose their only form of income. The positions that are normally reduced are that of the lower level employees who are semi to unskilled resulting in a large community of unemployed unskilled workers. Having no income results in the lack of means to satisfy the basic physiological needs and this reality struck
fear in the heart of most employees. This fear is powerful and real and prevents organisations from bringing about the change that they so desperately need to survive in the global economy.

1.2 Motivation

"The result meant much more to me than the mere successful realization of an experiment. It was an epoch in history." Gelsio Marconi – sending radio signals across the Atlantic

Chemical reactions involve the change of organic or inorganic substances into another substance that contains part or all of the reagents originally present. The reaction rate of these reactions varies and some can be painstakingly slow. In cases such as these catalysts are used to speed up the reaction rate and per definition precipitates the desired change at an increased rate. What organisations need is catalysts that can precipitate the desired state after change and even better still to be in control of the rate and the magnitude of the reaction the catalyst is generating.

Many organisations have fortunately discovered that outsourcing can be the catalyst for change in their organisations. "Without realising it, organisations are driving home change by outsourcing certain services. To implement fundamental change within an organisation takes up an inordinate amount of time and effort, as any good management consultant will warn. The amount of time spent on strategising, planning, selling and implementing change often result in the effort being still-born or worse still, abandoned due to lack of buy-in and commitment from staff. On the other hand outsourcing services forces the organisation to implement change, either by having to
comply with the requirements of the outsourcer or as a result of the services moving to the outsourcer” (Meyer, 2000:1).

Outsourcing in essence is not a new concept and for many years now companies have outsourced primarily the information technology and information systems within the organisation. However, outsourcing has changed since the early days of the industry in the 1970’s, when outsourcing relationships were essentially time-sharing arrangements and facilities management (Greaver, 1996:1).

Outsourcing can also be a very powerful tool and it has become an accepted business tool that organisations of all shapes and sizes are using to become more profitable and to stay on the cutting edge of change (Bendor-Sameul, 1998:12). Furthermore organisations are also realising that outsourcing is not only a tactical tool but is very much a strategic tool and that the old Information Technology outsourcing model has changed. “Outsourcing is not a tactical tool anymore and can be regarded as strategic tool. While some companies still choose to use the much-used model, innovative customers and suppliers are approaching outsourcing from different angles, and in the process are advancing the model to meet new demands” (Gurbaxani, 1998:1). In today’s business world, outsourcing is becoming more strategic as well as more complex and companies that manage to use this tool successfully are able to realise change at a strategic level.

The five strategic reasons according to Meyer (2000:2) that companies consider when entering into an outsourcing agreement are:
Improved business focus

Outsourcing allows companies to focus on broader business issues while having responsibility for operational details assumed by an outside expert. For many companies, the single most compelling reason for outsourcing is that operational issues are siphoning off huge amounts of resources and management attention. Managing day-to-day issues detract from focusing on the company's strategic intent and managers quickly lose sight of the "big-picture", often to the detriment of their customer.

Gain access to world-class capabilities

By the very nature of their specialisation, outsource providers bring to bear extensive world-class resources to meeting the needs of their customers. Partnering with an organisation with world-class capabilities can offer access to new technology, tools and techniques that the organisation may not currently possess. This partnering or networking also provides better career opportunities for personnel who are transferred to the outsourcing partner, be it as a going concern or under a new employment contract. Ultimately the transition involves more structured methodologies, procedures and documentation, with a resultant competitive advantage through expanded skills. Outsourcers by virtue of their specialisation keep abreast of happenings in their specific field of interest and are often consulted on matters concerning legislation and labour.

Accelerate reengineering benefit
Outsourcing as an option is often identified as a result of business process reengineering and redesign within an organisation. It provides an organisation the option to utilise the services of a specialised outside organisation to speedily implement the necessary changes within the organisation. Typically these outside organisations are highly specialised in this role and have themselves reengineered to world-class standards.

- **Share risks**

There are risks associated with the investments an organisation makes especially in rapidly changing fields such as information technology. By partnering with specialised service providers, companies are able to mitigate their risk by leveraging the knowledge and expertise of the service provider. Through outsourcing, companies became more flexible, more dynamic and better able to change themselves to meet changing opportunities.

- **Redirect resources to more strategic activities**

Every organisation has limits on the resources available to it. Outsourcing permits the redirection of resources from non-core activities toward activities that provide a greater return in serving the customer. Imagine for example a financial institution having a whole organisational, structure in place to keep abreast of the latest developments in canteen management, health and safety legislation and religious requirements so as to effectively provide a canteen service to their staff. How much more effective to outsource that activity to a specialist catering service provider.
Like with 3rd wave organisations, the characteristic of the new economy is that the knowledge an organisation needs to survive and thrive in the new economy is not available at one firm. To craft the solution they need, companies must work with many firms with different competencies and strengths (Nelson-Nesvig, 1998:38). The concept of “creating value”, “being flexible”, “moving beyond corporate and national boundaries”, “see ourselves as connected and needing to cooperate” is the underlying principles of 3rd wave organisations. Already one can see that the concept of building relationships using alliances is as a part of 3rd wave organisations as it is part of outsourcing.

1.3 Problem Statement

"A man who carries a cat by the tail learns something he can learn in no other way."
Mark Twain

To move away from a stable, safe and secure hierarchical structure to an unknown, new network structure is a strategic change with many implications, possibilities and challenges (Kruger, 2000:3). Second wave organisations can be seen as a natural extension to first wave organisations. There was no need to break down and reconstruct. Organisations started small and grew bigger and the speed at which the organisation was grown and the relative size that was created meant competitive advantage. Third wave organisations on the other hand are not a natural extension of second wave organisations. The reason for this is that each of the characteristics of a 3rd wave organisation lies at the direct opposite side of the continuum e.g. a
hierarchical structure vs. a network structure, structured style vs. a flexible style and stability vs. change to name three.

What this implies is that most, or all, organisations agree that the transition to third wave is of critical importance and that the desired state needs to be reached without delay. The problem is that these transitions are very painful, so painful that some organisations report up to a third of their staff leaving because they feel that they just could not make the transition or fit into the new organisation (Raphaely, 1995:8). It requires a complete abolishment of the current state, laying new foundations and building a total new desired state. It is not a case of what needs to be done but rather how is it going to be done. The current state is 2nd wave and the desired state is 3rd wave. The difficult part is how to make the transition.

There are many ways to carry a cat and even by carrying it by its tail some things are learned that is not possible if the cat is carried in some other way. That is also true for change in organisations. There are many ways to affect change and the likelihood of all organisations following the same road to get to a similar destination is highly unlikely.

In light of the above this thesis is aimed at answering the following questions:

1) What is change, how does it come about and is internal change in organisations necessary in response to external changes?

2) What is outsourcing, why is it significant in today’s business environment and can outsourcing be the catalyst that enables a 2nd wave organisation to change to a 3rd wave organisation?
1.4 Objectives of the study

"We are uniquely privileged to sit side-by-side with giants on whose shoulders we stand." Gerald Holton

The 1st objective of this study is to gain insight into organisational change, what the forces behind change are, how 1st, 2nd, and 3rd wave organisations came into existence and what the characteristics of a 2nd and 3rd wave organisations are.

The 2nd objective is to understand outsourcing, the history of outsourcing, the various options of outsourcing available to organisations and ultimately to see whether outsourcing can provide the catalyst that 2nd wave organisations need to change to 3rd wave organisations.

The final objective is to develop a high level outsourcing model consisting of a step by step process with key decision points and employee check-ins for managers that would consider strategic outsourcing.

The objectives of this research can be summarised as follows:

➢ To understand the fundamentals of change and how it impacts on organisations.

➢ To understand the fundamentals of 2nd and 3rd wave organisations.
To understand the fundamental concepts of outsourcing and to clearly distinguish between functional, tactical and strategic outsourcing.

To make the fit between outsourcing and 3rd wave organisations.

To develop a high level outsourcing model that can be applied in transforming 2nd wave organisation into 3rd wave organisations.

1.5 Methodology

The methodology of the thesis is based on an in-depth literature survey on the concept of change and how external forces shape change and how organisations respond to external change forces. The literature survey will also cover 1st-, 2nd-, and 3rd wave organisations and the concept of outsourcing and how outsourcing brings change in organisations.

The aim is to discover what has been written and said about each individual concept and the relationship between them. From that an analysis will be made on the hypothesis that strategic outsourcing is a catalyst that change 2nd wave organisations into 3rd wave organisations.
1.6 Restrictions

The sky is the limit.” Anon.

The literature study will be restricted to the number of textbooks that can be sourced from countries outside South Africa and the time delay involved in sourcing such material. Local textbooks on the subject will be consulted if found applicable.

There are no restrictions on the material that can be sourced from the Internet.

Articles, academic research and other relevant documents are restricted to class notes and academic search station database range and reach.

Articles from magazines and newspapers will be neglected from the text and source list and not considered for this thesis unless the original academic version can be accessed.

1.7 Division of the study

"The most important concomitant of economic progress [is] the movement of working population from agriculture to manufacturing and from manufacturing to commerce and services.” Colin Clark
The chapters to follow will include the following subjects:

**Chapter 2** will focus on:

- Understanding change, why change occurs, the resistance to change as well as second – and third wave organisations.

