

**SPECIFIC SELECTIVE OUTSOURCING SERVICES IN THE
INFORMATION TECHNOLOGY (IT) INDUSTRY IN SOUTH
AFRICA**

by

PALESA MAPETLA

SHORT DISSERTATION

Submitted in partial fulfillment of the requirements for the degree



in the

FACULTY OF MANAGEMENT

at the

UNIVERSITY OF JOHANNESBURG

STUDY LEADER: PROFESSOR W.M. CONRADIE

OCTOBER 2007

Acknowledgements

I would like to thank God almighty for giving me the strength to complete this dissertation under my current circumstances. I would also like to thank my family and friends for their love, support and understanding during these times.

A special thank you also goes to my study leader Professor W Conradie for understanding my circumstances and supporting me in completing this dissertation.

I would also like to thank the local branch of the IDC which is called BMI-T for their assistance, guidance and information shared with me.



SUMMARY OF STUDY

In the current decade, "whole of IT" outsourcing appears to be losing ground, and other options are being considered and sought, such as selective outsourcing. Every product, service, or technology has a life cycle, and although the outsourcing industry is at its maturity level, at the same time it is also going through various growth stages and still evolving with best practices. Wholesale or comprehensive outsourcing clearly seems to be on the decline. Highlights of this analysis are as follows:

The whole of IT" outsourcing can be seen as a contract service agreement in which an organisation hands over the majority of IT responsibilities to an external company. These contracts are long-term agreements designed to give higher control and transparency on costs, generally with a fixed price arrangement. In the selective outsourcing model, organisations may choose to outsource part of their IT. For example, the IT infrastructure could be broken down into separate agreements for the IT network, desktop, applications, and help desk. Depending upon the spread and competencies of internal resources, the organisation may choose to outsource one or all of the components.

Outsourcing has become one of today's most powerful, organization shaping management tools and also more so in South Africa. Chapter Two covers the fact that companies experience growth based on specialization, expertise and excellence. It is growth based on focusing on those areas that most directly contribute to a company's success. Outsourcing has become the new frontier for the modern business.

When a decision is made to outsource, the company needs to decide which of the activities or services currently done in-house can be defined as being non-core to the business. It is very important that the management of these non-core functions is not outsourced.

"The decision to outsource the IT function is primarily based on the need to get rid of an operational problem. IT can become a very expensive cost centre with all the difficulties associated with managing a technology intensive infrastructure" says Rose (1999:24). Outsourcing provides the opportunity to redesign the IT function, and the potential to access highly specialized skills to extend capability.

The purpose of this research is to address the following problem statement: What percentage of the budget in the South African IT market by sector is spent on the specific mentioned selective outsourcing services? The author looks at this problem statement and uses available literature to do an in depth study to reach an understanding of the researched subject.

In Chapter three, an appropriate research approach that is inductive has been followed. The telephone interview was chosen for data collection as the most suitable and cost effective method. A questionnaire was designed with undisguised questions to ensure consistency and relevance of the responses. The question construction that followed took into consideration question content, question wording, response structure, and question sequence.

Finally, pre-testing of the measurement tool was done to ensure validity and reliability, thereby ensuring that a foundation was laid for Chapter Four in which presentation and analysis of the results are given.

Chapter four presents the analyses and interprets the results of the study as supplied by respondents through the questionnaire. The results are presented in tables showing percentage figures and numbers for individual response categories, totals and averages to present a clear picture. Finally there is the analysis and interpretation of each section as presented in the tables. The researcher applies the literature discussed in Chapter Two to support and justify the use of the questions asked, and the application thereof to the concepts of the outsourcing and the specified selective outsourcing services business in South Africa. The research was conducted to address the problem and sub-problems discussed in Chapter One.

In conclusion in response to these problems, the investigated selective IT services which are mentioned in detail in chapter one model has emerged as an attractive alternative to the single-vendor approach. Essentially, a selective approach involves choosing best-of-breed vendors to administer various business services or business functions, leading to either a total or limited solution. However, although selective outsourcing may indeed address some longstanding outsourcing challenges, it also presents some new management issues.

Table of Contents

<i>Acknowledgements</i>	<i>i</i>
<i>SUMMARY OF STUDY</i>	<i>ii</i>
Table of Contents	iv
CHAPTER ONE - BACKGROUND AND STUDY ORIENTATION	1
1.1 <i>Introduction</i>	1
1.2 <i>Problem statement</i>	6
1.3 <i>Purpose of the research</i>	7
1.4 <i>Research methodology</i>	8
1.5 <i>Demarcation of the study</i>	9
CHAPTER TWO – LITERATURE REVIEW	11
2.1 <i>Introduction</i>	11
2.1.1 <i>Definition of outsourcing</i>	13
2.2.1 <i>Reasons for outsourcing</i>	14
2.2.2 <i>Outsourcing relationship management process (the modern outsourcing model)</i>	16
2.2 <i>The evolution of outsourcing in the IT market</i>	13
2.3 <i>Types of outsourcing</i>	19
2.3.1 <i>What is selective outsourcing?</i>	21
2.3.2 <i>The difference between selective and total outsourcing</i>	21
2.3.3 <i>The problem with all or nothing outsourcing</i>	22
2.3.4 <i>Business considerations with selective outsourcing</i>	23
2.4 <i>Outsourcing decision making</i>	24
2.5 <i>Information technology service management (ITSM)</i>	25
2.5.1 <i>Service management</i>	27
2.5.2 <i>The service triangle</i>	27
2.5.3 <i>The customer</i>	28
2.5.4 <i>The strategy</i>	28
2.5.4 <i>The systems</i>	29
2.5.6 <i>The people</i>	30

2.5.7 Types of customers.....	31
2.6 Advantages and disadvantages in outsourcing.....	32
2.6.1 Outsourcing advantages.....	34
2.6.2 Outsourcing disadvantages.....	34
2.6.3 IT Risk measurements	35
2.7 Conclusions	36
CHAPTER THREE: RESEARCH METHODOLOGY	37
3.1 Introduction	37
3.2 Methodological paradigm.....	37
3.3 Research design	38
3.4 Population.....	40
3.5 Sample.....	41
3.6 Data collection method.....	41
3.6.5 Acceptance of the questionnaire.....	44
3.6.6 Handling and control	44
3.6.10 Reliability.....	46
3.7 Conclusions	46
CHAPTER FOUR - RESEARCH RESULTS, ANALYSIS AND FINDINGS.....	48
4.1 Introduction	48
4.2 Survey results	48
4.2.1 Demographics.....	49
4.2.2 Annual turnover.....	50
4.2.3 Number of Employees.....	51
4.2.4 Number of personal computers (PC's).....	52
4.2.5 Annual IT budget.....	53
4.2.6 Percentage of IT services	54
4.2.7 Percentage of the specific selective outsourcing services by vertical sector..	55
4.2.8 Contract duration.....	56
4.2.9 Spend per category.....	56
4.2.10 Primary IT vendors.....	62
4.3 Vendor satisfaction.....	63

4.3.1	<i>Churn propensity</i>	68
4.3.2	South African Market Expected Growth from 2005 – 2010.....	68
4.4	<i>Overall summary of the results</i>	70
4.5	<i>Conclusions</i>	73
CHAPTER FIVE - CONCLUSIONS AND RECOMMENDATIONS		74
5.1	<i>Introduction</i>	74
5.2	<i>Significance of the study to IT vendors</i>	74
5.3	<i>Analysis of findings</i>	75
5.4	<i>Recommendations</i>	75
5.4.1	<i>Recommended strategies</i>	77
5.4.2	<i>Recommended investments</i>	78
5.5	<i>Actions to consider</i>	78
5.6	<i>Conclusions</i>	80
BIBLIOGRAPHY		81
ANNEXURE		85



CHAPTER ONE - BACKGROUND AND STUDY ORIENTATION

1.1 Introduction

1.1.1 South African IT (Information Technology) market overview

Total spending on IT services reached R18,401 billion in South Africa in 2006 as predicted by local IT analysts Blume (2007), Gartner (2005) and Coughlin(2005). The IT market expects moderate growth for the South African IT services market over the next five years. As can be expected, those industries having the highest requirement for information management and administration also represent the largest spenders on technology based solutions to these needs. As such the financial industry, including banking and insurance, along with national and local government, represent the largest industries absorbing technology. Other industries such as healthcare and the legal community also represent strong growth and consistent spend. However, due to their relative size, they cannot be compared with the former large spenders. While the manufacturing sector as a whole represents a large portion of technology expenditure, it must be remembered that the wide variety of manufacturing applications and subsequent proliferation of niche solutions does skew this view.

The different vertical markets in South Africa are relatively consistent in terms of IT expenditure, and the biggest differences are normally found in the growth rates projected for different industries. The highest growth rates reflect the South African government's intention to improve infrastructure that specifically relates to the smaller base IT sectors such as transportation and construction, and the larger government sector.

The IT analysts including Blume (2007), Coughlin (2005) and Gartner (2005) say that IT customers demand simplicity and partnership relationships that tie in vendors and consultants to provide services. Outsourcing and IT consulting are important IT services categories that address the demands of end users. The largest opportunities reside in banking, process manufacturing and national government. The banking industry is highly regulated and needs to handle the challenges related to risk management and compliance, and improve transaction management efficiency. The process manufacturing industry is still grappling to integrate the plant with management

reporting systems, and the national government sector has a shortage of skills, necessitating the use of IT services players in the SA market.

IT related services is an essential in customers realizing the benefit and value of the product they purchased “A pure good implies that the customer obtains benefit from the good alone, without any added value from service. Concurrently, a pure service assumes that there is no ‘goods’ element to the service that the customer receives. In reality, most services contain some goods elements, and most goods offer some services – even if it is only delivery - more specifically for high-tech products” Viardot (1999:2).

1.1.2 The South African IT services market

The key trends in the South African IT services market are as follows:

Most of the competitive forces discussed have already exerted an effect on the services providers for several years, although some may have intensified while others have waned over time. South African IT services providers need to be mindful of the market forces described in the following sections as predicted by the IT analysts Blume (2007), Coughlin (2005) and Gartner (2005).

- The competitive landscape has become much more fierce and disturbing or disruptive forces will increase in speed and intensity. In addition, services firms increasingly lack differentiation and originality. This should push such firms to continually re-invent themselves.
- South African IT services companies spent the year 2004 focused on their own internal business efficiencies. Now that they have optimized internally, their drive for new business and growth will drive the market.
- As a result of many failed implementations that were either too lengthy or not tied to business objectives, customers are now demanding that system integrated projects be broken into smaller pieces to measure their progress more effectively. Furthermore, customers want short-term results to justify additional investments but also need projects with a long-term vision. Return on investments (ROI) requirements are critical to end users.

- Business and IT goals need to be aligned. Despite the acknowledgement among companies and their stakeholders of the need to align IT and business strategies, it remains a distant goal for many organizations. Before any project can begin, companies must clearly outline their business strategies, define their business requirements, and identify key personnel and dependencies. Although this may sound simplistic, it is often overlooked, particularly if the project is driven out of the IT department.

These above trends clearly show the direction that the IT market is headed to and that customer expectations of their suppliers are now becoming more aligned to the customer's business and a clear ROI will be expected from an investment of any IT related solutions. IT Vendors now need also to focus more on their customer requirements and businesses in order to add value and significant contribution to their businesses.

"Today, through innovative, strategically grounded outside relationships, companies are aggressively reshaping themselves (re-engineering) and fundamentally changing the way they do business. In the technology driven atmosphere of the new millennium, it will be hard for the end customer to distinguish between companies, except for one factor – the additional value added to a company's services or products" Sherratt (2000:50).

1.1.3 South African IT drivers

Following more stable economic indicators, the IT analysts, Blume (2007), Coughlin (2005) and Gartner (2005) predict that corporate buyers are again willing to spend money on IT and other capital expenditures. They view government and manufacturing healthcare, financial services, and retail companies as relatively healthy spenders and the following as the current IT drivers in South Africa.

- Economic outlook for South Africa is also good, with growth forecast at around 4% to 5% in the next couple of years, after 3.7% GDP growth in 2004. The 2004 growth figures are used above as that is when services vendors started optimizing their business.
- Optimization is still viewed as a primary driver of spending, but the focus is slowly shifting to new initiatives. Companies are still primarily concerned with improving

the utilization of the technology already purchased rather than making large-scale investments in newer IT assets. However, there are signs that companies are willing to make new investments, albeit slowly.

- Due to pent up demand in the hardware sector, hardware refresh is on the increase. This increase will translate into services spending.
- A continuing attempt to decrease the complexity of systems and to cut costs, standardization and consolidation will continue. In the short term this increases demand in the systems integrations space. However, it is likely that in the long term this will negatively affect growth.
- Given the sluggish economy of previous years, which has put pressure on organizations to cut back on their operational spending and tighten their IT budgets, the shifting market demand for outsourcing is not surprising. Outsourcing has been viewed as a panacea for many companies seeking to achieve cost savings. As a result, services firms with outsourcing capabilities have thrived in this business environment, enjoying relatively healthy revenue growth.
- On the other hand, services firms with limited or no outsourcing capacity have suffered. Likewise, the demand has shifted from discrete project-oriented services to more full-scale service engagements that combine many different types of services, especially with respect to outsourcing projects that now tend to include both consulting and systems integration services. Again, services firms with no or limited full-service ability have been negatively affected and lost out to competitors with multiple and integrated service offerings.

In the current decade and more specifically in South Africa, "whole of IT" outsourcing appears to be losing ground, and other options are being considered and sought, such as selective outsourcing. Every product, service, or technology has a life cycle, and although the outsourcing industry is at its maturity level, at the same time, it is also going through various growth stages and still evolving with best practices. Wholesale or comprehensive outsourcing clearly seems to be on the decline.