It is important to have a clear understanding of what change is, why change is important in management paradigms and what the forces are that drive change externally as well as internally in organisations. It is also important to understand that people have a natural inclination to resist change and the reasons therefore should be understood and taken into serious consideration when considering change initiatives in organisations. The concept of second and third wave organisations and the management thereof should also be understood and the implication thereof be made clear.

**Chapter 3** will focus on:

- What outsourcing is, why companies consider outsourcing, the levels of outsourcing, the history of outsourcing and the future of outsourcing?

It is important to have a clear understanding of what outsourcing is and what the differences between outsourcing and contacting are. It is also important to understand why companies consider outsourcing on functional, tactical as well as strategic level. The central theme of the
chapter will be to focus on the link between outsourcing and change in organisations. The chapter will also briefly look at the history as well as the future of outsourcing.

Chapter 4 will focus on:

- The link between 2nd and 3rd wave organisations using outsourcing and how outsourcing impacts on structure, style, leadership and employee expectations.

This chapter is the heart of the thesis and will aim to consolidate the preceding two chapters to create the link between outsourcing as the catalyst for change in 2nd and 3rd wave organisations. The critical aspects of 2nd and 3rd wave management paradigms will be discussed through outsourcing "lenses" with the aim to demonstrate the way in which outsourcing touches on each of these aspects and pulls it through from 2nd to 3rd wave. In some of the cases outsourcing causes the change and in some the change is the effect of outsourcing. This cause and effect relationship will also be highlighted and discussed in more detail in Chapter 5. The importance of leadership and source of strength of 2nd and 3rd wave organisations will also be discussed.

Chapter 5 will:

- Focus on drawing conclusions and making recommendations from the discussions and arguments lead in the previous chapters.

- Close the loop from the objectives set at the start of the thesis.
• Provide a summary of all the chapters of the study.

Figure 2 provides an overview of the division of the study and how the different chapters fit into one another. It also provides a breakdown of each of the chapters into the main subcategories that make up the content of the particular chapter.

Figure 2: Structure of thesis
2.1 Introduction

"The greatest power we have is the ability to envision our own fate—and to change ourselves." Jack Welsh

This chapter will provide the basis for understanding change and how it presents itself to today’s organisations. The chapter also aims to explain from a literature point of view why change is real and why it forms an integral part of the global economy today. Change is also in most cases resisted and the reasons for this are argued from surveying literature on organisational change. The chapter finally investigates the concept of second and third wave organisations and what the term actually means and why organisations cannot afford to ignore the existence of third wave management principles.

2.2 Understanding Change

"A problem well stated is half solved." John Dewey

The axiom now made famous is that change is the only constant in life, and the rate of change is accelerating. The word change conjure up feeling of anxiety and fear in the hearts of many people
that have had the terrifying experience of their service being terminated as a result of change in an organisation. While this is true, it should be noted that change is inevitable and that both organisation and people can experience considerable growth in the face of change (Eckes, 2001: vii).

Given the fact that change is a constant, the forces that drive transformation in organisations are shrouded in speculation and hyperbole. The usual suspects are globilisation, competition from low-wage developing countries, and advances in telecommunications and information technology. Domberger (1998:21) believes that many (managers) feel that the invisible hand (forces) of Adam Smith is trying to push them of the cliff. What is true though is that these forces are invisible and that they are more that often external forces. It is useful to think of these forces as emanating from two distinct groups of markets:

- Markets for outputs (goods and services), and
- Capital markets

In output markets the competitive forces intensify because of the rapid change in demand and supply conditions. Technological change, for example in telecommunications, effects the demand for services, offering a new range of services such as mobile telephones. As demand shifts, expenditure patterns change and firms find that traditional sources of revenue shrink. Technology also effects production methods e.g. mechanization and this brings with it new methods like just-in-time manufacturing, six sigma process variation control, expert systems and artificial intelligence just to name a few. These demand and supply side forces place significant stress on companies to perform and weak or below expected returns will invariably lead to devaluation of share prices and additional pressure placed on the company from the capital markets.
It stands to argue that change in the broader sense is a planned or unplanned response to external forces. It is also equally true that a large part of the frustration that managers experience with regard to change is that change itself has also changed (Kruger 2, 2000:2). The reason for this is that the speed, magnitude and complexity of change have changed.

It is common in most literature to categorise change into three distinct types: a) Developmental change, b) Transitional Change and c) Transformational Change. Figure 3 graphically demonstrates the difference between each of these types.

**Figure 3: Types of Change in organisations**

Source: Kruger (2000:3) adjusted.
Understanding change makes it easier to face change. Jack Welsh describes the ability to face reality as “to see the situation for what it is and not for what it was, or what we hoped it would be. Don’t kid yourself, it is the way it is” (Byrne, 2001:103).

2.3 Why Change

"You can choose not to change, but you can’t do it here." Jack Welsh

The literature provides various reasons in support of the argument for why organisations need to change. The generic reasons for change as given by Kruger (2000:4) were found to be the best of all the literature surveyed. It is argued that organisations change in response to some event that creates a desired state that is removed from the current state or else organisations change in response to some force that places pressure on the organisation to remove themselves from the current state. These changes are "unnatural" and in most cases reactive or in response to some factor.

Change in organisations can also be natural and comes about as a result of the growth of the organisation. Periods of stable growth in organisations alternate with periods of crisis and revolution. After each revolution change takes place and is a natural consequence of the growth in the organisation.
The following table summarises the “Characteristics of change” under “The reasons for change” in organisations:

**Table 1: Reasons why organisations have to change**

<table>
<thead>
<tr>
<th>Reason for change</th>
<th>1 - Pressures</th>
<th>2 - Performance Gaps</th>
<th>3 - Natural Organisational Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Characteristics of this change</td>
<td>Can be internal or external pressure</td>
<td>Usually in difficult periods</td>
<td>As organisations grow, periods of stable growth alternate with periods of crisis and revolution.</td>
</tr>
<tr>
<td></td>
<td>Can emanate from either output – or capital markets</td>
<td>Gap exist between the organisations actual performance and the desired performance</td>
<td>After every revolution, change takes place, guiding the organisation into a new direction.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A gap can be poor performance, sales, share prices, safety record, environmental compliance etc.</td>
<td>This implies that the need for change is constant and result from and leads to growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This gap can be on a strategic, tactical or operational level.</td>
<td></td>
</tr>
</tbody>
</table>

2.4 Resistance to Change

"Change is not without inconvenience, even from worse to better." Samuel Jackson, 1755.

Resistance to change is not a function of the organisation but roots itself in the people that operate in the organisation. People resist change and the primary reason for this lies in the fear for the unknown and the consequences thereof. Because change in organisations is synonymous with retrenchments resulting from restructuring and reengineering people fear change because it can result in the loss of employment and ultimately income and the ability to provide for self and others.

Believing that change is negative leads to thoughts and actions that results in behaviors that resist change and all the facets thereof. It is a common believe that the motivation to work and to earn a living can be traced to the content theories of Maslow, Herzberg and the like. When a person loses his or her ability to earn a living the level of maturity with regard to the needs hierarchy is reversed as each of the needs suddenly diminishes and the reverse of what motivated a person to get to the next level in the need hierarch kicks into action and one need after the other falls away. This continues until it is not even possible to satisfy the basic physiological needs like providing food and shelter. The source for all of this is then traced to change that happened in the organisation and it is understandable why people fear change.
The following figure graphically illustrates how change in a simplistic way can be linked to the content theories of Maslow and Herzberg and why it is argued that the fear for change stems from the loss of motivational factors.

Figure 4: Change and the source of resistance

Feeling threatened, unsafe and insecure stems from:

- The fear of economic loss
- The fear of loss of power and control
- Reluctance to change old habits e.g. operate in comfort zones
- Selective perceptions
- Peer pressure
- Bad experiences in the past, and
>>> Misunderstanding

Resistance to change is real and the power of people resisting change should not be underestimated. Moving people from a current undesired state to a future desired state requires a systematic approach underlined by a sound methodology, the basis of which is communication. A modern approach to deal with change and transition in an organisation is summarized in the following diagram.

Figure 5: Accelerated change and transition

![Diagram of Accelerated change and transition]


>>> Create a shared urgency

The key word is shared – not by one leader, but all stakeholders. The reason to change
now (not “next year”), whether driven by threat or opportunity, is instilled within the organization and widely shared through data, demonstration, demand or diagnosis. The urgent need for change must exceed its resistance.

➢ Focus the vision

The desired outcome of change is clear, legitimate, widely understood and shared. A vision must be compelling and vivid enough to create action. Way beyond posters and plaques – a vision defines a future state clearly enough so people understand it and know whether they want to get on board.

➢ Building coalition and commitment

There is a strong commitment from key constituents to invest in the change, make it work, and demand and receive management attention. It is also important to consider what coalitions to build and to know why resistance is inevitable.

➢ Charting a transition roadmap

A project plan for building acceptance must be as real as the plan for implementing the technical aspects of the change initiative. Are milestones set and realized? Are there plans that establish accountability? What are the measures and feedback mechanisms to monitor progress and give early warnings when the plan is off target?

➢ Align systems and structures

There are seven processes or systems that enable people and change efforts to succeed – staffing, training, measuring, rewarding, organisation design, communication and information technology. These seven must be evaluated to determine which need to be
modified to align them with the desired future state. These are powerful “levers” to help initiate and sustain change.

➢ Lead the way

Having a champion who actively engages in and sponsors the change in an enduring way.
Making a visible, relentless commitment via face-to-face communication, modeling change, and setting aggressive expectations for oneself and others.

➢ Sustain momentum

The transition zone of change requires constant attention to fueling the energy for forward action. Fueling means planning to ensure early wins, publicising victories, celebrating early adopters, monitoring resource requirements, and vigorously communicating the known and unknown.

Dealing with the resistance to change and knowing how to affect change is difficult and a traumatic experience for most managers of organisations. To deal with major change as a single experience is difficult but manageable. The ability to deal with ongoing change is unfortunately a different issue all together. Managers find that as soon as they have adapted to change another wave of change is on the way. It is thus understandable that some literature makes use of the term “Waves of Change”. It is synonymous with metaphorical waves of change that continually sweeps across the oceans of organisations. Waves of change are a very powerful way to describe the magnitude and speed of change. Waves of change threaten to divulge many organisations that cannot cope with the ongoing change, which is so typical of the modern day business environment.
2.5 Second- and Third wave organisations

“Ninety-nine percent of success is built on previous failure” Charles F. Kettering, founder of General Motors.

Making use of the metaphor wave of change is very useful because it describes the powerful, timeless and unstoppable nature of change. Some literature refers to timeless waves that have rolled across the industries, as it is known today. Kruger (1999:5) creates the analogy with waves of organisations and the characteristic of such organisations as they were forced to adapt to external conditions.

2.5.1 First Wave

First wave deals with the era in which economic activities were non-existent and people were solely reliant on nature to provide for their basic needs. Management in this period was very simple and had to do with the basic concepts of survival and day-to-day existence. There were no formal business structures and trade activities was very limited and pinned down to geographic locations.

2.5.2 Second Wave

Many believe that the shortage of energy sources, with the then almost total wipe out of whales in the northern hemisphere, lead to the start of the industrial age. The search for a suitable energy source lead to the discovery of coal, used for the generation of steam and later electricity. With
this came the incredible growth in businesses and the creation of jobs, urbanisation and eventually the mass production of products. Mass production led to mechanisation and subsequent increase in unemployment. With large organisations came power — power to rule and to create reporting structures. Hierarchies grew and organisations became large autocratic giants with rules and regulations and very strong, well-defined boundaries that clearly separated the inside world from the outside competitors.

Structure

The most prominent characteristic of a second wave organisation is its structure. These organisations have many levels within the broader operational, functional and strategic levels. The structures are usually tall with many reporting levels and approval structures. The span of control is limited and lends itself to self-sufficient silos within the organisation with very strong focus on competition, even among functions in the organisation. Managers and employees alike are specialists. A good example of such an organisation is General Electric (GE) when Jack Welsh was appointed CEO: "The reality was that at the end of the 1980's GE was, like much of the American industry, a formal and massive bureaucracy, with too many layers of management" (Byrne, 2001:93). In these organisations hierarchy's role is to passively "review and approve". These levels in organisations can be described as layers and are like sweaters humans wear to protect themselves against the gold. The only problem is that with too many layers it is difficult to know exactly how cold it is and without knowing it organisations don't realise how cold the market the market place has become.

Focus

The focus in second wave organisations is largely institutional. Remembering that in 2nd
wave organisations the trend was mechanisation with the focus on being bigger, better and having the biggest portion of the market share. Functions in the organisation were competing with each other for status and resources and if the function performed the likelihood that bonuses and promotions will follow was a reality. Entrepreneurial behavior was not allowed for mistakes made by individuals reflected negatively on the functional department. The talk of the day was: that is how we do things around here and we don’t change!

> Style

There is structure to everything and everything stays the same. Things don’t change and employment policies are very much cradle- to- grave. Title and rank is of high importance and promotion comes with time and not as a result of difference made or value added. The size of the office determines the importance of the position in the organisation and is directly proportional to the size of remuneration. Style in many ways represents the culture in the organisation. It is the aggregate of behaviors, thought, beliefs and symbols that is conveyed to the people in the organisation over time. Culture gets imbedded in the organisation and is extremely difficult and sometimes even impossible to change unless a major intervention is followed. In second wave organisations people belief in stability and security. Stability lies in size and the larger a mangers department the more stable the position. Security lies in the title and the position filled in the organisation. Thus a rigid hierarchy and a formal autocratic management style is characteristic a second wave organisation.
Source of strength

The source of strength of the industrial age companies is strength. Everything about them is geared to establish stability (Kruger, 1999:10). There is no room for flexibility, creativity and innovation and policies and procedures determine the way the organisation is run. The more stable the organisation the stronger the organisation. "Organisations tend to stay in a state of bureaucratic equilibrium because the people around them prefer the status quo over change. It is only natural for employees to want the security of knowing that the organisation’s rules and norms, its standards of behavior are prescriptions of success (Cantoni, 1993:25).

In summary a second wave organisation reminds a lot of a huge oil tanker at sea. It is stable, secure and moves at a steady pace. It is not easily forced of course and will eventually get to its destination, albeit to late.

2.5.3 Third Wave

Kruger (1999:8) argues that Alvin Toffler identified the need for third wave organisations for the first time in the 1980’s. Toffler indicated that organisations have a responsibility that reach far beyond the conventional borders of the organisation and that organisations should take on a multi purpose role. This implies that organisations should become involved in ecology, politics, and the social environment. It is argued that organisations should become involved in the complete spectrum of activities to which each of the organisations’ individuals are exposed to. The reasoning behind this philosophy is that the impact of organisations is felt over the full spectrum of society and it is predicted that most organisations are not willing to or even not capable of taking on this responsibility. The reason for this being the fact that organisations are just not
ready to shrug off the characteristics of a 2nd wave organisation and fundamentally adapt to the challenges presented by the third wave of management thinking. This vision displayed by Toffler and the dramatic changes in the field of technology and the intense competition that organisations are facing on an ongoing basis lead to the birth of what is now called 3rd wave organisations.

The fundamental difference between a 2nd and a 3rd wave organisation is the ability to adapt to change. Second wave organisations don’t want to change nor do they want to change often. The structure is not flexible enough and the resistance to change is high because the people that function within this organisation has grown attached to a stable environment and are misled by a false sense of security.

Third wave organisations are also characterised by a climate of creativity, innovation and adaptability. Entrepreneurial behavior among managers is encouraged and managers have the ability to visualize change and the strength of these organisations lies in change.

> Structure

The organisational structure of a third wave company is in essence flat. The number of levels in the organisation is kept to the minimum and networks are the fuel that fires the operation. Byrne (2001:96) draws the comparison between organisations and a house: *floors represent layers and the walls functional barriers*. To get the best out of these organisations, the floors and walls must be blown away, creating an open space where ideas flow freely, independent of rank and function. This leaves an open space without a center. This is also the beauty of networks; they have no center. In an organisation like this the leader can be the follower and vice versa. Leaders empower the network and they determine the drumbeat in the network. The importance of these networks as was
discussed in the analogy of floors and walls are the fact that networks allow the natural flow of ideas throughout the organisation without being hindered by “floors” and “walls”.

In third wave organisations structure has no permanence and these organisations are not centralized nor are they decentralised – the networks shift to accommodate the change. The networks are made up of temporary teams that are formed and then disbanded as events necessitates. The networks also call for fever employees but with the focus on interdependencies, internal and external to the organisation. The ability to draw in the resources as and when required, permanent or on a temporary basis.

▶ Focus

In third wave organisations the focus is on the individual as opposed to institution – third wave organisations exist for their people and not the other way around, as is the case in second wave organisations. In third wave organisations the people are motivated by commitment to an ideology, by the chance to change personally, to change the world and the chance to grow. In third wave organisations people take risks and they are rewarded accordingly (Kruger, 1999:10). In third wave organisations people function as teams and these teams are change makers, not caretakers – who come cheap by the way.

▶ Style

In third wave organisations the key word is change, there is no permanence and people except the fact that buildings, structures, offices and people change. This style, the way things are done and the values the organisation stands for create the belief that the organisation values the individual, the company exist for the sake of the individual and this determines the way people behave, knowing it is their organisation and that they
make the difference at the end of the day. This high level of involvement fosters a strong sense of ownership and people take responsibility for their actions and manage the organisation as if it is their own.

> Source of strength

The source of strength of third wave organisations lies in change. The ability to change continuously and to grow stronger with each phase of change. The ability to seize opportunities and to turn problems into solutions. “Companies that are like a speedboat, fast and agile, able to turn on a dime” (Byrne, 2001:92). Third wave organisations accept that change happens, they anticipate change, monitor change, adapt to change quickly, enjoy change and are always ready to change quickly and enjoy it again. These organisations live in the continuum of change.

Figure 6: The change continuum

Source: Johnson (2000:74) adjusted.
Third wave organisations require inspirational leadership and not the dogmatic leadership that is typical of 2nd wave organisations.

2.6 Summary

"What is now proven was once only imagined". Proverb.

In summary it can be said that change manifests itself in three forms: Developmental change, Transitional change and Transformational change. Developmental change is an improvement on what is, transitional change is the implementation of a desired state which is known and different from the current state and transformational change is the emergence of a new state that is unknown until it takes shape and is usually a product of chaotic death.