If organizations can effectively define and measure information technology costs and benefits, they are in a better position to effectively manage their IT. On the other hand,

they still may not be able to manage it as well as firms that specialize in managing IT. Turban et al., (2002) say that “For organizations that require effective IT management, the most effective strategy for obtaining the economic benefits of IT and controlling its costs may be outsourcing, which is obtaining services from vendors rather than from within the organization.”

The above trends have as such put an increased awareness of local IT vendors and “Answering the needs of their customers, and building on the infinite capacity of information technologies, companies like IBM, EDS, Hewlett-Packard, to name a few, are reinventing the notion of service and offer what is called ‘high-tech services’ a subtle mix of information, knowledge and technology” concludes Viardot (1999: xii).

1.1.4 South Africa and Gauteng decision makers

Most companies have their head offices in Gauteng which is the hub of most businesses in South Africa. A predominant part of the following section is specifically placed on the City of Johannesburg in South Africa.

According to statistics, South Africa's mid year population as reported by Statistics South Africa Report (2005), the total South African population constitutes approximately 46.9 million inhabitants, 51% of which are female with an ethnic distribution of 79.4% African, 9.3 White, 8.8% Colored and 2.5% Indian/Asian.

According to Statistics South Africa (2005), the total population of Gauteng in 2004 was at just over 9 million inhabitants, with Johannesburg's contribution in excess of 3 million. Johannesburg is situated in the hub of South Africa's commercial and industrial heartland, and is the nation's main centre for finance, business services and ICT.

Although Johannesburg is one of the most populous in Africa and one of the newest major cities in the world, it is not the country's capital. South Africa has a triple capital system consisting of Cape Town, Bloemfontein and the globally accepted Pretoria. Johannesburg, however, is the capital of Gauteng Province. Johannesburg is considered to be South Africa's most influential city for a number of reasons, several of which are listed below and are relevant to the study of the demographics.

- Johannesburg is the largest single metropolitan contributor to the national economic product and has marginally outpaced the average national growth

domestic product (GDP) with an average of 2% growth per annum over the last 10 years. Although only 7.1% of the country's population lives in Johannesburg, the city's contribution to the national economy is almost 16% and averages 40% to the economy of Gauteng.

- Johannesburg has the most highly skilled workforce in the country. The city has about a 20% advantage in terms of literacy and numeracy skills, compared to the national average. This indicates that the present and future workforce of Johannesburg is and will continue to be more skilled than anywhere in the country.

As can be expected, those industries having the highest requirement for information management and administration also represent the largest spenders on technology based solutions to these needs. As such the financial industry, including banking and insurance, along with national and local government, represent the largest industries absorbing technology. Other industries, such as healthcare and the legal community also represent strong growth and consistent spend. However, due to their relative size, they cannot be compared with the former "big hitters". While the manufacturing sector as a whole represents a large portion of technology expenditure, it must be remembered that the wide variety of manufacturing applications and subsequent proliferation of niche solutions does skew this view Coughlin (2005).

This also substantiates the research done by the IT analysts on the big spenders in technology, being the financial services and the government. The manufacturing sector is also seen here as a sector which represents a large portion of technology expenditure. This leads the author to the problem statement below in defining the problem more clearly.

1.2 Problem statement

The South African market has a vast number of companies offering IT related services. However, more specifically in the IT outsourcing services, the South African IT market spend by sector for the below Specified Selective Outsourcing Services is not known and therefore needs to be researched.

A clear understanding of specific selective outsourcing areas of IT related services which form part of the Information Technology Service Management (ITSM) would require one or more of the following:

1.2.1 Improving IT availability and service levels: this service helps improve the availability of IT customers' environment and thus improve IT service levels.

1.2.2 Managing IT capacity and performance: this service helps anticipate, identify, monitor, and improve performance across IT infrastructures.

1.2.3 Planning and deploying new technologies: this service helps reduce the amount of time and resources required to deploy new systems.

1.2.4 Managing IT environments: this service helps customers manage a heterogeneous, multivendor environment.

The research question more specifically can be stated as follows: What percentage in the South African IT market by sector is spent on the specific above-mentioned selective outsourcing services?

The research also looks at other areas such as: How IT decision makers view outsourcing and the specified selective outsourcing services and more specifically the role that outsourcing plays in their sector and specific organizations.

1.3 Purpose of the research

Primary objective – In addition to what is the South African market requirement with regard to the above specified selective outsourcing services other key areas of investigation include how the vertical South African market views IT vendors and their understanding of their business, the percentage IT spend for the specified selective outsourcing services by sector, understanding the delays and accelerations in the market IT spend, customer satisfaction of the IT market with their current service providers as well as the size in terms of IT spend for the interviewed markets.

- Number one objective – To do a literature research on outsourcing as a management tool, which needs to include types and factors around outsourcing. Other factors to be considered are the evolution of outsourcing in the IT market,

outsourcing decision making as well as the advantages and disadvantages of outsourcing.

- Number two objective – To do an empirical research on the South African Vertical IT Sectors to determine the current and future spend by sector on the specified selective outsourcing services and other factors as indicated in the above mentioned primary objective.
- Number three objective – To analyze the findings of the empirical study and make conclusions and recommendations of the findings. All of the above will improve the understanding of the specified selective outsourcing services, and the role which the services play in the IT industry and the IT industry customers.

1.4 Research methodology

The research is targeted at senior members of the IT market in South Africa, which is obtained from the Johannesburg Stock Exchange (JSE) listed top 100 companies. The profile and position of the targeted people are those people in positions such as the Chief Information Officer, The Information Technology Director and the Information Technology Manager. “To survey is to question people and record their responses for analysis, and its strength of questioning as primary data collecting technique and its versatility” says Emory (1991).

1.4.1 Primary research

In order to achieve the objectives stated below, the author conducts the research on both the supply and demand side of the market, which includes IT market players, competitors and customers. The survey was carried out by means of telephonic interviews:

A list of the top 100 Johannesburg Stock Exchange listed companies was obtained from BMI-T, on which the interviews were conducted. For the purpose of this study and the time constraints associated with it, the author only conducted telephonic interviews. The benefits of the telephonic research are discussed in Chapter Three.

- 85 interviews were conducted within the author’s target market, which are the IT Company’s customers by vertical sector.

- One questionnaire was designed, in conjunction with other management team members at the IT company by whom the author is currently employed, in the form of a workshop, and the results of the interviews were used.
- Chapter three outlines the research methodology used in this research.
- The survey compiles a view of the South African IT services industry according to the business segmentations identified by the author. This dimension distributes revenues according to vertical market sectors (sectors are based on the IDC vertical breakdown, and are clustered to reflect the targeted industry sectors).
- The survey was carried out on the top 100 JSE listed companies within the borders of South Africa.

The questioning technique concentrated on the following, targeted at 100 customers (JSE listed companies):

Company demographics

Overview of IT solutions

Hardware installed base

Software installed

Services utilized

Company priorities

Vendor analysis



1.5 Demarcation of the study

Chapter Two: Literature review

This chapter provides available current literature, which is used in this study to help with the qualitative analysis of the collected data. This chapter also gives an in depth look at the literature review, in order to gain insight into the relevancy of the material to the problem statement and applied research methodology to be used.

Chapter Three: Research design and methodology

The research design or methodology is the plan and structure of the investigation to obtain answers to objectives says Cooper and Shindler (1998:130). In this chapter the author researches the design and method to be discussed, which includes the aim and objectives of the study, the criteria requirements and the authors' data gathering methods, data analysis and conclusions. The role of the research is to provide a method for obtaining those answers by inquiringly studying the facts, within parameters of the scientific method concludes Leedy (1989).

Chapter Four: Research findings

This chapter is dedicated to the research results of the collected quantitative and qualitative data. This chapter also includes the presentation and interpretation of the results in different forms such as tables and graphic explanations.

Chapter Five: Conclusions and recommendations

The final chapter is focused on conclusions reached. Suggestions and recommendations are given to businesses interested in using the findings.

CHAPTER TWO – LITERATURE REVIEW

2.1 Introduction

Chapter One served as an introduction to the dissertation, forming the motivation for the research project on the Specified Selective Outsourcing Services in the IT industry in South Africa, together with a brief discussion on factors embodied in the study. Factors such as the problem and sub problems; aim and objectives; literature review; research methodology; the relevance of the study; and limitations of the study are discussed. Finally the summary of chapters gives a brief overview of what is embraced in each chapter of the study.

Embraced in Chapter Two is the appropriate theoretical paradigm of the study, the main focus of which is the Specified Selective Outsourcing Services, together with related concepts. The focus of this chapter is outsourcing in general as well as the different types of outsourcing which are discussed in this chapter. The difference between selective outsourcing and outsourcing is also clearly stated so as to have a clear understanding of the selected topic.

In the next paragraphs, the author discusses the definition of outsourcing as per the researched literature, so as to understand the meaning of outsourcing from different views of various authors, and thus lead to conclusions of what outsourcing means.

Research from various authors' shows that IT outsourcing services involve a long-term, contractual arrangement, in which a service provider takes ownership of and responsibility for managing all or part of a customer's information system's infrastructure and operations. These are broad engagements that typically include responsibility for the systems, network, and application components of the IT infrastructure.

Outsourcing is the long-term results-orientated relationship with an external service provider for activities traditionally performed within the company. Burn et al., (2002) say "Outsourcing usually applies to a complete business process and implies a degree of managerial control and risk on the part of the provider."

An outsourcing agreement usually allows the provider (the vendor) to supply a customer with services or processes that the customer is currently performing internally. These services or processes are regarded as being non-core to the business of the company.

“Refocus to core competencies and the perception of IT as a cost burden prompts many senior executives to sign outsourcing ‘mega deals’ for the provision of all IT services” confirms Mehler (1992). “When such deals are first signed, companies publicly announce anticipated benefits of outsourcing, such as refocusing on core activities, reducing IT costs by 10 to 50 percent and increasing IT services levels” says Krass (1990), Rochester and Douglas (1990). As per the above quotes, it is clear that the primary goals of strategic outsourcing are to improve the performance of the outsourced functions and to enhance the performance of core functions within organizations.

“Many companies have realized that in order to add value to its customers, they must single-mindedly concentrate on their core competencies and leave the running of vital, but yet time consuming and labor intensive peripheral activities to other more qualified operators” confirms Sherratt (2000).

By distancing themselves from these non-core activities, companies can focus their energy on areas where they have the competitive advantage, differentiate themselves from their competitors, and take advantage of the cost-saving and value-added functions.

Outsourcing is a strategic business concept to be used in certain applications when there are clear benefits to be gained over continued performance of individual functions within the company. The primary goals of strategic outsourcing are to improve the performance of outsourced functions and to enhance the performance of core functions.

The idea of picking up or lifting a particular lot of work, and sourcing (the shifting) to a vendor is not new. And the reasons for so doing are not new either. However, as more and more companies, of all sizes further mature in their outsourcing experience and strategy, the “lift and shift” of work for purely monetary reasons is diminishing. Of course, many companies have since found that the ROI does not materialize, and the ongoing management responsibility remains. Thus, rather than just move the work, move the work in a better, smarter way. Companies are now looking to their vendor partners to assist not only in the lift and shift, but in the transformation of the work - what can we do better, faster, and of course, more cheaply.

Once a company understands why it is pursuing a business strategy that includes outsourcing, it must look at the critical question of what functional areas represent the

best candidates for outsourcing (those with greatest contribution to the business goals at the lowest risk). Outsourcing enables companies to focus their energies more on the 'what' and less on the 'how' of their business.

In this research, it is clear that one useful concept of virtual organizations is an opportunistic grouping of collaborating organizations, each of which focuses on a set of core competencies or capabilities at which it excels. "This opportunistic network of firms is fluid and changes according to circumstances and needs. Such a network of firms is likely to be created and sustained through the process of outsourcing" confirms Burn et al.(2002:187).

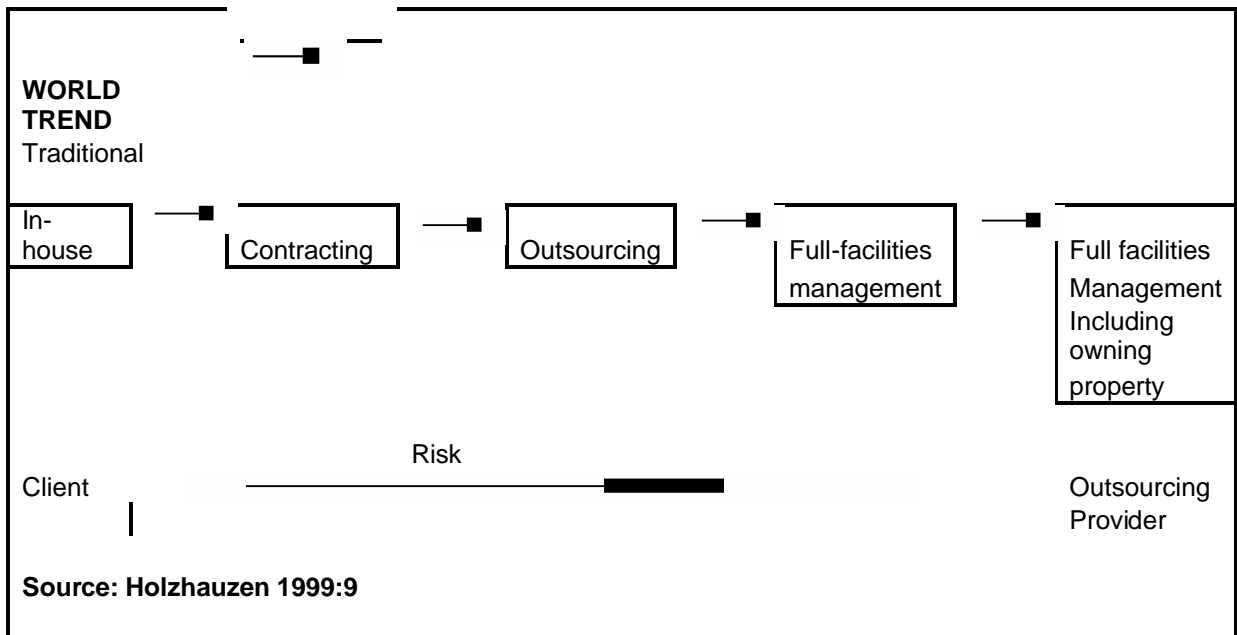
2.1.1 Definition of outsourcing

"Information Technology (IT) outsourcing is defined here as the third party management of IT assets, people and/or activities to required performance levels." Says Leslie (1997). Outsourcing involves using an external company which specializes in the provision of certain information systems services, for specific information tasks within the organization" says Eccles (2000). Outsourcing is a strategic business concept used in certain applications when there are clear benefits to be gained over continued performance of individual functions within the company.