It is also important to know that resistance to change is real and that the only way to accelerate change is to: create a shared urgency, focus the vision, build coalitions and commitment, create a transition roadmap and to align systems and structures. It is management’s responsibility to sustain momentum and to lead the way from the current to the desired state through the transition and transition phases.

Change in the global business environment is like waves that continue to roll and crush unto the shores of organisations and that it is critically important for organisations to adapt and to adopt 3rd wave management principles in order to survive the new business realm. The difference in
2nd and 3rd wave management principles is not subtle and lies at the opposite of the continuum with regard to each individual aspect. To change from 2nd to 3rd wave is not an option but a matter of survival and those organisations that are successful in transforming from a 2nd wave organisation into 3rd wave organisations will reap the benefits and continue to outperform the competition.

Table 2 summarises the most important aspects of 2nd and 3rd wave organisations with regard to the contrasting management paradigms.

Table 2: Summary 2nd - and 3rd Wave organisations

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>2nd Wave</th>
<th>3rd Wave</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus</td>
<td>Institution</td>
<td>Individual</td>
</tr>
<tr>
<td>Style</td>
<td>Structured</td>
<td>Flexible</td>
</tr>
<tr>
<td>Source of strength</td>
<td>Stability</td>
<td>Change</td>
</tr>
<tr>
<td>Leadership</td>
<td>Dogmatic – Title and Rank</td>
<td>Inspirational – Making a difference</td>
</tr>
<tr>
<td>Expectations</td>
<td>Security &amp; Stability</td>
<td>Personal growth and development</td>
</tr>
</tbody>
</table>

Source: Kruger (1999:9) adjusted

There are numerous ways to affect the change and one of these is to make use of the concept known as outsourcing. In the following chapter the concept of outsourcing will be investigated with the primary focus on change and how the literature supports the fact that outsourcing
enables organisations to change. The question that ultimately needs to be answered is how do management of 2nd wave organisations transform their organisations into 3rd wave organisations in order to cope with the new tide that is sweeping across the oceans of organisations.

Is outsourcing the vehicle that will enable organisations to make that transition?
3.1 Introduction

"Do it right, and outsourcing can be a powerful tool for achieving competitive advantage. Do it wrong and it can be a quagmire of sub-performance, plummeting morale and lost business opportunities." Maurice Greaver.

Outsourcing for many is synonymous with contracting and unfortunately too many organisations opt for outsourcing as a shortcut or quick fix to deal with incompetence, financial pressure or technological weakness. Worse even they fail to consider the long-term implications of outsourcing.

In this chapter the aim is to better understand outsourcing, what it is and why organisations opt for outsourcing at a strategic level. It is also the aim to understand what strategic outsourcing is and how it differs from tactical and even operational outsourcing. It is also critically important to investigate, through the use of literature, what the difference between contracting and outsourcing is and why it is important to recognize this difference before venturing into the field of outsourcing. The chapter will also look into the history of outsourcing for it is important to know the roots of outsourcing to understand the fruit.

The key to the chapter is to have on completion a true understanding of outsourcing and to make the link between outsourcing and change in organisations.
3.2 What is Outsourcing

Outsourcing is about saving time, gaining expertise and borrowing technology. It's about reacting quickly to changing markets in order to save money. It's about strategic planning and the profitability. It's about breaking through the organizational structures and focusing the business. It's about holding on and letting go at the same time. It's about the integration of old and new ideas and it's changing the way America does doing business. Outsourcing is a wild and crazy ride – destination success. (Nelson – Nesvig, 1998:23).

The study of recent literature on the concept of outsourcing brings about a number of different definitions for the concept of outsourcing:

"Outsourcing is the act of transferring some of a company's recurring internal activities and decisions rights to outside providers, as set forth in a contract" (Greaver, 1999: 3).

"The transfer to a third party of the continuous management responsibilities of the provision of a service governed by a level agreement" (Gay, 2000:4).

"Outsourcing takes place when an organization transfers the ownership, of a business process to a supplier" (Brendol-Samual, 2000:25).
"Outsourcing occurs anytime the organization elects to utilise outside, independent workers to conduct work-related tasks. The How, What, Where and When of the working conditions are driven by the needs of the organization and may vary from assignment -to-assignment, day-to-day, and worker-to-worker" (Nelson-Nesvig, 1998:27).

"Outsource: to contract work out. To enter into or to make a contract. From the Latin word contractus, the past principle of contrahere, to draw together, bring about or enter into an agreement: con, together + trahere, to draw" (Domberger, 1998:3).

The dominant theme in all of the definitions is the term transfer as well as business processes to a party or company that is external to the company that owns the process.

In the process of transferring business the company relinquish control. This is a fundamental concept that must be understood to distinguish between outsourcing and purely contacting out a service or activity to an outside vendor. In outsourcing the buyer does not instruct the supplier to perform its task but, instead, focuses on communicating what results it wants to buy, it leaves the process of accomplishing those results to the supplier.

Although there are many types of outsourcing the fundamental concept remains and that is that: Ownership of a certain part of the process of producing a product or rendering a service is handed over to the successful partner. In return the company requires a level of service that are underlined by key performance indicators that ultimately make up the metrics of the contract.
3.3 Why do companies outsource?

"Nothing in the world is as powerful as an idea whose time has come". Victor Hugo

There are many reasons listed in the literature that aim to answer the fundamental question that managers across the business community would ask and that is why should organisations outsource activities and processes within their control? Greaver (1999:3) argues "Just as the probability of another person's suit of clothes fitting you exactly is remote, so too is the probability of another organisation's reasons for outsourcing fitting yours equally remote". Given this statement what is critically important is that organisations and managers in principle understand the reason for considering outsourcing and the benefits it will provide.

Although not surprising the generic reasons given has as its premise the element of cost, many companies without realising it are driving home change in their own organisations by outsourcing certain services. Greaver (1999:4) list transformation of the organisation as one of the outsourcing reasons. Nelson-Vesvig (1998:50) argues that hierarchical pyramids will either disappear completely or become shorter, smaller and less ridged in an effort to become more versatile, cost effective and innovative and that such organisational structure change will make it difficult to operate without the use of outsourcing. Brendor- Samuel (2000:24) makes the analogy between turning lead into gold when he argues that " the modern alchemy of outsourcing generates immense wealth from business functions that traditionally have been regarded as
expenses or drags on earnings – slag piling up. Outsourcing transforms expenses into profit centers and, just as in medieval times, turns lead into gold”.

Added benefits of outsourcing practices at large organisations that are not always expected are amongst others that outsourcing “acts as a catalyst for change by highlighting the need for improvements elsewhere in the organisation.

These are all good reasons why companies outsource but fundamentally it is about economies and outsourcing should make economic sense for managers and ultimately businesses to pursue this option – yes? This believe is also held by Woodall (2000:3) “Change is simply economic growth by a different name. It is relatively easy to quip about economic change but another matter to survive it. And although outsourcing does not quite create such an upheaval, it does involve internal organisational change”. So even if economics is the driving force behind the motivation to outsource, it inevitably brings change with it.

### 3.4 Levels of outsourcing.

"If have seen further than others, it is by standing upon the shoulders of giants." Isaac Newton

According to Greaver (1999:5) outsourcing occur at three levels of activity. Organisations have the option of outsourcing individuals, functions or processes in the organisation. The decision is driven ultimately determined by the strategic intent.
The following figure aims to graphically depict these levels in the organisation and also creates the link between levels of outsourcing activity and the pyramid type structure found in most organisations.

**Figure 7: Levels of outsourcing**

Source: Meyer (2000:2) adjusted.

Outsourcing of *individual* activities involves moving specific positions out of the organisation. This could be the management position of a poorly performing function, a technical position that are difficult to fill as a result of turnover or any other specialized position in the organisation that management deems necessary.
Organisations that are structured around *functional* centers having specialised knowledge and responsibilities can also consider outsourcing these functional centers as part of their strategy to make these functions create more value.

Products and services flow through the organisation and the link between similar activities aimed at creating an output for the customers’ benefit is termed a *process*. Many an organisation prefer to outsource entire processes to an outside service provider. This is done for the simple reason that they have come to realise that no matter what the size or shape of the organisation they can become more profitable and stay at the cutting edge of change by turning over those other tasks to companies that consider them their core business (*Bendor-Samuel, 2000:21*).

The sourcing options available to the company also varies and the underlying principle to the choice of option is determined by the level of risk management are wiling to bear, the extend to which management would like to be involved in the sourcing partner as well as the level of control management wish to retain.

*Figure 8: Sourcing options available*

![Sourcing Options Available](image)

Source: Meyer (2000:3).
Each option has its merits and the model chosen should at the end reflect the organisations’ real requirements and deliver the benefits that are expected by the organisation.

3.5 What is Strategic Outsourcing?

"In oneself lies the whole world and if you know how to look and learn, then the door is there and the key is in your hand. Nobody on earth can give you either the key or the door to open, except yourself." J Krishnamuri

The terminology strategic, tactical and operational is derived from the pyramid structure that is used in most business models to depict the major hierarchical levels in an organisation.