2.2 The evolution of outsourcing in the IT market

While the process of selective outsourcing is still struggling to find its feet in South Africa, the trend towards full facilities management has taken off in the rest of the world. Holtzauzen (1999:9) claims that more and more companies are looking to outsource all their non-core activities to a single vendor. He states that full facilities management, which has become the norm in the United States and Europe, will start growing in South Africa with more outsourcing competitors expected to enter the market in the next few years. Global competitiveness and economic pressures are some of the reasons why outsourcing started to play such an important role in the IT industry.

Figure 2.1 Movement of world trend in outsourcing



From traditional in-house facilities management, the trend moved towards contracting certain non-core competencies. It then developed into outsourcing non-core competencies to a number of outsourcing firms. The trend is now developing further to full facilities management, which takes the risk away from the customer and places it on the shoulders of a single vendor.

Companies have become more efficient at reducing costs, and this is sometimes difficult to do effectively through in-house facilities managers. They are often constrained by internal political pressures and vested interests, and often they lack the expertise to manage change. Change within a company is a major challenge to any chief executive. “By outsourcing to professionals, the outsourcing company becomes the change agent and a company is able to re-engineer and reposition itself more quickly and efficiently” says Jackson (1997).

2.2.1 Reasons for outsourcing

“IT is outsourced for many reasons, ranging from bandwagon effect from the subject’s high profile to cost pressures due to competition and economic recession” says Lacity and Hirschheim (1994). However, industry watchers attribute the growth of the IT outsourcing market largely to two main phenomena. First, interest in IT outsourcing is largely a consequence of a shift in business strategy. On this account many companies

have recently abandoned their diversification strategies, once pursued to mediate risk, to focus on core competencies. "Senior executives have come to believe that the most important sustainable competitive advantage is concentrating on what an organization does better than anyone else and outsourcing the rest" says Pralahad and Hamel (1991). As a result of statements such as these, the focus strategy IT came under scrutiny.

The second reason for outsourcing is the uncertainty about the value delivered by IT. "In many companies, senior executives perceive that IT failed to deliver the promise of the competitive advantage propagated. Consequently, many senior executives view IT as a necessary cost to be minimized" confirms Kettinger et al.,(1994:33). These two phenomena refocus to core competencies and the perception of IT as a cost burden is what prompts many senior executives to sign outsourcing deals for the provision of IT services.

When delivering the hierarchy of goals, one critical issue is how to strike a balance between the current and the future. The issue is the criticality. When assessing projects, deliverables or skills, the level of criticality is assessed in the following three dimensions:

- "How critical is the item for accomplishing the defined goals in business strategy, project and deliverables respectively?
- How difficult is the item to accomplish because it is inherently complex, has numerous integration points with other applications, or uses new technology.
- How risky is the item due to its reliance on scarce resources?" Nakayama and Sutcliffe (2005:34).

In today's business evolution, companies seek to remain strong or gain strength in an e-commerce-enabled marketplace. Likewise the factors driving outsourcing have evolved from a focus on solving financial problems to IT or certain business processes which contribute to the competitive success of an organization through enhanced capability, improved flexibility, increased efficiency or enhanced speed to market. "Outsourcing has evolved from a survival tactic to a strategic competitive tool touted by even the most respected management consultants" says Van Bon (2002:249).

When companies decide to outsource, many find that it is a way to improve and become more efficient in their core competencies. Most companies consider outsourcing because they believe that their chosen supplier is better equipped to perform their IT functions and because of economies of scale. The vendor in most instances, because of their existing infrastructure, can do so at a lower cost.

With the fast technology changes happening in IT, it is becoming more difficult for companies to run their own internal IT. Outsourcing can also be used as a way of management to focus on the company's core competency.

2.2.2 Outsourcing relationship management process (the modern outsourcing model)

In the new era of outsourcing, the customer regards the vendor as a long-term asset that is a source of ongoing value to the company. An asset, time and resources are dedicated to the management of a relationship, thereby maximizing its value. The customer's resources are held accountable for extracting value from the outsourcing relationship. This is a more strategic approach.

The available literature from authors quoted below demonstrates that outsourcing is not just a quick fix anymore. Outsourcing decisions and management of the relationship are inserted into a company's overall plans, to provide for a much more substantial value-added sourcing. The trend is towards joint risk and reward deals, with more emphasis on looking at value added sourcing. More care is taken to ensure lasting benefits.

Even if a deal is well set up, IT outsourcing can seriously founder at the post-contract management stage. "Risks arise from not staying flexible in the face of the unexpected, but inevitable business and technical change, not managing the relationship well, not leveraging the relationship for business and mutual advantage and not putting into place tactics for maintaining a power balance between parties exist" says Willcocks et al.(2002:166).

Often a person called the client contract manager of an outsourcing deal is left to determine what was just negotiated after the outsourcing contract is signed. Van Bon (2002: 258) has shown that in a lot of situations this is a recipe for disaster, when it comes to realizing the benefits of outsourcing. Fortunately in today's world, organizations realize the importance of processes and a sound governance model by

the time the deal is finalized. The big questions to be asked is how does one go about building into the process and how does one operate the process after an outsourcing deal is done?

Like the visible tip of the iceberg, signing the outsourcing deal is but a small portion of the whole outsourcing relationship. Much has been said about the outsourcing transaction process and much has been said about the success or failure of specific outsourcing relationships.

Having those that are going to manage the relationship involved in the creation of the transaction is desirable so that they understand the workings of the deal, the key issues negotiated and the commitments made by each of the parties.

Below is a high level functional matrix for contract management processes which gives some insight into the interdependence and shared responsibilities between a customer and supplier in a sourcing agreement.



Table 2.1 Interdependence and shared responsibilities in sourcing agreement

Contract Management Major Functions and Activities	Client Governance	Supplier
1. Contract Planning and Management		
Forecast annual and quarterly financial objectives	P	P
Manage overall supplier relationship (e.g. contract, performance, audit, service level attainment) via steering com	P	P
Execute dispute resolution	P	P
Assess performance credits	P	
Execute service level adjustment process when required	P	H
Conduct customer satisfaction surveys		P
Analyze customer satisfaction results and develop action plans	P	P
Provide data to support monthly scorecard reporting		P
Produce quarterly scorecards	H	P
Analyze scorecard results and develop action plans as required	P	P
Review key personnel results	P	H
2. Metrics (Quality, Customer satisfaction, Productivity)		
Define agreed upon operating level agreements	P	H
Define agreed upon service levels and target commitments	P	H
Define customer satisfaction survey requirements for CIO/ITS customer survey	P	P
Define balanced scorecards at contract and portfolio levels	P	H
Provide third party benchmark, analyze results and determine remedies if required	P	H
3. Invoicing and Pricing		
Produce monthly base charge invoice		P
Approve and pay monthly base charge	P	
Produce monthly project accounting reports		P
Approve monthly project accounting reports	P	
Produce monthly additional resource charges(ARC/reduced resource charges(RRC) invoice		P
Approve monthly ARC/RRC invoice if required	P	
Review monthly in-scope expense targets	P	H
Review monthly in-scope telecom expenses	P	H
Review monthly in scope PC maintenance, LAN/intranet connection moves, adds or changes	P	H
Provide baseline and updated pricing/unit rates for full time person ARC/RRC charges		P
H= Help; P= Perform		

Source: Van Bon (2002: 253)

“Good relationship management requires thought, planning, coordination and dedication of resources to be successful. Management cannot overlook the importance of this structure and its supporting processes. Good relationship management can be used to fix many ills inherent in a sourcing transaction. While this area of expertise is relatively immature, it is nonetheless important if the promise of outsourcing is to be realized” concludes Van Bon (2002: 258).

When an outsourcing deal has taken place, interdependency exists between the two companies. Both the vendor and the customer therefore change, as the one affects the other. Therefore both parties must understand the cost drivers of the two infrastructures and coordinate changes so as not to introduce additional costs into the process. Both the customer and the vendor must behave as an integrated supply chain rather than as win or lose adversaries.

2.3 Types of outsourcing

For the purpose of this study and based on the area of study on which the author is focusing, there are three types of outsourcing models identified by Willcocks et al. (1997:280).

Total outsourcing: The decision to transfer IT assets, leases, staff and management responsibility for delivery of IT services from internal IT functions to third party vendors, which represents at least 80 per cent of the IT budget.

Total in sourcing: The decision to retain the management and provision of at least 80 per cent of the IT budget internally after evaluating the IT services market. In these cases the customer retains responsibility for the delivery of IT services, and vendor resources are bought in to supplement internally managed teams.

Selective outsourcing: The decision to source selected IT functions from external providers while still providing between 20 and 80 percent, (typically 24%) of the IT budget. The vendor becomes responsible for delivering the result of the selectively outsourced IT activities, while the customer remains responsible for delivering the result of the in sourced services.

Table 2.2 Outsourcing types and the risks associated with them.

	<i>In-house Commitment</i>	<i>Selective Sourcing</i>	<i>Total Outsourcing</i>	<i>Total Outsourcing</i>
Attitude	Core Strategic Asset	Mixed Portfolio	Non-Core Necessary Cost	World Class Provision
Providers	IT Employees Loyal to the Business	Horses for Courses	Vendor	Strategic Partner
Emphasis	Value focus	Value for Money	Money	Added Value?
Dangers	High Cost Insular	Management Overhead	Exploitation Suppliers by	Unbalanced Risk/Reward
	Unresponsive			Innovation

Source: Feeny (2000).

This table shows that all arrangements have inherent risks associated with them, in addition to the above types of outsourcing, Other types of outsourcing services as defined by Glomark-Governan (2006) include Business Process Outsourcing (BPO) which involves the transfer of management and execution of one or more complete business processes or entire business functions to an external service provider.

The BPO vendor is part of the decision-making structure surrounding the outsourced process or functional area, and performance metrics are primarily tied to customer service and strategic business value. Strategic business value is recognized through such results as increased productivity, new business opportunities, new revenue generation, cost reduction, business transformation, and/or the improvement of shareholders' value.

Another addition to such outsourcing type services which is also common in the IT industry, is Processing Services which involve the transfer of management and execution of activities or single business processes that tend to be high volume and automated to an external service provider. Performance metrics for processing services

are primarily tied to accuracy, timeliness, and efficiency of high-volume service capabilities. Processing services are typically standardized and involve little or no customization.

2.3.1 What is selective outsourcing?

Willcocks et al., (1997: 281) says that “The decision to source selected IT functions from external providers while still providing between 20 and 80 percent, (typically 24%) of the IT budget.” The vendor becomes responsible for delivering the result of the selectively outsourced IT activities, while the customer remains responsible for delivering the result of the in sourced services.

Selecting which IT activities to outsource and which to retain in-house requires treating IT as a portfolio. Successful sourcing begins with an analysis of the business contribution of various activities. “Conventional wisdom has it that ‘commodity’ IT functions such as payroll or data centre operations are potential outsourcing fodder while ‘strategic’ functions’ such as on-line reservations systems should be retained in-house” McFarlan and Nolan (1995:16).

“We have found that companies that consistently succeed in their selection of what can be outsourced to advantage use to richer vocabulary” says Willcocks et al., (1997: 291) These companies distinguish between contribution that an IT activity makes to business operations and its impact on competitive positioning.

“Most successful experiences were associated with a reasoned, incremental and selective approach to outsourcing which is increasingly reflected in the structure of the market” confirms Willcocks and Fitzgerald (1994).

Selective outsourcing also includes the specified services which were mentioned in Chapter One.

2.3.2 The difference between selective and total outsourcing

Selective outsourcing is where a company outsource only some of it non-core competencies, those found to add least value to the core competencies of the company. Research done by Currie and Willcocks (1997:180) concludes that most companies chose selective outsourcing. In the United States only 8% has gone total outsourcing

and in the United Kingdom only 2%. This figure is low since total outsourcing is very risky. Data collected on total outsourcing indicates a 35% failure rate.

With total outsourcing, vendors build in a high switching cost. Total outsourcing should be done on a joint risk-reward basis and never on a fee-for service (time and material) contract. It is recommended that re-negotiation stages be included in the original contract of big deals.

According to Willcocks et al., (2002), selective outsourcing seems to be the most effective. He states "If you keep more in-house capability, you inherently maintain some understanding of your technology and control of your IT destiny. If a company chooses total outsourcing, those abilities are eroded over time."

2.3.3 The problem with all or nothing outsourcing

The initial insights from this study is that total outsourcing can lead to trouble in a few years into the contract if the risks and proper due diligence is not done correctly in the initial stages of the cycle. Research done by Willcocks et al., (1997) shows that "it was too soon to definitively determine the financial outcome of seven out of fourteen companies who made the total outsourcing decisions, although participants reported excess fees and hidden costs; only two total outsourcing decisions were reported as successes." After the initial honeymoon period, these companies complained of a loss of alignment between business strategy and IT, failed promises to access new technologies and contractual costs which were significantly greater than current market prices.