Initiatives that are developed by the top management of the organisation are strategic by nature and have to do with the long-term vision of the organisation. These initiatives are filtered through the organisation to the tactical level in the organisation that has to ensure that the strategic intent of the top management is institutionalised in the organisation. The strategy of the organisation is finally filtered down to the operational level in the form of policies and procedures that will ensure that the strategic intent of the top management is "lived" at the floor level.

The figure following graphically illustrates these levels as well as the management dedicated to each level.
An outsourcing initiative becomes strategic when it is aligned with the organisational long-term strategies. The benefits from such a decision will emerge over a long term and the results, either positive or negative, will be significant to the organisation (Greaver, 1999:8). This believe is also held by Gay (2000:26) that the growing popularity of adopting a strategic approach to outsourcing stems from the simple fact that organisations that do this appear to do well. However, organisations must realise that making the most of strategic outsourcing is an in-depth, difficult and frequently painful process, as well as requiring considerable investment. “It is not at all a matter of pushing a button and then getting on with other things. On the contrary, push the button of strategic outsourcing and your organisation may never be the same again” (Gay, 2000:27).
Surveys done in this regard has shown that outsourcing is seen as a strategic tool and that companies take the risk of outsourcing on a strategic level because the benefits, even given the fact that it might be long-term, outweighs the risk.

Table 3: Outsourcing as a strategic tool in modern day businesses

<table>
<thead>
<tr>
<th>Survey (Results expressed as a % of responses given by CEO's)</th>
<th>Chief Executive Magazine and Anderson Consulting, 1997</th>
<th>KMPG Peat Marwick LLP, 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>50</td>
<td>89</td>
</tr>
<tr>
<td>Tactical</td>
<td>47</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Greaver (1999:8).

Outsourcing initiatives in organisations are moving up the strategic level "innovative customers and suppliers are approaching outsourcing from a different angle and in the process are advancing the model to meet the new demands. In today's business world outsourcing is becoming more strategic as well as more complex" (Gurbaxani, 1998:1).
3.6 Outsourcing History

Outsourcing is a term invented by the information systems trade press in the late 1980’s. It was coined to describe the growing trend of large companies transferring their information systems to providers. These services, however, can be traced back to the last World War II, when systems facilities management services were provided to the U.S federal government (Greaver, 1999:10). Outsourcing is similar to sub-contracting, joint venturing and strategic partnering concepts that date back hundreds of years. It has been common practices:

➢ For farmers to hire groups of migrant workers to supplement the farmers staff at harvest time.

➢ For construction companies to subcontract elements of subsystem construction

➢ For the government to contract the production of military equipment with contractors that are strategically partnered.

What sets these outsourcing apart from these similar concepts is the fact that “internal” are being transferred out. This may not necessarily be the case with subcontracting and joint venturing.
Brendor Samuel (2000:56) argues that the big breakthrough for outsourcing came when IBM entered into the market of data processing — "the entry of IBM gave strength and legitimacy to outsourcing that previously lacked." This led to other companies understanding that outsourcing was a viable tool that they, too, could use. He continues to say that outsourcing, originally viewed as a vehicle for distressed companies in the need of cost reduction, started to accepted outsourcing as a strategic tool.

"As outsourcing became more prominent in countries like the USA more companies in other countries became more open to embrace the trend in outsourcing. This trend of outsourcing spurred on by the power of multinational organisations became a wave that swept across Europe and into other countries like South Africa" (Brendor-Samuel, 2000:57).

3.7 Outsourcing: The way forward

"Call it what you like – non-traditional work force, a flexible work force, a low-fix cost work force, a just-in-time work force – it's real, it's radical and it is being implemented right now into organisations across the country" (Nelson-Nesvig, 1998:101).

The incredible pace of technology that has shaped the environment that organisations function in still leave most companies flatfooted. The Internet has without a shadow of doubt made a significant impact on the way organisations operate in the 21st Century. The Internet will invariably touch all aspects of the way companies conduct their business and even for an initiative like outsourcing there is no alternative than to embrace this next frontier.
We live in a world where cycle times are going from two months to two hours and the competitors are no longer encumbered with large bureaucracies or restricted by geography, and it is in this sea of change that companies must rethink their strategies and refocus on their core competencies. Outsourcing are expected to grow at double digits rates over the coming decades (Greaver, 1999:14) as companies continue to increase their use of outside contractors to perform functions that require skills the companies lack. These skills will cost too much to perform in-house or would divert attention away from the firm's products or services (Nelson-Nesvig, 1998:99).

3.8 Summary

In summary it can be said that is today’s fast-changing environment, with its premium on knowledge, flexibility and performance, organisations are forced to rethink their paradigms. Paradigms are set of rules or regulations that does two things:

➢ It establishes or defines boundaries, and
➢ It tells how to behave inside of the boundaries in order to be successful.

Organisations should question whether the traditional way to achieve competitive advantage is still the best way. The outsourcing concept of moving activities out of the organisation to where the experts and the resources exist, as oppose to owing the resources, is seriously challenging the conventional boundaries of wisdom, based on hundreds of years of experience and tradition.
This challenge takes great courage: “True courage is the knowledge of right and the
determination to do it. False courage is a willingness to do what is wrong because others say it is
right” (Greaver, 1999: xiii). For organisations the true courage lies in the ability to search for the
highest value-added resources, irrespective of where they are, to meet the organisations needs.
False courage on the other hand will be to continue to rely on the internal resources because
doing otherwise would bring exposure to criticism and unpopularity among the employees of the
organisation.

Business is about the customers and the markets it serves and satisfied customers are the only
guarantee for survival, and if that means that companies must use outsourcing as the vehicle to
ultimately satisfy their customers needs, then that is what should be done.

Outsourcing will be met with resistance because it will invariably lead to change in the
organisation, however, outsourcing can also provide employees with better training, development
and career opportunities. Outsourcing is not contracting. Outsourcing is strategic in nature and
provides those organisations that manage to outsource in the correct manner and for the right
reasons with a competitive advantage that was not present prior to outsourcing. The question that
needs to be answered though is if outsourcing can be the catalyst to change 2nd wave
organisations into 3rd wave organisations? The next chapter aims to make the link between 2nd
wave and 3rd wave organisations from the perspective of management paradigms unique to each
wave.
CHAPTER 4: OUTSOURCING: LINKING 2\textsuperscript{nd} - and 3\textsuperscript{rd} WAVE ORGANISATIONS

4.1 Introduction

"No idea is so outlandish that it should not be considered with a searching but at the same time with a steady eye." Winston Churchill

Changing an organisation from a 2\textsuperscript{nd} to a 3\textsuperscript{rd} wave organisation is a daunting task and surely not a discussion that is taken an operational or even tactical level. These types of decisions are taken at strategic level and are by nature long-term decisions. It is also important to note from the start that when considering outsourcing as the vehicle to take an organisation from 2\textsuperscript{nd} to 3rd wave that the level of outsourcing considered is purely strategic and that such a decision will be aligned with the vision for the company.

To implement fundamental change within an organisation e.g. changing from a 2\textsuperscript{nd} to a 3\textsuperscript{rd} wave organisation, takes up an inordinate amount of time and effort (Meyer, 2000: 2). The amount of time spent on strategising, planning, selling and implementing change often results in the effort being still born or worse still, abandoned due to the lack of buy-in and commitment from staff. The analogy of an elastic band stretched to extreme only to return to its original shape and position when the stretched end is released encapsulates what happens in organisations. It takes up an inordinate amount of energy to stretch the process. People cling naturally to the known and resist the unknown, they don’t want to move into the foggy future no matter how bright the light
shines into that direction the mist of uncertainty drives people back to the original position when the opportunity to do so presents itself. It usually takes a situation that has reached critical dimensions e.g. a company that faces certain closure that allow people to leave the burning platform. Some ironically enough remain and like in the case of the Piper Alpha burning platform of the Scottish coast in 1988 only a few decided to take a leap of faith and to plunge into the unknown and remarkably enough survived the ordeal (Conway: 2000,2).

This is unfortunately the reality otherwise all organisations by now would have already excepted and implemented 3rd wave principles and be well on their way to becoming 4th wave organisations. It is not easy to change even ones own behavior, how more difficult it must be to change a whole organisation. There is a theory that if a frog is placed in a bowl of water and the heat turned up slowly enough the frog will eventually die even though it is possible for it to leave at any stage. Organisations just sometimes don’t realise that the water is getting hotter and if they don’t move they will die. Ironically enough there are a lot of cases to proof this point: railways taking over state coaches, PC's replacing typewrites, CD's replacing tapes and the old 45's and God forbid what human cloning will do.

In this chapter the aim is to investigate whether strategic outsourcing can be the catalyst for transforming a 2nd wave organisation into a 3rd wave organisation. In order to validate the statement it will be required to look into each of the fundamental characteristics of the 2nd and 3rd wave management paradigms and to see whether outsourcing can affect that change: The fundamental areas of investigation will be:

- Organisational Structure
- Organisational Focus
> Organisational Style
> Source of Strength
> Organisational Leadership, and
> Employee Expectations

Figure 10 graphically illustrates this line of argument.

Figure 10: 2nd and 3rd Wave link
There are three types of people in organisations: risk takers, caretakers and undertakers.

George Geis

4.2 Organisational Structure

Structure: way in which things are constructed; supporting framework or essential parts; thing constructed; complex whole (Oxford Dictionary, 1987:554).