Although several of the companies in that study involved mega-deals wished to terminate their contracts, senior executives often found it prohibitively expensive to switch vendors or bring IT back in-house when 'strategic partnerships' fail. Of this research only two companies have actually bitten the bullet and actually brought IT back in-house.

The author believes that the problems with all-or nothing outsourcing stem from the distinctive nature of IT. Although many senior executives approach IT outsourcing like any other make or buy decision, this can be a mistake. Unlike other functions such as mailrooms, cafeterias, legal departments, manufacturing, distribution and advertising, IT

cannot be easily handed over to a vendor. Willcocks et al., (1997:286) shows that IT is different in a number of ways:

- IT is not a homogenous function but comprises of a wide variety of IT activities
- IT capabilities continue to evolve at a dizzying pace; thus predicting IT needs past a three year horizon is wrought with uncertainty
- There is no simple basis for gauging the economies of IT activity
- Economic efficiency has more to do with IT practices than inherent economies of scale
- Most distinctively of all, large switching costs are associated with IT sourcing decisions.

Those who approach outsourcing in all-or-nothing terms either incur the great risks involved in total outsourcing or forego the potentially considerable benefits of selective sourcing by committing to a policy of total outsourcing.

2.3.4 Business considerations with selective outsourcing

Many studies have found that companies that consistently succeed in their selection of what can be outsourced to advantage use a richer vocabulary. They distinguish between the contributions that an IT activity makes to business operations, its impact on competitive positioning. Some IT activities can differentiate a company from its competitors while other IT activities merely provide necessary functions. Some well publicized examples of IT products that have successfully differentiated companies from their competitors include American Airline's SABRE, American Hospital Supply's Order Entry System (subsequently acquired by Baxter) and Merrill Lynch's Cash Management System Clemons and Row (1988); Copeland and McKenney (1988); Venkatraman and Short (1990) These systems created barriers to entry, increased switching costs and changed the nature of competition.

Most IT activities, however, are viewed as commodities. Although commodities do not distinguish a company from its competitors in business offering and performance terms, these types of activities need to be performed competently. Some IT activities are viewed as critical contributors to business operations whereas other IT activities are

viewed as merely useful because they only make incremental contributions to the bottom line.

Research done by Willcocks et al., (1997) shows that after mapping an IT activity's contribution to business positioning and business operations, the following four categories of potential outsourcing candidates emerge:

- Critical Differentiation – IT activities which are not only critical to the business operations, but also help to distinguish business from its competitors
- Critical Commodities – IT activities that are critical to business operations but fail to distinguish the business from its competitors
- Useful Commodities – the myriad IT activities that provide incremental benefit to the business, but fail to distinguish it from its competitors
- Useful Differentiators – IT activities that differentiate the business from its competitors, but in a way that is not critical to business success.

In summary, treating IT as a portfolio helps identify outsourcing candidates by analyzing not only IT activity's contribution to competitive strategy, but also its contribution to business operations. Through these two dimensions, senior executives more easily identify the value of IT. In addition to business contribution, economic considerations which are often prematurely assumed to favor the vendor are an important consideration in confirming the viability of IT outsourcing candidates.

2.4 Outsourcing decision making

Research done by Caruso (1996:20) found that the decision to outsource non-core competencies takes place at corporate level in 50% of the cases. A third takes place at the divisional level and 15% at operational level. Normally other departments such as finance, Marketing and Human Resources are also involved in the decision. These departments play a significant role in the selection process. The final decision on which vendor to use is done at corporate level.

Glomark-Governan's (2006) also found that the finance department is involved with the cost calculations and the Human Resources department concentrates on the smooth transition of employees. The Human Resources department is also responsible for

monitoring employee moral throughout the company before, during and after the outsourcing transition has taken place. The Marketing department would then explain the new strategic relationship of the company with the vendor customer and concentrate on the benefits the customer will reap from the outsourcing arrangement.

Vendors should be selected based on their total capabilities, not just price or a single aspect of what they can do. References and reputation are only two of the criteria that should be used when making the final decision on which vendor to contract. A reasonable price should be negotiated and performance measures put in place. When selecting a vendor, close attention should be paid to how candidates measure up in the areas of financial strength, business experience, business development, support services and business arrangements.

Willcocks et al., (1997) also found that assessing outsourcing intangible benefits also requires a careful investigation of links between the technical, the operational, and the economic effects of the benefit. The result provides a sound framework for identifying the measurable variable needed for the economic quantification. As a simple example:

Technical benefit – an on-line sales force Web service enables sales professionals in a company to produce reports with key content designed for executives in their accounts.

Operational benefit – with the new reports available, the sales representatives can increase the number of meetings with senior managers in their accounts

Economic benefit – an increase in meetings with senior managers will increase the close rate.

The close rate (number of orders closed as a percent of proposals presented) is the measured variable that can be used to define the benefit formula (means of economic quantification).

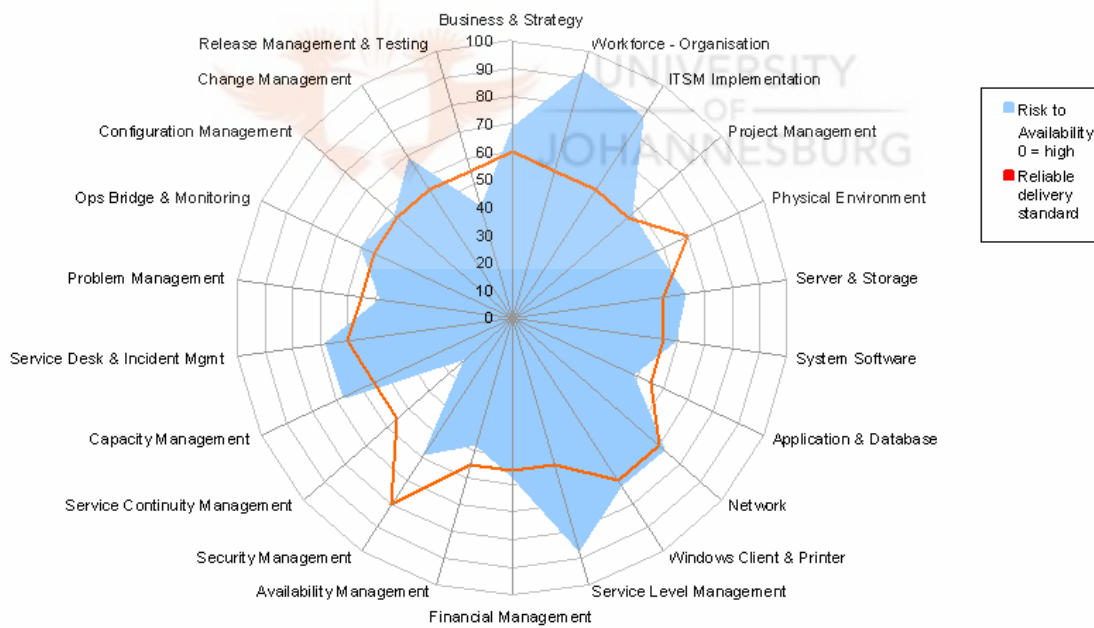
2.5 Information technology service management (ITSM)

IT Service Management can be described as the art of managing the entire ICT sector of an organization, its infrastructure and its activities, as a coherent set of interrelated processes aimed at providing business justified services to an organization. In the past,

many IT organizations were internally focused and concentrated on technical issues. These days, businesses expect high service quality coupled with the ability to change requirements rapidly and effectively. “This means that for IT organizations to live up to the expectations they need to concentrate on service quality and a more customer oriented approach. Financial issues are now high on the agenda and IT organizations need to develop a more businesslike attitude to provision of service” concludes Van Bon (2002:131).

Below are Hewlett-Packard’s ITSM coverage area and an example of an ITSM assessment which was completed on one of their customers. This assessment shows areas of strengths within the customer’s environment as well as highlighting their weaknesses. Hewlett-Packard has invested in resources and research and is one of the leading ITSM reference companies says Van Bon (2002).

Figure 2.2. The Hewlett-Packard’s ITSM coverage areas



<http://www.hp.com/itsmassessment>

The areas which will be investigated within this framework forming part of the four specified selective outsourcing areas are:

- **Availability**
- **Service level**

- **Capacity**
- **Performance**

2.5.1 Service management

According to Albrecht and Bradford (1990) service management is a total company approach to making excellent service the driving force of the organization. It is a transformational process, a thought process and a set of methods. Service management creates a customer centered organization that makes customers' needs and expectations the central focus of the business. All the aspects of business, when service-managed, are structured to make it easy for the customer to do business with the organization. The customer may not always be right but the customer always comes first.

Kohler (1997) comes in and supports the above statement by stating that one of the marketing concepts is management orientation, which maintains that the main task of the organization is to determine the needs and wants of customers, and adapt the organization in delivering the desired satisfaction more effectively and efficiently than competitors, indicative of a service trial.

2.5.2 The service triangle

The service triangle, just like service management, has become an important factor of doing business today. The service triangle has become the cornerstone of every organization that is service managed, as Albrecht and Bradford (1990) figure 2.2 shows.

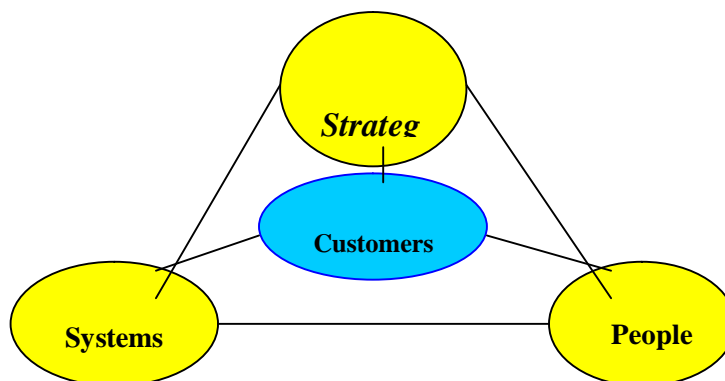


Figure 2.3: The service triangle Source: Albrecht, K and Bradford, L. J. (1990).

2.5.3 The customer

The heart of the model is the centre circle, the customer. All employees should buy into customer service. If there were no customers buying products or services from the organization, that organization would not exist. The people who work there would not have jobs. It therefore makes a lot of sense to look after the people who make the company's staff employed, i.e. the customers. Dorrain (1996) asserts that managers have the responsibility of ensuring that staff understands the manner in which customers have to be treated.

Brown et al., (1999) emphasize; "Customers are the lifeblood of every organization. The simple fact is that without our customers we will not survive". According to Band (1991), a customer who is treated well at the time of initial purchase, and after the sale is made, will be a loyal customer. And each loyal customer represents long-term revenue and profit streams accruing from future purchases, especially if their power increases substantially.

Hopson (1999) also mentions that successful companies are obsessed with their customers. They design their products and organize their business from the customer's point of view. The customer is boss. The customer pays the wages. The customer is valued and treasured above everything else in the company.

2.5.4 The Strategy

Dorrain (1996) maintains that the service strategy becomes a management model for future decisions about the company, its services and its operations. The strategy has to be based upon a clear understanding of the customer and is always emphasized by ownership of senior management; people in an executive retreat. A customer care strategy must assist an organization to get the better of its opposition and to create a long lasting competitive advantage. It should also contribute towards the creation of a culture of customer care within the organization. It is employees that implement the strategy, and their behavior is influenced by the components of the strategy.

Albrecht (1990) stresses that the service strategy consists of the distinct formulas, approaches or principles for delivering quality that are both important to the customer and deliverable by the organization. In developing a service strategy, one must make sure that it is simple and direct, fills all the necessary details, is relatively easy to train,

retrain, and review, and can go around the organization like a wildfire. The overall service strategy, which can change as necessary, should guide the people in the organization to use customer friendly systems to meet their own needs and the needs of the customer.

According to Berry (1999) effective strategy involves knowing what to change and what not to change. The answer lies with the customer. An effective core strategy focuses on serving and enduring customer needs. Strategic focus supports innovation because it guides action and is customer based. True innovation comes from focusing on the customer rather than the competitor.

2.5.5 The Systems

Freemantle (1993) argues that there should be a system for everything relating to the customer: a system for ensuring that the basic service is delivered effectively and efficiently; a system for ensuring that immediate action is taken when any aspect of service fails; a system ensuring that feedback from customers and the requests they make are acted upon; a system ensuring that promises made by one employee are acted upon by others; a system ensuring there is effective ongoing communication with the customer; a system ensuring that all information about the customer is correct and up to date.

Dorrain (1996) also highlights the fact that every organization functions with the assistance of various types of systems. The systems, created and overseen by the company management, deliver a particular level of service to the customer. For superior customer care, those systems need to be customer friendly. The customer must find it easy to do business with the organization and the systems must send out the signal that the company cares. All people in the organization, from top to frontline employees, must work within the system that organizes how the business is run, indicative of the various types of systems below:

Management system: owners, executive and managers are actually in charge of the business and make the strategic decisions that guide it on both short-term and long-term bases.

Rules and Regulation systems are guidelines for both employees and customers. They are the laws of the organization. They stipulate what is right and what is not right.

Technical systems represent all the physical tools and techniques used to produce products and services.

Social system is the human system. It represents all the people in the business and how they interact with one another. This is where the people practice or do not practice teamwork, cooperation, problem solving and conflict management. Who are the people?

2.5.6 The people

Dorrain (1996) identify that people include all executives, managers and employees in the organization. It represents the educational aspect of service management. All persons must know, understand and be committed to the service promise, which flows from the service strategy.

Albrecht and Bradford (1990) stress; “there is a clever way to help you remember why your service providers – those very important people who serve the customer – are seated in the right position. To succeed as a customer-driven organization, you need the right people in the right jobs, doing the right things at the right time. You can have the best products, the best location, the prettiest colors, the cleanest rest rooms, the tastiest food, the lowest prices, and on and on, and it won’t mean anything if you’ve got the wrong people serving the customer”.

Bell and Zemke (1992) declare that service companies that set the pace have learned lessons, and are documenting returns on their human resources investment. They are using training not only to educate but also to motivate. They are using dual career tracks to keep top performers doing what they do best, while providing them with satisfying growth and financial rewards. They are educating managers to the new realities of the work force to make sure they understand that service people bruise easily and that good ones are too precious to waste through managerial abuse.

As the labor market continues to tighten, more managers are making the connection between satisfied customers who keep coming back and the loyal, motivated people who provide the service that brings those customers back. The service elite treat keeping good people as a critical concern.

In the service management, people or employees form the personal contact or interaction with customers. The other components of the service triangle support people in service delivery. This calls for IT Vendors to also consider the factors below.

2.5.7 Types of customers

It is important to categorize customers appropriately to ensure that their expectations from the business are met. Harris (1996) states that it is also important to recognize the importance of both external and internal customers because both contribute to the customer service of the organization.

2.5.7.1 External customers

External customers are those that the company does business with and are from outside. They are customers most commonly thought of when employees think of whom they serve. They are the people with whom employees interact and share their knowledge. According to Morris and Willcocks (1996) external customers are the people who come through the door of the company, who buy products or services. They are the basic reason an organization exists. External customers generally rely on a number of people working together to meet their requirements. This means that everyone in the organization must provide their colleagues with the right information, materials and goods to do their part of the work to standard.

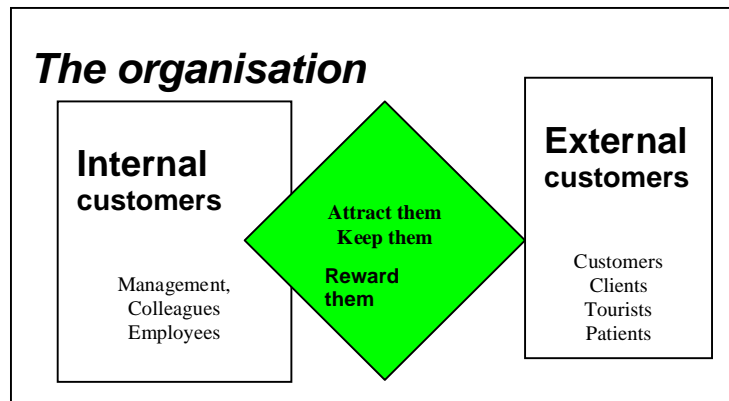
2.5.7.2 Internal customers

Harris (1996) declares that internal customers are people who work in the organization, referred to as co-workers. Internal customers are like a chain, everyone to whom an employee passes information or work resulting in complete service provision to the customer. They supply one another with something or information needed and that has to be of the right quality, failing which the external customer's service will be compromised. Any chain is as strong as its weakest link. Departments are customers to one another, offering a chain of services. A fulfilling working relationship is necessary between departments and if the relationship becomes compromised, resulting in disservice to other departments, the end result will be a dissatisfied customer. Morris (1996) further asserts that rivalry and warfare among departments must be eliminated for them to work together towards the common goal of customer satisfaction. Schoeman (1997) confirms this in Figure 2.4 below.

According to Schoeman (1997), external customers will not receive superior service unless colleagues or internal customers are willing to give the best service to one

another. Therefore the organization should nurture the philosophy of superior customer service within the organization as well as outside it for good service management.

Figure 2.4: The importance of both internal and external customers to the organisation



Source: Schoeman, E. (1997)

2.6 Advantages and disadvantages in outsourcing

When a company decides to have separate outsourced IT systems, both the advantages and disadvantages need to be taken into consideration. Initially there could be a justified business reason to have a one-stop outsourcing house. However, some risks, as summarized by Van der Spoel and Holton (1999), are listed below:

“It is difficult to add value to the core process if the vendor does not have a good knowledge and experience of all the various systems involved in the outsourcing deal

Technical systems are not readily available and have to be created and maintained. A single vendor might be good at supporting and maintaining commercial systems, but lack competency in the technical systems arena.

Process systems are many, are messy and can be hard to integrate. It will be difficult for a single vendor to be on top of all the systems involved. The vendor might even have to ‘sub-outsource’ some of the systems to a vendor who has the relevant experience

One vendor cannot offer a comprehensive solution.”

The most important advantages of outsourcing systems to separate vendors are:

- “The customer gets the best solution (‘best of breed’)

- Competition between partners (vendors) continues because they have direct competition with each other and look at protecting their customer base. This increases the efficiency of the service delivered by the different vendors.
- One bad decision may not have influence on the entire outsourcing deal.
- Changing one outsourcing partner is less disruptive and fewer legal costs are involved when a contract is terminated.
- It should be expected that costs will be less, due to continued competition.

It is usually more costly to use a single vendor for all systems, since the customer has to pay administrative costs over and above normal outsourcing fees” says Raysman (1999:10).

Willcocks et al., (2002:162) say that “Leveraging the new IT Infrastructure study found that those outsourcing at a faster rate had indeed achieved lower costs, but also experienced greater strategic losses compared to organizations that did less outsourcing.” Some losses included:

- Significantly increasing information systems turnover
- Longer time to market for new products
- Lower perceived product and service quality than their competitors
- Slower rate of increase in revenue per employee
- Lower return on assets.

2.6.1 Outsourcing advantages

Table 2.3 Potential outsourcing benefits

<p>FINANCIAL</p> <ul style="list-style-type: none">• Avoid heavy capital investment, thereby releasing funds for other uses• Improve cash flow and cost accountability• Realize cost benefits from economies of scale, and from sharing computer housing, hardware, software and personnel• Release extensive office space <p>TECHNICAL</p> <ul style="list-style-type: none">• Be free to chose software due to a wider range of hardware• Achieve technological improvements more easily• Have greater access to technical skills <p>MANAGEMENT</p> <ul style="list-style-type: none">• Concentrate on developing and running core business activity• Delegate IT development (design, production, and acquisition) and operational responsibility supplier• Eliminate need to recruit and retain competent IT staff <p>HUMAN RESOURCES</p> <ul style="list-style-type: none">• Draw on specialist skills, available from a pool of expertise, when needed• Enrich career development opportunities for staff <p>QUALITY</p> <ul style="list-style-type: none">• Clearly define service levels• Improve performance accountability• Earn quality accreditation <p>FLEXIBILITY</p> <ul style="list-style-type: none">• Respond quickly to business demands• Handle IT peaks and valleys more effectively <p>Turban et al., (2002:589)</p>
--

2.6.2 Outsourcing disadvantages

“In spite of the numerous advantages mentioned above, there can also be less desirable consequences. Most concerns are explored further.

Availability: The external provider is not always available full time and may be committed to other clients.

Confidentiality: The vendor will probably need to keep some of the customer's records off-site while simultaneously working with competitors.

Cost: The customer may perceive that unit costs for the external provider are high. Termination costs of an agreement can also be very high.

Perceived lack of accountability and commitment: There is a possibility that a customer can end up with a provider that does not share the risks of the client and is committed to the agreement.

2.6.3 IT Risk measurements

The cost/contribution model is often where a company needs to get clarity and a quick view of what they are, and what they should be doing with IT investments. With this tool, the investment time and effort is not large. A more thorough-going navigation tool has been devised by Kaplan & Norton (1996). The attraction of their Balanced Business Scorecard approach has been claimed to be its ability to provide, or at least offer, the opportunity for developing a holistic and integrated set of measurements linking disparate organizational activities with key corporate goals.

Many organizations have now taken up this approach or their own specific variants, when applying it to IT performance.

Before looking at the benefits, and the ways in which a balanced scorecard can minimize the weaknesses of less holistic IT assessment approaches, it is important to note several risks in scorecard creation.

While it is true that what gets measured gets managed, a noticeable lack of measurement implies that other things are not being managed. And it is possible that other things are not being managed. It is also possible that important aspects of organizational performance are left out of the scorecard, and consequently not effectively managed under this umbrella.

If careful attention is not paid to the effect of the scorecard measurements on the organization, inappropriate behaviors might be enforced by the scorecard. It is clear that initiating and sustaining a balanced business scorecard program is not easy in complex modern organizations such as research Wilcocks et al., (2002:133) found that even in

2002, many other organizations were still having difficulties in quantifying performance and soft benefits and that this could inhibit the full application of a scorecard approach.

2.7 Conclusions

Outsourcing has become one of today's most powerful, organization shaping management tools and also more so in South Africa. Companies experience growth based on specialization, expertise and excellence. It is growth based on focusing on those areas that most directly contribute to a company's success. Outsourcing has become the new frontier for the modern business.

When a decision is made to outsource, the company needs to decide what of the activities or services currently done in house can be defined as being non core to the business. It is very important that the management of these non core functions is not outsourced.

"The decision to out source the IT function is primarily based on the basis of the need to get rid of an operational problem. IT can become a very expensive cost centre with all the difficulties associated with managing a technology intensive infrastructure" concludes Rose (1999:24) Outsourcing provides the opportunity to re design the IT function, and the potential to access highly specialized skills to extend capability.

The chapter to follow (Chapter Three) provides a discussion of the research methodology, total data, sample size determination, questionnaire design and various aspects of data collection. The research design or methodology is the plan and structure of the investigation to obtain answers to objectives says Cooper and Shindler (1998:130). In this chapter the author researches the design and method to be discussed which will include the aim and objectives of the study, the criteria requirements and the authors' data gathering methods, data analysis and conclusions. The role of the research is to provide a method for obtaining those answers by inquiringly studying the facts, within parameters of the scientific method says Leedy (1989:3).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Chapter Two covered theoretical concepts of outsourcing and selective outsourcing services and their advantages and disadvantages. In South African IT customers becoming aware and conscious about their needs and how they should satisfy them, it is very important for IT vendors to offer products and services that best meet these needs. Not only should organizations meet the needs, but should do this in a way that adds value to the customer. The best way to do this is to offer service excellence with an aim of gaining a competitive advantage and offering the customer options in IT outsourcing.

Chapter Three covers the research methodology undertaken for the evaluation of the Selective Outsourcing services and the percentage of the IT budget spend per sector of these services discussed briefly in Chapter One. This includes factors such as research design, population, and sample and data collection method. However, there is a discussion on different types of research methods with the aim of choosing the most appropriate for this particular study, for yielding desired data for analysis and interpretation as well as recommendations.

3.2 Methodological paradigm

Stamatis (1996) concludes that a paradigm is asset of assumptions that enable people to create their own reality. These assumptions create their own rules that describe and sometimes control boundaries and tell people what to do in order to be successful in those boundaries.

The rule of respecting methodological cohesion, insuring the best fit of the research question with the assumptions, strategies, and types of data and analysis techniques ensures maximum validity. Morse and Richards (2002) also argue that different methods have different agendas and results. Mixing methods may introduce an inappropriate way of analyzing data, or data being inappropriate for the question.

3.3 Research design

According to Churchill (1999) research design is a framework or plan for study, used to guide in collecting and analyzing data. A research design ensures that the study will be relevant to the problem and use economical procedures.

This has called for an in-depth type of this study, where facts have been gathered in order to draw conclusions regarding the outsourcing services and the specific selective outsourcing services and the perception of these services in the market, an IT budget which is allocated to them by sector as to assist IT Vendors in knowing where to focus their energies in marketing the specific services and their relevance to a specific sector. These facts have been gathered from actual respondents of 85 out of 100 of people who are customers of the IT industry in South Africa and are organizations which are on the 100 JSE listed companies, divided by sector according to BMI-T and the IDC sector classification for the purpose of gaining an insight into their perception of these services. Because of the above facts, an inductive approach has been chosen over a deductive approach. The list of customers interviewed is attached in the annexure of this research.

Emroy (1985) concludes that research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research question and to control variance. Hence the standardization of the research questions.

3.3.1 Types of research design

Walker et al., (1999) state: “after the researcher has found the necessary information and specified the sources, the next step is to determine the research design. The two major research designs are exploratory research, which uses secondary data, case studies, and interviews with knowledgeable people, and conclusive research, which comprises descriptive and experimental studies”.

Parasuraman (1991) however, state that exploratory research is intended to develop initial insights and to provide direction for any further research needed. Exploratory research puts a light on the nature of a situation and identifies specific objectives or data needs to be addressed through additional research.

It is therefore useful for a decision maker to understand a situation and identify decision alternatives. On the other hand a conclusive research verifies insights and helps

decision makers to select a specific course of action. It is helpful when a decision maker has more alternatives and wants information to evaluate them. It is more formal and rigorous than exploratory research.

3.3.2 Types of exploratory studies

There are four main types of exploratory studies. They are: literature surveys; experience surveys; focus groups; and analysis of selected cases concludes Churchill (1999).

According to Parasuraman (1991), exploratory research is conducted through one of the following techniques:

Interviews with knowledgeable individuals – finding out and talking to people who are experts in areas related to the situation being investigated. In this specific research, the author interviews senior people within the identified organizations that is accountable for their specific identified roles in their organizations that are then viewed as experts within the researched field.

Focus group interviews – is usually a group that consists of about 8 to 12 respondents discussing a topic informally, and led by a moderator.

Analysis of secondary data – data that has been previously collected for some purpose other than the research situation at hand.