In second wave organisations the supporting framework for the organisation is built on hierarchy. Hierarchies in 2nd wave organisations are tall and rigid and centered around functions, products or divisions. In 3rd wave organisations the supporting framework is a network. Networks are flat, are interconnected with each other and flexible. Domberger (1998: 9) states that recent evidence suggests that, in today’s world markets, large integrated organisations are neither responsive enough nor necessarily more efficient than the more fragmented but cooperative networks of organisations specialising in different types of aspects of manufacturing and service provision. An important feature of these networks is the appearance of “hybrid” organisations that combine elements of arm’s length agreements that stem from outsourcing contracts. “Networks of small organisations linked to their clients via contract can adjust more quickly and at lower cost to changing demand conditions compared to integrated organisations” (Domberger, 1998:51). Outsourcing is changing organisational structure, making it leaner, flatter and less bureaucratic. Kotter (1995) predict that hierarchical pyramids will either disappear completely or become shorter, smaller and less rigid in an effort to become more versatile, cost competitive and innovative in the era of global competition and that this will not be possible.
without the use of outsourcing. That is why an increasing number of executives see outsourcing as the way to reshape their organisations – to move away from vertically integrated organisations of the past and to create more flexible, focused organisations that rely on outsourcing to enhance their core capabilities and optimise relationships with their customers. An organisation's ability to create and sustain such relationships will be essential to the success of organisations in the 21st century.

Outsourcing transforms organisations and it is now being used to restructure organisations that have been quite successful (Greaver, 1999: 13). Building relationships internal and external to the organisation can become strategic and this type of sound relationships will benefit all parties, internal and external. The traditional organisational structure made up of functional silos needs to make way for the new model that is customer-focused, process driven and in which all the employees understand their roles and how they contribute to customer satisfaction. The success in the market place today is directly proportional to the knowledge that the organisation can bring to bear, how fast it can bring the knowledge to bear and the rate at which it accumulates knowledge. The ability to bring knowledge to bear fast is in turn largely a function of:

- The reach of the firm’s network, including insiders and outsiders of any size or form,

- The density of network, meaning the variety of network partners and the relationship that exists among the networks, albeit internal and external.

- The network’s flexibility and the skill at reconfiguring.
Outsourcing providers are an integral part of these networks and accordingly outsourcing will play a significant role in changing how organisations achieve competitive advantage and ultimate success. Outsourcing is a powerful transformation tool that can achieve excellent results.

Where the old model of organisation structure focused on control as the center theme the new transformed organisation focus on the customer with control central to the organisation (Gay, 2000:29).

Figure 11: New Focused Network organisation

It stands to argue that strategic outsourcing transforms 2nd wave hierarchical type structures to flatter more flexible and responsive network type structures that are typical of 3rd wave organisations. Outsourcing flattens organisational structures and allows the people in the organisation to focus on what they do best and building networks with suppliers of those things that are not their specialty. Doing this strengthens the weak links in the organisation and makes the sum of the whole more than the sum of the individual parts.

4.3 Organisational Focus

"People that say it cannot be done should not interrupt those who are doing it."
Anonymous

Focus: point at which an object must be situated to give a clearly defined image; state of clear definition; central or originating point (Oxford Dictionary, 1987: 211).

In 2nd wave originations the focus is institutional, building and developing an achieving better sameness. Individuals must conform to rules and regulations and the system will determine what advances an individual makes in the time spend with the organisation. People in these organisations are motivated by promotion, salary and bonuses. Focus is on the function and the performance of silos in the organisation is what is of importance. The aim is to compete, whether internal or external and the individual is part of the bigger mechanism that keeps the organisation in motion. Growth and development of individuals are not the main consideration and people find comfort in the safety and security (realistic or not) the organisation offers them. Employees are
specialists in their activities and innovation and creativity are considered unnecessary in carrying out the tasks that are well documented and standardized.

Third wave organisations are at the other extreme end of the continuum and the focus is on the individual. Creativity and innovation are encouraged and the ultimate goal is to grow and develop people. These organisations exist for the people that are seen as the lifeblood of the organisation. The value of individuals is gauged by the difference they make and problems are seen as opportunities begging for solutions. Employees are encouraged to take risks and the rewards are in direct proportion to the level of risk taken.

The paradigm shift that is required to honestly believe that organisations not only consist of people but also exist for the people is almost unthinkable. In 3\textsuperscript{rd} wave organisations this value applies to all individuals that have a stake in the business, be it the shareholders or the local community. There is no evidence in the literature surveyed for this thesis to make that direct correlation, however strategic outsourcing will refocus the organisation and its resources and in the process more time is spend on the individuals in the organisation. Because outsourcing trims away the non-core activities, what is left is the core of the organisation with committed and focused individuals. With this type of outsourcing employees can receive better training and career opportunities (Greaver, 1999:xiii). That is why outsourcing acts as a catalyst to focus the organisation and as a result of this narrower focus the role of the individual becomes more prominent.
Figure 12: Networks focus on individual


Nelson-Nesvig (1998:45) claims that some organisations follow a more noble approach in not only outsourcing value chain processes but also a portion of the human resources. This has provided organisations with products and services that time has never allowed for and subsequently major projects like employee surveys, position description, compensation structures, performance and communication programs are being conducted in a more efficient and effective manner than what was previously possible. With these interventions morale and productivity have improved. Employees realise that it is being done on their own behalf.
It is difficult and it touches on a paradox to draw a comparison between outsourcing functions or processes in an organisation and on the other hand to motivate this by claiming an improved focus on individuals. The reason for this lies in the fact that many companies wait too long and then downsising is done under the facade of outsourcing. That is why outsourcing and downsising is sometimes used as synonyms, but this is incorrect (Domberger, 1998:201). Outsourcing refers to the change in organisational boundaries resulting from decisions to contract out activities undertaken within the organisation. Downsising refers to the reduction in size of the organisation brought about by large-scale layoffs and redundancies- significantly reducing the number of people employed. With downsising the loss of jobs are inevitable, with outsourcing the number of positions are likely to remain the same with improved training and development for the employees that join the expert service provider.

It is thus safe to say that there is not such a direct and strong relationship between outsourcing and changing the focus of the organisation from institutional to individual as there was between outsourcing and transforming the organisation from a hierarchical to a network organisation. Outsourcing is in essence creating networks and 3rd wave organisations are network organisations. But even with this acknowledgment there exist a strong relationship between outsourcing and changing the focus of the organisation and the resultant more focused approach can also include a more focused approach towards the growth and development of individuals in the organisation.
4.4 Organisational Style

Style: manner of writing, speaking or doing; distinctive manner of period; correct way of designating person or thing; superior manner of quality (Oxford Dictionary, 1986:556).

Style in terms of organisational strategy closely resembles culture – the aggregate of behaviors, thoughts, believes and symbols that is conveyed to the people throughout the organisation (Silberger, 1994:310). Organisational culture is ingrained and very difficult and sometimes impossible to change. The reason for this lies in the fact that what people come to believe stems from numerous incidents over time. The only way to change the culture in an organisation is to identify those behaviors that enforce the positive nature of the culture and to reinforce the behavior through “hear, see and feel” intervention e.g. communicate, demonstrate and symbolise. The same argument applies to those negative behaviors that undermine the culture that the organisation wants to instill in its people and to prohibit and discourage such behavior. This so call “more of, less of” approach is a very useful and practical way to capture the elements that make up the culture (style) of an organisation.

The style in 2nd wave organisations is very structured and confined. People operate on policies and procedures and everything is well documented and seldom changed. Systems are slow and cumbersome and the inertia of these structured organisations make it difficult to deviate from any course, whether it is good or bad. The environment is stable and secure and changes are subtle if
any. Third wave organisations on the other hand have a very flexible style that can adapt to change and readapt if and when required. People are allowed the freedom to operate like entrepreneurs, to be innovative and creative in their approach to daily problems. Title and rank are of lesser importance and making a difference is what matters.

Today’s business environment demands speed and flexibility to change (Brendor-Sameul, 2000:11). The ability to adjust the scale and scope of production upwards or downwards at low cost and rapid rate is very much a function of networks of small organisations that are linked to their customers via outsourcing agreements. Flexibility is the hallmark of these relationships (Domberger, 1998:51) and flexibility is a major reason organisations use strategic outsourcing. It (outsourcing) expands the intellectual pool and eliminates complex functions internally making the organisation more flexible (Nelson-Nesvig, 1998:38).

Flexibility allows organisations to meet changing business conditions, demand for products and services, and technologies. Outsourcing creates flexible, focused organisations and fuels cultural change by educating people about creative service delivery options. (Gay, 2000:12).

The critical element in an organisation’s style is its ability to adjust to change. If the style is structured, chances are that it will be difficult to adapt to change, but it is possible. The likelihood of adjusting frequently is a different scenario and it is in the fast changing environment that these organisations find it extremely difficult to be competitive primarily due to the organisation’s inability (rigidness) to “bend and twist and turn on a dime” (Byrne, 2001:92). Strategic outsourcing makes companies flexible, pliable and adaptable to external forces that act on the organisation.
The relationship between outsourcing and the ability to change organisations style from structured to flexible is recognisable and significant. Companies can create network type organisations with strong relationships, driven by service agreements through outsourcing contracts. These network organisations are flexible and can adapt to change if and when required.

4.5 Source of Strength

"There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in success, than the lead in the introduction of a new order of things, because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new. Prince Machiavelli,

Second wave organisations have as their source of strength stability. Everything the organisation portrays is stable. The organisation structure is rigid and builds on strong hierarchies, the focus is on the institution and the style is structured. Organisations are large and people find security in the cradle-to-grave principle that allows them the opportunity to start and end their careers in the same organisation. Larger organisations are perceived to be the strongest and are the preferred employer for those that seek stability and prosperity.

Third wave organisations are at the opposite of the continuum and these organisations derive their strength from the ability to change and change frequently. Change brings with it growth and the more frequent the change the stronger the organisation. Change fuels the organisation and the style and structure of the organisation lends itself to change. Networks are flexible and adaptive to change. Theses organisations can turn course at regular intervals and the speed at which it can be done determines the organisation ability to stay ahead of the competition.
"This day and age the technology-driven revolution is a reality and organisations face an uncertain future with the pace of change placing an ever-increasing strain on senior managers. Most organisations can't afford the time and financial resources to concentrate on every function or process necessary to cope with the new dimensions of competition. However, in this time of ever increasing competition, low-cost operations and operational excellence in all facets of the organisation is essential. To solve this paradox organisations are turning to the 30 year-old-tool of outsourcing as the best way to survive and even thrive in the nascent world of e-business" (Brendor-Sameul, 2000:20). Outsourcing is the only tool that is available that provides the ability for organisation to become stronger, improving operations while cutting cost, by releasing time and capital that can be used to strengthen the organisation further.

In today's fast-changing environment, staying the same is riskier than outsourcing (Greaver, 1999:31). Outsourcing reduces the risk and the ability to deal with change, even though it is frequent and more intense, will make companies more competitive e.g. stronger. Owning (or employing) factors of production in other areas than core competencies can be very risky and the disadvantage of this "owing" approach is among others that the organisation is slower to change. Fast and agile competitors can change industries overnight, it takes months for larger organisations to recognise the need for change and much longer to make the change. These fast and agile competitors become stronger at the expense of those that cannot keep up with the change in their environment.

There are alternative approaches that can be followed to deal with change. The choice of pace of change can be either fast or slow and the degree of change can either be tactical or strategic. Arranging these options in a two- by- two matrix with cross reference to the various tools and options available to obtain the desired result provides a useful way of visualising the positioning of outsourcing in the matrix relative to other approaches available to organisations. The following figure graphically illustrates this positioning of outsourcing relative to the other approaches.
"Focused improvement tools" like activity-based cost management, bring incremental improvements to the organisation. "Continuous improvement tools" such as quality management and benchmarking also allows for incremental improvements to the organisation. "Business process innovation tools", such as reengineering, make a dramatic impact on the organisation and can take several years to complete. "Focused restructuring" is the only strategic degree of change that will allow organisations to transform themselves in such a manner that they are able to meet the "fast" pace of change. Focused restructuring tools such as outsourcing or mergers and acquisitions make a significant impact on the organisation and they can be completed in months (Greaver, 1999:106). Organisations that position themselves in the bottom left quartile of Fig 13 will be able to cope with the fast pace of change and will be more competitive than their rivals.

Outsourcing, used as a focused restructuring tool, strategically positions an organisation to deal with frequent changes. This attribute will be the source of strength for these organisations in relation to those organisations that are not strategically aligned to function under the same conditions.
4.6 Leadership

"If you build castles in the air your work need not be lost, that is where it should be. Now put foundations under them." Henry David Thoreau

Second wave organisations are characterised by a leadership style that is dogmatic, authoritative and arrogant. The "tell and do" mentality fits neatly into the hierarchical structure and with a focus on the institution the purpose of employees are to do what they are instructed to do and nothing more or nothing less.

Third wave organisations on the other hand are characterised by a leadership style that is inspirational and that has divine influence. Managers display leadership characteristics in that they lead people in a way that allows the individual to achieve what would not have been possible without the guidance of the leader. Managers spend time with employees and they believe in personal growth and development of their subordinates. Leaders support, mentor and encourage individuals to learn from their mistakes. Leaders make a difference.

When it comes to outsourcing what really matters is what needs to be outsourced, who will be involved and by when the process will start and be completed. Gay (2000:6) is of the believe that like a car's engine, outsourcing makes things happen, but what really matters is who is in the car, where they are heading and more so why they are going there. Leaders are the risk takers and managers the caretakers. Outsourcing is a risky issue and failure is as real as is the success. Outsourcing requires new management skills – from a disciplined selection to an understanding of the crucially important elements of culture and chemistry that can make or break relationships (Gay, 2000:18).

Greaver (1999:78) is of the believe that "Any intelligent fool can make things bigger, more complex and more violent. It takes a touch of genius – and a lot of courage – to move in the opposite direction. Jack Welsh was such a genius, with courage to focus the business (GE) on what it did best and getting rid of the rest. Jack Welsh was an inspirational leader (Tichy et al,
1996:xI). It takes inspirational leaders to outsource and ultimately what remains is an organisation that is not conducive to dogmatic leadership.

4.7 Employee expectations

The central theme to date with regard to 2nd and 3rd wave organisations has been stability versus change. It is hard to understand why being secure and stable can be seen to be "negative" when discussing employee expectations. The reason for this could be that people's natural inclination is towards security but reality is that only growth and the ability to adapt to change can ensure survival and a secure future. Organisations, just as living entities, must evolve with time and overcome weaknesses by developing strengths. The growth and development of strengths is the only guarantee for survival and that is why security lies in growth. To grow requires change and without change growth seizes and death is eminent. Hamel (1996:4) defines the essence of survival through the powerful analogy of survival on the African planes:

_Every morning in Africa, a gazelle wakes up._
_It knows it must run faster than the fastest lion or it will be killed._
_Every morning in Africa, a lion wakes up._
_It knows it must run faster than the slowest gazelle or it will starve to death._
_It does not matter whether you are a gazelle or a lion._
_When the sun comes up, you'd better start running._

It is this natural process of survival that ensures the strongest individuals survive and the weakest being taken out by the enemy. The same applies to organisations and the people that are the lifeblood of the organisation. The ability to run might ensure survival, the ability to grow and adapt and to develop into a faster runners will ensure a secure future.
It is for this reason that the concept of personal growth and development is such a strong principle in 3\textsuperscript{rd} wave organisations. Organisations consist of people and the ability of people to grow and develop will ensure prosperity for the organisation. This growth and development of individuals will result in change in each individual and change in the organisation. This process of continuous change becomes a natural process within the organisation and the organisation adapts and changes as its environment changes.

Nelson-Nesvig (1998:109) believes that the new generation worker will be a contract worker, People that are entrepreneurial, self-interested, and opportunistic. These are self-directed individuals that have no attachment to the company at which they work. They desire flexibility and want to make a difference. It is also believed that the majority of these new-generation workers are Generation-X individuals that fall between the ages of 20 to 34. They feel the rush, they crave the challenge and they go straight for the target. These are the people that organisations need in the network of outsourcing partners. Organisations need to outsource non-core activities to organisations or individuals that have third wave attributes and by doing that the organisation becomes a natural environment of individuals that believe in personal growth and self-development.

4.8 Summary

"You cannot expect good ideas from one who cannot even put forth bad ideas." Mikimoto

Up to this point in the study the fundamentals of change and how it impacts on organisations were discussed. The fundamentals of 2\textsuperscript{nd} and 3\textsuperscript{rd} wave organisations were explained in chapter 2 and chapter 3 in length investigated the fundamentals of outsourcing and a clear distinction was made between functional-, tactical- and strategic outsourcing. It was also investigated why organisations outsource and what options are available when considering outsourcing.
In chapter 4 the focus shifted to outsourcing as the change agent and how outsourcing acts as the catalyst for changing 2nd wave organisations into 3rd wave organisations. The approach followed was to focus on the main differentiating characteristics of 2nd and 3rd wave organisations and to survey the literature in order to determine whether outsourcing supports the change in each of those aspects.

In the case of organisational structure a very strong correlation was found that outsourcing can change the hierarchical structure of a 2nd wave organisation into a 3rd wave network structure. Changing the focus from the institution to the individual was less implicit but enough support was obtained to deduct that outsourcing results in organisations in which the focus on the individual is of more importance than what it is on the institution. With regard to style and source of strength the correlation was also strong and the literature supports the argument that outsourcing changes the style from being structured to flexible as well as resulting in organisations that have as their source of strength change as oppose to stability. The last aspect of consideration was that of leadership. Outsourcing does not change leadership from dogmatic to inspirational but what is of more importance is that it requires inspirational leadership to acknowledge that outsourcing should be used to change the organisation.
5.1 Introduction

"The thoughts that come often unsought, and as it were, drop into the mind, are commonly the most valuable of any we have, and therefore should be secured, because they seldom return again" John Locke

In chapter 1 the objectives of the study was defined as follows:

➢ To understand the fundamentals of change and how it impacts on organisations.

➢ To understand the fundamentals of 2nd and 3rd wave organisations.

➢ To understand the fundamental concepts of outsourcing and to clearly distinguish between functional, tactical and strategic outsourcing.