Case study method – this is an in-depth examination of a unit of interest like a customer, salesperson, organization, and a market place. A case study will therefore not be used in this research

The interview technique more specifically telephonic interview technique was chosen over the other three as it emphasizes full contextual analysis of the situation at hand. The benefit of telephonic interviews for this research is that the author was be able to get the responses immediately, be in the position to explain a question in detail in case clarification of a question was required, and the author was in a position to capture full comments and views of the interviewees and capture them on the report. In addition to this, experience has shown the author that the South African IT market is not keen on filling in questionnaires as the responses will be low and not all the targeted companies will be reflected in the study. This statement can also be confirmed by the IT analysts

being Blume (2007), who have also had similar experiences with interviews in the South African IT market.

3.3.3 Qualitative and quantitative research

According to Parasuraman (1991), the two main techniques of research are qualitative and quantitative research.

Qualitative research – involves collecting, analysing, and interpreting data that cannot be meaningfully summarised in the form of numbers. This is an exploratory research involving small samples and non-structured data collection methods. It provides initial insights, ideas or understanding about a problem. For the purpose of this study, the qualitative method will not be used.

Quantitative research – this is a form of conclusive research involving large representative samples and more structured data collection methods. It requires very specific data, capable of suggesting a course of action. The primary role is to test hypotheses. This is the approach that the author chose to use for this research.

3.4 Population

The population is the entire set of elements that are studied. The population boundaries are conditions that separate elements of interest to the research from those that are of no interest. According to Sudman and Blair (1998) a frame is a list that identifies every member of the population so that a sample can be drawn.

Saunders et al., (2000) states that “the full set of cases from which a sample is taken is called the population”. According to Chisnall (1992), population refers to a group of people or objects that are similar in one or many ways and that form the subject of study in a specific survey.

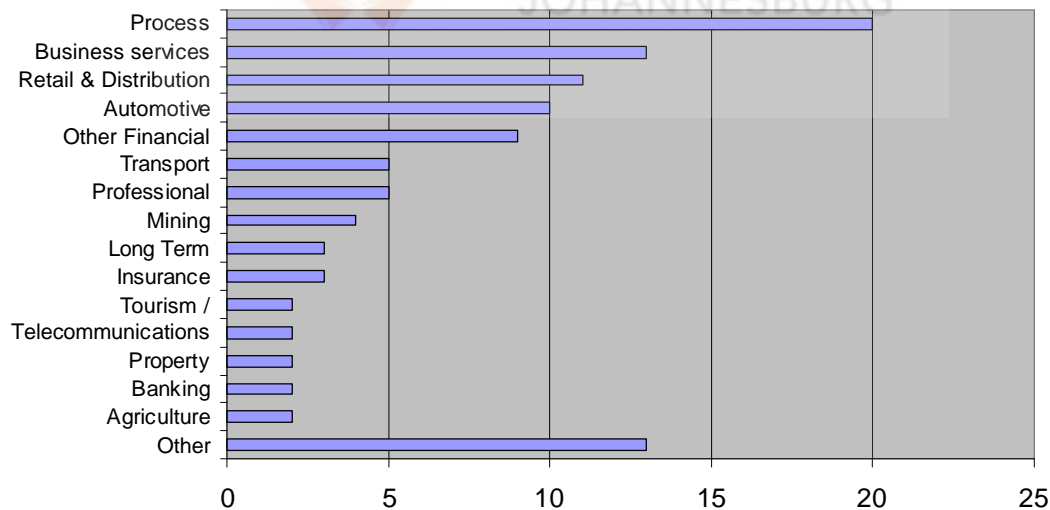
In this research the basis of the population is the top 100 JSE listed customers in South Africa and the specific targeted designations of the populations within those organizations are IT decision makers and executive level designations as per the list obtained from BMI-T for The full year of 2006.

3.5 Sample

Sudman and Blair (1998) state that a sample is the subset of a larger population. There are two types of sampling designs and they are probability samples (use random process to select elements for the sample and give a known chance of being selected), and non-probability samples where there is no random process, but elements are selected by judgment or convenience. Sampling is the selection of a fraction of the total amount of units of interest to decision makers, for the ultimate purpose of being able to draw general conclusions about the entire body of units.

The convenience sampling, which is the form of non-probability sampling techniques, has been identified to fit this particular study. In this sampling technique, elements of the population that are conveniently available will form part of the sample. As the population is big, it is very impractical to include all customers in the sample and therefore a convenience sampling has been chosen, as it is quick and inexpensive. A convenience sample of 100 interviews was extracted from the population as per Figure 3.1 below;

Figure 3.1 Sample of customers interviewed by sector



3.6 Data collection method

Cooper and Emroy (1995) state that every study is a search for information about some topic. Researchers can be more confident of their information's integrity by drawing from all relevant sources.

3.6.1 Secondary and primary sources of information

Sudman and Blair (1998) say that there are internal and external sources of information. Internal information comes from sources within the organization. These can be sales reports and accounting records. External information comes from sources outside the organization. External sources are grouped into secondary and primary information. To gather information on specific services by sector and organization, it is best to go to these customers and talk with them.

Kumar et al., (1999) mention that there is a wide variety of research design methods to consider, either singly or in combination. They can be grouped according to whether they use secondary or primary sources of data. Secondary data is already available because it was collected for some purpose other than solving the current problem. Primary data is collected especially to address a specific problem at hand.

The study is conducted to address specific preferences and spending patterns in different sectors for specific services. Therefore primary data – external source of information – is applicable to the study.

3.6.2 Types of primary sources

Churchill (1999) state that the researcher attempting to collect primary data has a number of choices to make from among the means that will be used. The primary decision is whether to employ communication or observation. Communication involves questioning respondents to secure the desired information, using a data collection method called a questionnaire. Observation means that the situation of interest is checked and the relevant facts, actions or behaviors recorded.

Cooper and Emroy (1995) also say that there are two methods of gathering primary data: observing; and surveying. A researcher can observe conditions, events, people or processes. On the other hand, a researcher can question or survey people about various topics. Surveying involves questioning people and recording their responses for analysis. Surveys as opposed to observation, are more efficient and economical. Surveys can be carried out by face-to-face interviews, telephone, mail, or by a combination of them.

The most appropriate method of gathering data for this study has been that of a survey using a questionnaire. The author could not observe opinions and expectations of

people, but has gained an insight of their expectations through this form of communication. Telephone interviews have been fast and cost effective to reach a dispersed sample.

This fits in with the study because the sample is dispersed. Since the disadvantage of the telephone interview is that interviewers reach voicemails or answering machines to meet the targeted sample, only available respondents have conveniently formed part of the sample.

3.6.3 Questionnaire design

Parasuraman (1991) say that a questionnaire is a set of questions designed to gather necessary information for accomplishing the objectives of a research study.

There are four types of questionnaires, namely:

Structured-undisguised questionnaires – questions are presented with exactly the same wording and in exactly the same order to all respondents. The reason for standardizing questions is to ensure that all respondents are replying to the same question.

Unstructured-undisguised questionnaires – distinguished by the fact that the purpose of the study is clear but the response to the question is open-ended.

Unstructured-disguised questionnaire – lies at the heart of what has become known as motivation research.

Structured-disguised questionnaires – an attempt to secure the advantages of disguise in revealing subconscious motives and attitudes along with the advantages of coding and tabulation, common to structured approaches.

In this research a structured undisguised questionnaire is used for the survey for standardization and to ensure that all the people interviewed respond to similar questions. This helps the author in getting different responses for the same question which outputs constructive and clear results. Please refer to Annexure A for the questionnaire used in this study.

3.6.4 Physical characteristics of a questionnaire

According to Churchill (1999) the physical characteristics of the questionnaire can affect not only the accuracy of the replies that are obtained, but also how respondents react to

it and the ease with which replies can be processed. In determining the physical format of the questionnaire, the author needs to have done the things that help the respondent accept the questionnaire and that facilitate handling and control by the researcher. The method which the author used of pre-testing assisted in eliminating these difficulties.

3.6.5 Acceptance of the questionnaire

The physical appearance of the questionnaire may influence respondents to accept or reject it. This normally applies to mail questionnaires, but it also applies to personal interviews. For example, a sloppy questionnaire may be considered unimportant and the respondents may refuse to cooperate. Research projects are considered important, so the quality of the paper must be good. The questionnaire must be printed and not photocopied. For the purpose of this research, the author used the telephonic research. However, the structure of the questions and the relevance of the questions make an impact on its acceptance.

3.6.6 Handling and control

Easy handling and control by the researcher generates acceptance of questionnaires by the respondents. These include the size of the questionnaire, the layout, and the question sequence. Smaller questionnaires look easy to complete. They appear to take less time. They are easy to carry, to sort and to count as well as to file. The appearance of a crowded questionnaire is bad and may lead to mistakes in data collection. Numbering of questions also facilitates handling and respondent cooperation especially, with the use of branching questions.

Cooper and Emroy (1995) advice that once the researcher has decided on the information needed and the collection process to use, the drafting of questions follows. In doing this, four areas of decision must be considered: question content; question wording; response structure; and question sequence. All these factors relating to wording, response structure and question sequence are taken into consideration by the author and form part of the questionnaire preparation and structure.

3.6.7 Question construction

Parasuraman (1991) state that there are basically two forms of questions: non-structured or open-ended questions; and structured or fixed response questions. With

open-ended questions, respondents are free to answer in their own words. Structured questions have fixed response categories from which the respondents can choose answers.

The researcher employs both open and closed questions in the questionnaire. There are some open questions and some closed questions. For a telephonic interview, it is very important that questions are structured for simplicity and clarity. Respondents do not see the questionnaire. However, care is taken in using open questions. Respondents have not been given too much freedom in their responses.

Question construction is not problematic on the part of respondents, because the interviewer is an extrovert and does not have any challenges with communication of any type.

3.6.8 Pre-testing the questionnaire

Parasuraman (1991) advice that Pre-testing involves administering a questionnaire to a limited number of potential respondents and other individuals capable of pointing out design flaws.

Pre-testing is viewed as a tool for shedding light on specific features or issues in a questionnaire that the researcher is particularly concerned about.

The pre-testing of the questionnaire is conducted in order to identify any irregularities that could lead to confusion or incorrect information being provided. This is done with the aim of testing variables such as questionnaire design and layout, acceptance of the questionnaire, handling and control, and question construction.

The pre-testing was conducted by the researcher, utilizing her interpersonal skills with colleagues from work and external customers who were not to form part of the survey. Helpful suggestions and recommendations were supplied and were incorporated into the final questionnaire which can be accessed in Annexure A.

3.6.9 Validity and reliability

Cooper and Emroy (1995) say: "There are three major criteria for evaluating a measurement tool. They are validity, reliability, and practicality".

Validity is the extent to which a test measures what it actually is supposed to measure.

Reliability refers to the accuracy and precision of a measurement procedure.

Practicality looks at a number of factors of economy, convenience, and interpretability.

To ensure validity of the measurement tool, the researcher introduced the questionnaire to the respondents and explained the purpose thereof. Closed questions were used to limit the freedom of using own words that could lead to irrelevant information, and because the study was conducted telephonically which called for short questions that were relevant. Even though open questions are used, there has not been much freedom in order to eliminate distraction. The pre-test helped in establishing the validity of the questionnaire.

3.6.10 Reliability

Cooper and Emroy (1995) maintain that "reliability means many things to many people, but in most contexts, the notion of consistency emerges. A measure is reliable to the degree that it supplies consistent results. Reliability is a contributor to validity and is a necessary but not sufficient condition for validity. Reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error". They go on to say that reliable instruments work well under different conditions and at different times. They can be used with confidence that situational factors will not interfere.

As indicated by the above theorists, reliability is an element of validity. Reliability is ensured by asking respondents the same questions that are short, simple and to the point. To reduce chances of respondents supplying incorrect information that could affect the reliability of the questionnaire, the researcher uses the internal consistency, viewing it as a quick and cost effective method of testing reliability.

3.7 Conclusions

In this chapter, the researcher looked into the research methodology of the study on the IT Outsourcing and Specific Selective Outsourcing Business in South Africa. An appropriate research approach that is inductive is followed. The research design exploratory method is chosen as the most appropriate in order to facilitate the case study technique that involves an in-depth interview and convenience sample, which is a form of non-probability sampling.

For data collection method, the telephone interview is chosen as the most suitable and cost effective method. A questionnaire is designed with undisguised questions to ensure consistency and relevance of the responses. The question construction that followed took into consideration question content, question wording, response structure, and question sequence. Finally, pre-testing of the measurement tool is done to ensure validity and reliability, thereby ensuring that a foundation was laid for Chapter Four in which presentation and analysis of the results are done.



CHAPTER FOUR - RESEARCH RESULTS, ANALYSIS AND FINDINGS

4.1 Introduction

Chapter Three explored the research methodology of the study of IT Outsourcing and Specific Selective Outsourcings services business in South Africa. In discussion were the research design, population, sample and data collection methods. Finally, the chapter looked into the pre-testing of the measurement tool as well as validity and reliability.

Chapter Four presents and analyses data collected through the research instrument, that is, the interview results. The results are presented in a graph and table format for clarity and ease of understanding. This is followed by the analysis of those results and the interpretation thereof. The questionnaire (refer to Annexure 1) is intended to show the following: The South African IT Market vertical sector, their IT budget allocation to specific selective outsourcing services, their loyalty and customer satisfaction levels with specific IT vendors and which industry or sector the IT vendors need to market specific selective outsourcing services. Data was collected from approximately 85 respondents. The collection of data is to address the problem and sub-problems as stated in Chapter One.

The goals and objectives of the study are communicated to the respondents verbally during the interview. The purpose and parameters of the study is explained to the respondents.

The actual respondents constitute 85% of the population (85 out of 100) which represents a statistically viable sample for this study.

4.2 Survey results

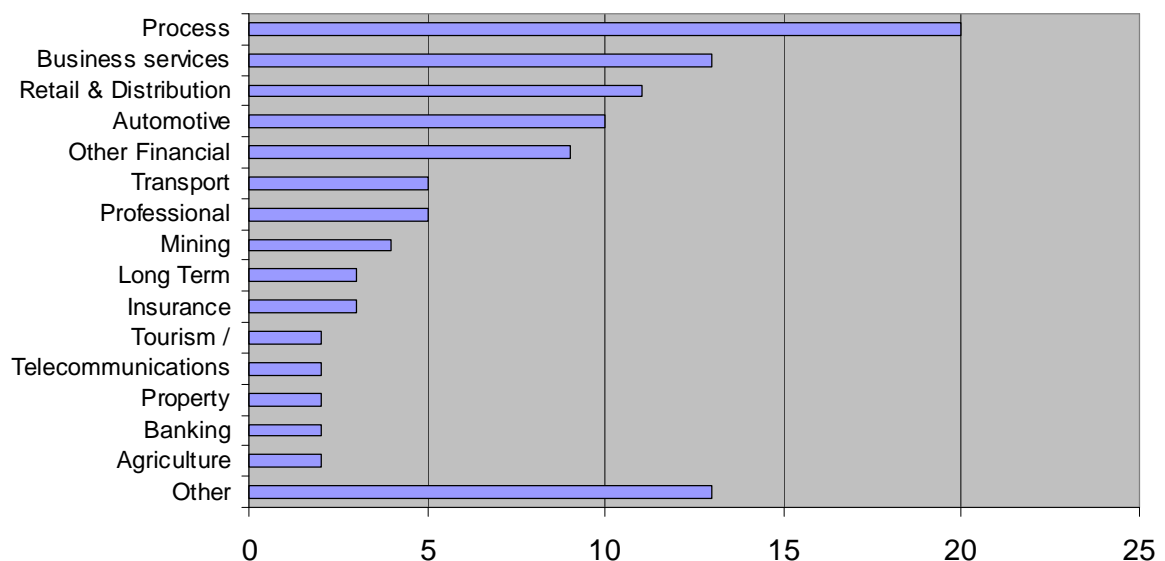
Data drawn from the survey depicts the following sectors which were interviewed as well as the annual turnover of these organizations so as to have a clear understanding of the size of organizations discussed. The industries interviewed as per the JSE top 100 list are listed below in Figure 4.1 which also shows the overall coverage of the companies interviewed.

4.2.1 Demographics

Figure 4.1 shows the results of the 85% interviews on the JSE top 100 companies the specific industries which were interviewed. As seen below, the majority of the organizations interviewed were in the process industry which in IT related market segmentation as per by BMI-T and the IDC form part of the manufacturing vertical. In Chapter One, the author discussed that IT analysts predict that the majority of the IT spend in the next five years will be coming from the insurance and financial services sector as well as high predicted government spend.

The below graph shows that the interviewed 85% of customers within the JSE top 100 list do not necessarily include the predicted top IT spenders. As shown here both banking and insurance sectors added together only contribute to less than 20% overall of the companies interviewed. Government which is also predicted by the IT analysts as a high IT growth area also constitutes of less than 10% of the list. This includes privatized organizations which form part of specific government organizations such as agriculture and tourism. This graph gives the author an indication of the specific vertical sectors interviewed which is in line with the primary objective of understanding the specific sector requirements and this enables the author to come to proper conclusions and recommendations of the vertical sector requirements.

Figure 4.1 Demographics



4.2.2 Annual turnover

Figure 4.2 Annual turnover

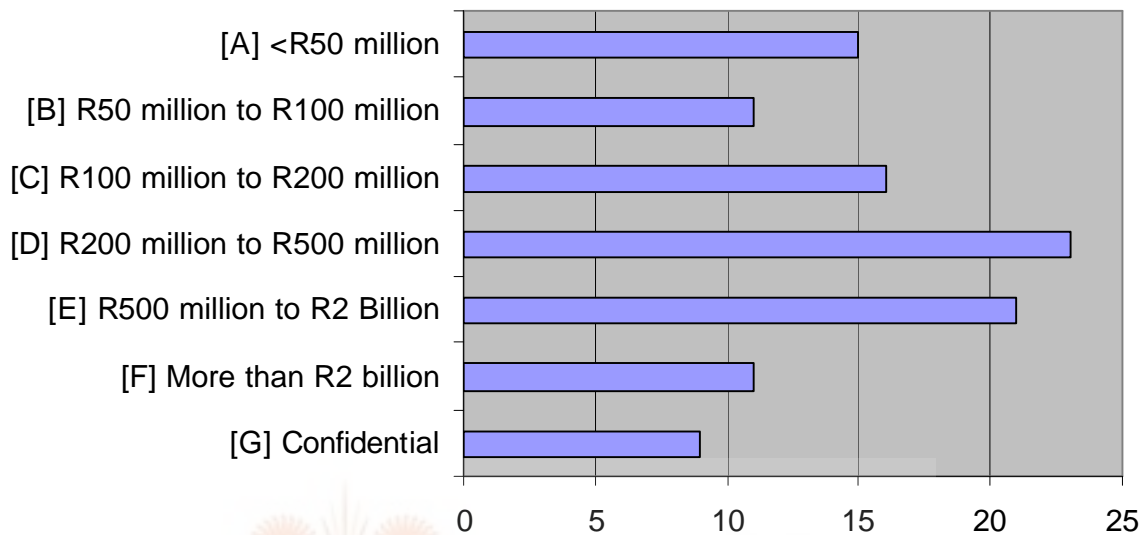


Figure 4.2 gives an indication of the annual turnover as per the questionnaire of the said companies. As seen above between 20% and 25% of the companies interviewed have an annual turnover of between R200 million to R500 million. 15% of the companies interviewed have an annual turnover of less than R50 million. The size of the company is key and the annual turnover provides the author a summary of the size and ability or potential for the organization to use or have a potential requirement for the researched services. The feedback of annual turnover figures provided to the author during this research also raises concerns back to the author of the validity of some of the above figures provided by the top listed companies.

The author does have some concerns in the validity of the annual turnover figures of the interviewed organizations as the author would have expected higher turnover figures from these organizations. As per Chapter Three, the levels of the people interviewed in the questionnaires are senior within their organizations and are viewed as experts in their fields of specialty. In regards to the research, the author has not referred back the provided figures with the interviewed organizations' annual financial statements due to time constraints.

The importance of this graph also refers back to the primary objective of the IT spend by sector which is linked back to the size of the organization in terms of their overall annual turnover. As stated earlier the annual turnover will assist the author in determining the affordability and possible requirement of this service by the organization.

4.2.3 Number of employees

Figure 4.3 Number of employees

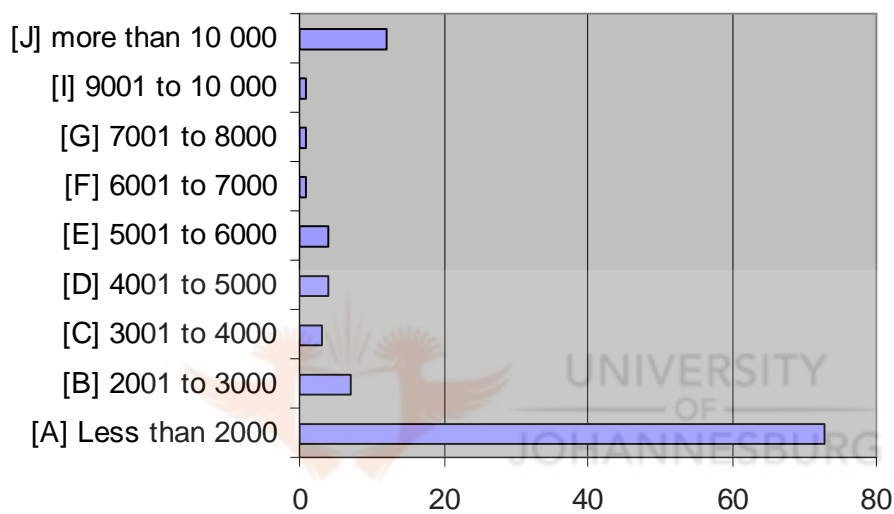
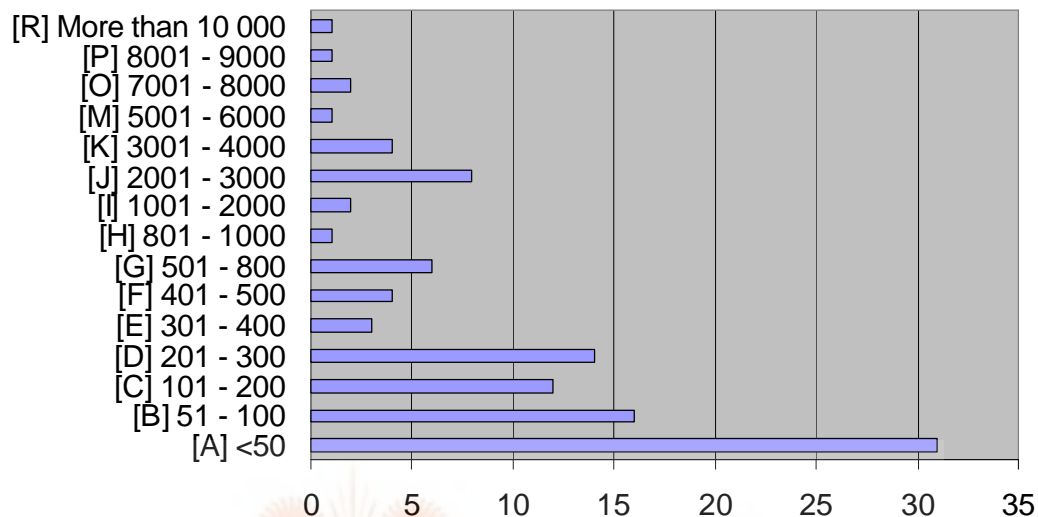


Figure 4.3 shows the number of employees per organization. The importance of this particular graph is that it illustrates the number of employees which gives the author an indication of the size of the organization and the number of employees likely to use personal computers which links to the IT budget that would be allocated to that particular organization. This information will assist the author to make proper conclusions in comparison to the annual turnover results of the interviewed organizations.

Although the majority of organizations interviewed are in the manufacturing sector, aligning the annual turnover to the number of employees will give us better analyses of the magnitude of organizations interviewed. As per figure 4.3 the number of employees on 70% of the companies interviewed is less than two thousand. About 17% of the organizations have more than ten thousand employees. On average the numbers of companies interviewed have about three thousand employees.

4.2.4 Number of personal computers (PC's)

Figure 4.4, Number of personal computers (PC's)

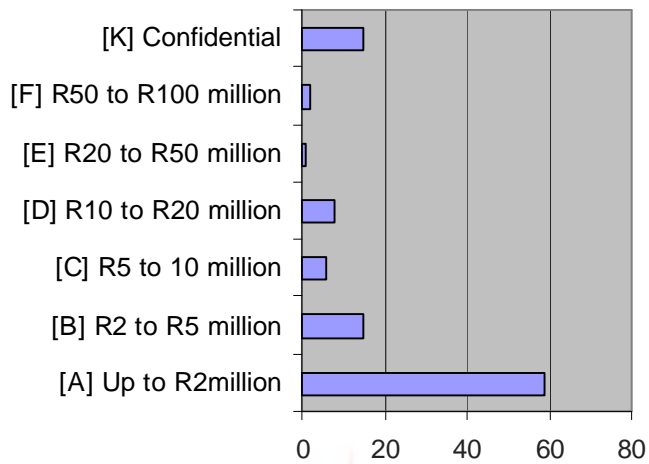


This figure give a much clearer understanding form an IT point of view the magnitude of possible IT spend of these organizations. This figure gives the author a much clearer view as the earlier graph showed the number of employees, and shows the number of employees who have access to a personal computer (PC). This figure shows that over 30% of companies interviewed have less than 50 PC's .This result clearly demonstrates the earlier statement of the vertical sectors interviewed which show that the majority of interviewed organizations form part of the manufacturing sector that have high employee numbers who do not necessarily need access to PC's as per their organization's business requirements.

Almost 12% of interviewed organizations have between 2000 and 3000 PC's. The average number of PC's on all the organizations is 1500 which shows a healthy potential requirement for the selective outsourcing services being investigated. The higher the number of PC's in an organization, the greater the specific IT requirements there will be.

4.2.5 Annual IT budget

Figure 4.5: Annual IT budget



As seen above in figure 4.1, majority of the organizations interviewed are from the processing or manufacturing sector. Almost 60% of these organizations have an annual IT budget of up to R2 million, almost 18% are confidential and others have between R2 million and R5 million annual IT budget. The big IT spenders of up to R100 million are less than 5%.

In relation to the number of PC's in the interviewed companies of an average of 1500, these provided budgetary figures provide the said figures. This section assists the author to make the necessary conclusions and recommendations in line with the primary objective of the IT budget allocation for the selected specified selective outsourcing services.