➢ To make the fit between 3rd wave organisations and outsourcing.

➢ To develop a high level outsourcing model that can be applied in transforming 2nd wave organisation into 3rd wave organisations.
In this chapter the findings of the research into these objectives are provided and conclusions are drawn. The aim is to meet the requirements as set out in the objectives and to end off the study with recommendations for future study.

5.2 Fundamentals of change

The fundamentals of change will be looked at from three perspectives: a) Types of organisational change, b) Reasons for organisational change and c) Resistance to change.

Table 4: Types of organisational change

<table>
<thead>
<tr>
<th>Type of Change</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Developmental Change</td>
<td>Developmental change is an improvement on what is. The change is not significantly different than the status quo and is the least traumatic of the three. Small incremental improvements are made at a time and failures are not catastrophic.</td>
</tr>
<tr>
<td>2 Transitional Change</td>
<td>Transitional change is the transition from the current state to the desired known state. The risk is higher than that associated with developmental change but manageable because of the known desired state. The process of transition is manageable and failure leads to return to the initial state.</td>
</tr>
<tr>
<td>3 Transformational Change</td>
<td>Transformational change is the most traumatic of the three types of change. The change is as a result of death from chaos. The new state is unknown and the time period is not definitive nor is it controllable.</td>
</tr>
</tbody>
</table>
Table 5: Reasons for Organisational change

<table>
<thead>
<tr>
<th>Reasons for Change</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pressure</td>
<td>Can be either internal or external and emanates from either output — or capital markets.</td>
</tr>
<tr>
<td>Performance Gaps</td>
<td>Performance gaps exist between the organisations actual performance and the desired performance. The gap can present itself in the form of sales, share prices, safety or environmental issues.</td>
</tr>
<tr>
<td>Natural Organisational Growth</td>
<td>As organisations grow periods of stability alternates with periods of crisis and revolution. The need for change is inevitable and the change is constant.</td>
</tr>
</tbody>
</table>

Table 6 Resistance for change

<table>
<thead>
<tr>
<th>Reasons for resistance to change</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fear of economic loss</td>
<td>Loss of income results in the inability to provide in the basic needs such as shelter, food, safety and security</td>
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<tr>
<td>The fear of loss of power and control</td>
<td>Loss of power and control results in the loss of belongingness and esteem. Positions of power place an important role in the society.</td>
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<td></td>
<td><strong>Reluctance to change old habits</strong></td>
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<tr>
<td>4</td>
<td><strong>Selective perceptions</strong></td>
</tr>
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<td>5</td>
<td><strong>Peer pressure</strong></td>
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<td>6</td>
<td><strong>Bad past experiences</strong></td>
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<tr>
<td>7</td>
<td><strong>Misunderstanding</strong></td>
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</table>

### 5.3 Outsourcing and 3rd wave organisations

The literature survey has provided a clear understanding into the key consideration that outsourcing can be the catalyst that will enable 2nd wave organisations to be transformed into 3rd wave organisations. When drawing the comparison between the dominant characteristics of 2nd wave and 3rd wave organisations it was established that in most of the cases outsourcing at a strategic level will cause the transformation of the 2nd wave attribute to that of a 3rd wave.
The only two question marks that were identified were in the cases of focus and expectations. In these two cases outsourcing does not cause the change in the attribute but the change occurs as a result of outsourcing at a strategic level.

The only exception to the methodology applied was in the case of leadership. Outsourcing at a strategic level does not cause a change in leadership from dogmatic to inspirational nor does the leadership in the organisation change immediately as a result of outsourcing. What is concluded is that organisations that consist of inspirational leaders will opt for outsourcing to change the organisation and that the dogmatic leadership contingency in the organisation will either be forced to change or leave the company in the new 3rd wave realm.

The following table summarises the conclusions made from the literature survey on outsourcing as a catalyst for transforming 2nd wave organisations into 3rd wave organisations.

**Table 7: Outsourcing as the catalyst**

<table>
<thead>
<tr>
<th>#</th>
<th>Key Issue</th>
<th>3rd Wave</th>
<th>Conclusion on outsourcing as a catalyst</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Organisational Structure</td>
<td>Network</td>
<td>Certainly the best fit. Outsourcing at a strategic level transforms the organisation into networks of service providers linked to the client organisation through service level agreements governed by key performance indicators. Each network has as its focus the finished product or service. The creation of</td>
</tr>
</tbody>
</table>
networks collapses the client organisation’s hierarchical structure resulting in a flat structure consisting of interlinked networks of service providers.

2 Focus  Individual  ?

Strategic outsourcing results in a network of smaller entities linked to the client organisation. This redefining of boundaries removes the layers between functions and the focus of the managers are on the core activities within the organisation. Removing the non-core activities that are loaded with low value adding issues e.g. reports, training, additional meetings, policies procedures and the rest allow managers to focus on the individuals in the organisation. Removing the layers allows managers to be in touch with the needs and desires of their subordinates. The focus is on the core activities of the organisation and the competencies of the core team of remaining employees within the organisation. Outsourcing refocuses the vision of the managers and the focus is on the networks and the people that operate in these
The key component of outsourcing is the ability to outsource to organisations of choice. The choice of outsourcing to 3rd wave organisations will lead to cross pollination of cultures in the network. It is concluded that outsourcing to 3rd wave organisations will invariably lead to a change in the values and believes of the client organisation over time and that the style of the organisation will become more flexible.

Outsourcing agreements are time and performance based. Not complying with an agreed level of service allows the client organisation to change the service provider. This process is far more effective and less traumatic than changing a permanent contract of employment. The responsibility resides with the service provider to meet the level of agreed service and the power the client organisation has, as its source of strength, is the ability to change service providers as the needs of the organisation...
5 Leadership          Inspirational          X  The only exception. Outsourcing does not cause nor is the effect of outsourcing a transformation of dogmatic leadership to inspirational leadership. What are concluded is that inspirational leadership is required for outsourcing and that the transition will cause the demise of dogmatic leadership.

6 Expectations        Personal growth and development          ?  The literature supports the fact that the new generation worker will be people that are entrepreneurial, self-interested and opportunistic. These people will be self-directed and have little or no attachment to the organisation. Outsourcing non-core activities allows organisations to focus on the individuals, their growth and development. Employees become intrepreneurs in the network environment created by outsourcing and the flexibility allows for innovation and creativity. Outsourcing does not cause the expectations of people to change from security and stability to that of growth and development, but what it does is create an environment
where change is constant, the focus is on the individual and the style is flexible. In this environment employees develop and grow into employees that want to make a difference.

5.4 Outsourcing model

It is recommended that careful consideration be given to the process of outsourcing. There are many stories of success but unfortunately also many stories of outsourcing initiatives that has gone horribly wrong. The literature provides guidance in this regard and the aim of the model given in Appendix 1 is to provide potential outsourcers with a high-level model consisting of seven steps to outsource successfully.

It is also recommended that changes in legislation be considered at all times. This was not an objective of this study but the legal implications of outsourcing are significant and can be the cause for failure. Legislation is also different in different parts of the world and what applies in South Africa might no apply in other countries. South Africa also has a strong unionized workforce and it is critically important to do regular employee check-in and to provide regular feedback and keeping all stakeholders up to date. In figure 14 the points in the step process that employees should be updated are indicated and it should be treated as “tollgates” before continuing to the next step.
5.5 Future research

Outsourcing at a strategic level is still relatively new in South Africa and most of the outsourcing undertaken is at a functional level. The restrictions that were placed on the study were the availability of literature on outsourcing in South African organisations. Future research could be undertaken on specific examples pertaining to South African companies.
What this study did not focus on was the legal aspects that need to be considered when outsourcing as well as the typical pitfalls that organisations encounter in the outsourcing venture. Future research should explore the legal implications of outsourcing especially within a South African context and could include case studies of South African organisations to transfer learnings and knowledge on outsourcing.


Exploring Strategic Implications

Planning Initiatives
- Assess risks
- Announce initiative
- Form project team
- Engage advisors
- Train the team
- Acquire resources
- Set Objectives
- Understand
  - Vision
  - Core competencies
  - Structure
  - Value chain
  - Strategies
  - Determine
    - Decision rights
    - Contract length
    - Termination date
    - Align initiative

Key decision points
- Assess risks
- Announce initiative
- Form project team
- Engage advisors
- Train the team
- Acquire resources
- Set Objectives

Analyzing Cost and Performance
- Measure activity costs
- Project future cost
- Measure performance
  - Existing and future
  - Cost of poor performance
- Benchmark cost/performance
- Determine
  - Specific risks
  - Asset values
  - "Make total cost
  - Pricing models
  - Final targets

Employee updates
Managing Relationships

Transitioning Resources
- Adjust team roles
- Merge transition plans
- Address transition
- Communication
- HR
- Production factors
- Meet with employees
- Organisation
- Provider
- Make offers/terminate
- Solve problems
- Build the relationship

Negotiating Terms
- Plan negotiations
- Address
- High level issues
- Deal breakers
- Prepare term sheet
- Negotiate contract
- Scope
- Performance standards
- Pricing schedules
- Terms & conditions
- Announce
- Physically move

Selecting Providers
- Certification
- Identifying providers
- Evaluating proposals
- Qualifications
- Annuity due diligence

Source: Greaver (1999:19) adjusted
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