4.2.6 Percentage of IT spend on the services

Figure 4.6 Percentage of IT spend on service

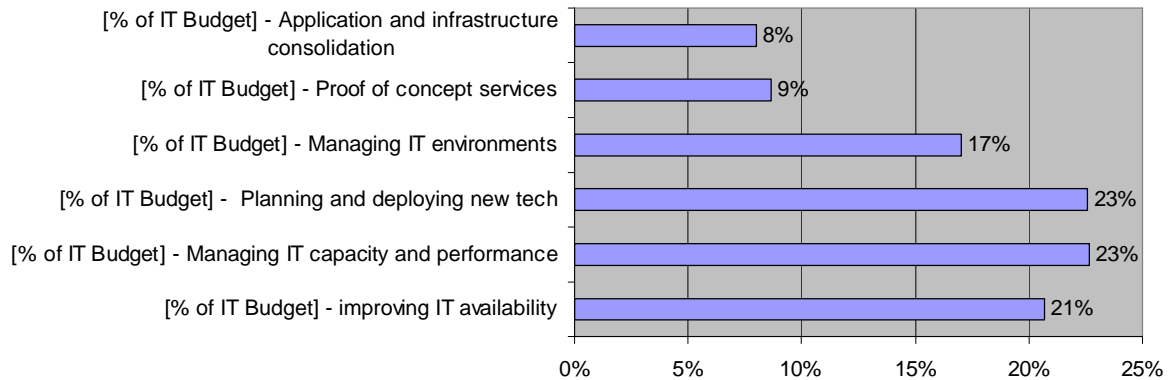
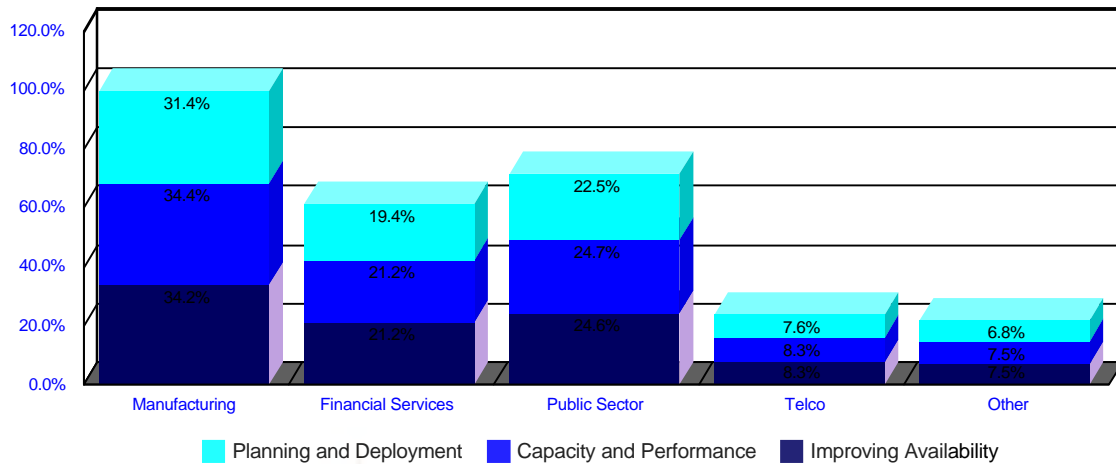


Figure 4.6 clarifies the overall actual IT spending by category of the specified selective outsourcing services which are researched in line with the primary objective of the percentage of the IT budget spend on each of the selected services. The results show here that a high percentage of the IT budget is spent around Managing IT environments at 23% of the IT budget and Managing IT capacity and performance, also at 23% of the budget.,

Figure 4.6 shows all the organizations and does not reflect the IT spends for the specified selective outsourcing services by sector. Improving IT availability follows improving IT availability at 21% managing IT environments at 17%. This shows that in general there is a requirement for these services and that the interviewed organizations do have a requirement for the services and that there is a high IT budget allocation throughout all the organizations for the specified selective outsourcing services.

4.2.7 Percentage of the specific selective outsourcing services by vertical sector

Figure 4.7 Percentage of the specific selective outsourcing services by vertical sector

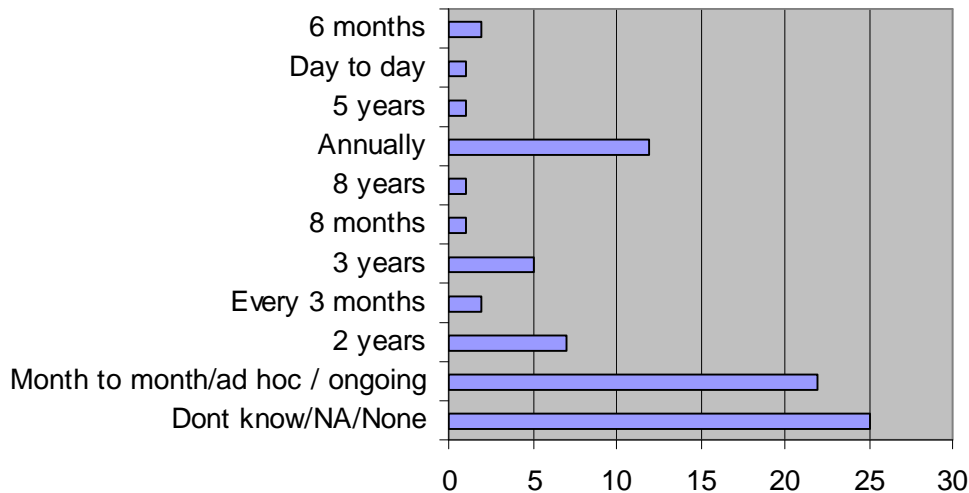


This is the interesting part which clearly aligns with the problem statement and the primary objective of IT spent by sector on the specific selective outsourcing services by sector which clearly in line with the customer base which was interviewed that the key growth area of these services is in the Manufacturing sector, followed by the Public then Financial sectors.

An interesting discovery in this research is that the highest IT spend in terms of an industry with the highest budget is the Telecommunications sector which is where a majority of IT vendors concentrate on due to the high IT spend. This analysis shows that the Telecommunications sector has the lowest IT budget allocation for the specified selective outsourcing services being investigated. In terms of this sector the budget for this specific sector is low in terms of their specific business requirements.

4.2.8 Contract duration

Figure 4.8 Contract duration



As seen in Figure 4.8 the trend, in terms of contracts, is that the majority of the contracts are month to month ad hoc ongoing contracts with to specific fixed timeframes. The second popular trend which it seems most organizations believe to be sufficient and safe for their business is that of the annual contract where we see an almost 13% of the contracts are annual. An interesting finding is that the majority of the organizations interviewed also show that they either do not have contracts with their suppliers or that they do not know. The finding here is that as the majority of organizations interviewed have less than 50 PC's within their organizations, there is a clear trend that they do not have outsourcing or selective outsourcing contracts.

4.2.9 Spend per category

The four tables below indicate the range based spend per vertical per the specified services researched Category. Due to the number of services categories researched the author recommends that readers of this research use the provided pivot tables to make the use of the data more manageable.

In each of the tables below, the following applies:

The First Column indicates the vertical segment, the second, the total spend in South Africa per the vertical. The third column represents the researched service segment and spend attributable to the segment, the subsequent columns (percentage based) represent the percentages of the total spent in the research related category.

Key Findings

- Of the 85 interviews completed, 25% of the interviews could be considered as opportunities for specific vendors to sell into, in the short term as the interviewed customers showed an urgent need for these services. In the longer term this could potentially increase if the vendors put focus on the customers.
- Even though a large percentage indicated no plans for the specified range of outsourcing and selective outsourcing services, this contradicts the high percentage of respondents that indicated a tendency to outsource.
- Services such as ITSM (Information Technology Service Management) which form part of improving availability are key services which are strongly required in Government which as per Chapter One is seen by IT analysts as a key growth area.
- The banking or financial services sector has a high need for planning and deployment services more specifically in the implementation phase which these services are required.

Table 4.1 Spend per vertical per category (average %)

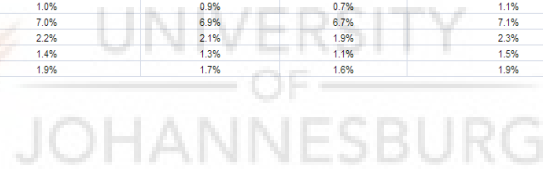
Spend per vertical per category (Average %)						
[Industry Sector]		[%] - improving IT availability	[%] - System Health Check services	[%] - Storage Optimization	[%] - Security assessment	[%] - Clu
All Sectors		21%	1.1%	0.8%	1.4%	
Breakdown of spend per category			22.46	17.35	29.08	
Agriculture, Construction and Mining	1,046.35	216.66	1.4%	1.1%	1.7%	
Discrete Manufacturing	503.41	104.24	1.1%	0.8%	1.4%	
Automotive*	100.83	20.88	0.9%	0.6%	1.2%	
Process Manufacturing	482.03	99.81	1.1%	0.8%	1.4%	
Transportation	498.16	103.15	1.1%	0.8%	1.4%	
Telecommunications	707.82	146.56	1.2%	1.0%	1.5%	
Broadcasting and Media	165.89	34.35	0.9%	0.6%	1.2%	
Utilities	661.23	136.91	1.2%	0.9%	1.5%	
Retail	745.95	154.46	1.2%	1.0%	1.5%	
Wholesale	73.93	15.31	0.8%	0.6%	1.2%	
Banking	1,484.23	307.32	1.6%	1.4%	2.0%	
Insurance	657.01	136.04	1.2%	0.9%	1.5%	
Financial services	91.24	18.89	0.8%	0.6%	1.2%	
Business and Legal Services	473.29	98.00	1.1%	0.8%	1.4%	
Local Government	462.15	95.69	1.1%	0.8%	1.4%	
Central Government	1,247.61	258.33	1.5%	1.3%	1.8%	
Healthcare	255.75	52.96	0.9%	0.7%	1.3%	
Education	129.01	26.71	0.9%	0.6%	1.2%	
Home	11.78	2.44	0.8%	0.6%	1.1%	
Other	314.53	65.13	1.0%	0.7%	1.3%	
Total as per HP scope	10,011.37	2,072.94	6.5%	6.2%	6.8%	
Combined Finance	2,232.48	462.26	2.1%	1.8%	2.4%	
Combined Manufacturing	985.45	204.05	1.4%	1.1%	1.7%	
Combined Government	1,709.76	354.02	1.8%	1.5%	2.1%	

Continued:

		[%] - Managing IT capacity and performance	[%] - Audit Service	[%] - Performance Analysis	Performance Tuning Implementation	[%] - Transaction Volume	[%] - Education Services
		23%	0.7%	1.4%	1.1%	0.7%	0.6%
			16.87	30.64	25.50	15.14	14.67
Agriculture, Construction and Mining	1,046.35	237.17	1.1%	1.7%	1.5%	1.0%	1.0%
Discrete Manufacturing	503.41	114.11	0.7%	1.3%	1.1%	0.7%	0.6%
Automotive*	100.83	22.86	0.5%	1.1%	0.9%	0.4%	0.4%
Process Manufacturing	482.03	109.26	0.7%	1.3%	1.1%	0.7%	0.6%
Transportation	498.16	112.92	0.7%	1.3%	1.1%	0.7%	0.6%
Telecommunications	707.82	160.44	0.9%	1.5%	1.2%	0.8%	0.8%
Broadcasting and Media	165.89	37.60	0.5%	1.1%	0.9%	0.5%	0.4%
Utilities	661.23	149.88	0.8%	1.4%	1.2%	0.8%	0.7%
Retail	745.95	169.08	0.9%	1.5%	1.3%	0.8%	0.8%
Wholesale	73.93	16.76	0.5%	1.1%	0.9%	0.4%	0.4%
Banking	1,484.23	336.43	1.4%	2.0%	1.7%	1.3%	1.3%
Insurance	657.01	148.92	0.8%	1.4%	1.2%	0.8%	0.7%
Financial services	91.24	20.68	0.5%	1.1%	0.9%	0.4%	0.4%
Business and Legal Services	473.29	107.28	0.7%	1.3%	1.1%	0.6%	0.6%
Local Government	462.15	104.75	0.7%	1.3%	1.1%	0.6%	0.6%
Central Government	1,247.61	282.79	1.2%	1.8%	1.6%	1.1%	1.1%
Healthcare	255.75	57.97	0.6%	1.2%	1.0%	0.5%	0.5%
Education	129.01	29.24	0.5%	1.1%	0.9%	0.4%	0.4%
Home	11.78	2.67	0.4%	1.0%	0.8%	0.4%	0.3%
Other	314.53	71.29	0.6%	1.2%	1.0%	0.5%	0.5%
Total as per HP scope	10,011.37	2,269.24	6.7%	7.3%	7.0%	6.6%	6.6%
Combined Finance	2,232.48	506.03	1.8%	2.4%	2.2%	1.7%	1.7%
Combined Manufacturing	985.45	223.37	1.0%	1.6%	1.4%	1.0%	0.9%
Combined Government	1,709.76	387.54	1.5%	2.1%	1.9%	1.4%	1.4%

Continued:

		[%] - Planning and deploying new	[%] - Factory express services	Relocation move add change	[%] - Implementation	[%] - Servicer Essentials	[%] - Implementation2	[%] - Data Centre	[%] - Migration services	[%] - Relocation services	[%] - Managed Deployment
		23%	0.0%	1.2%	1.1%	1.2%	1.0%	0.8%	1.2%	0.0%	0.9%
			0.00	27.29	25.29	25.99	22.49	18.75	27.16	0.00	19.97
Agriculture, Construction and Mining	1,046.35										
Discrete Manufacturing	503.41	236.18	0.0%	1.5%	1.5%	1.5%	1.3%	1.2%	1.5%	0.0%	1.2%
Automotive*	100.83	113.63	0.0%	1.2%	1.1%	1.1%	1.0%	0.8%	1.2%	0.0%	0.9%
Process Manufacturing	482.03	22.76	0.0%	1.0%	0.9%	0.9%	0.7%	0.6%	1.0%	0.0%	0.6%
Transportation	498.16	108.80	0.0%	1.2%	1.1%	1.1%	1.0%	0.8%	1.2%	0.0%	0.9%
Telecommunications	707.82	112.44	0.0%	1.2%	1.1%	1.1%	1.0%	0.8%	1.2%	0.0%	0.9%
Broadcasting and Media	165.89	159.77	0.0%	1.3%	1.2%	1.3%	1.1%	1.0%	1.3%	0.0%	1.0%
Utilities	661.23	37.44	0.0%	1.0%	0.9%	0.9%	0.8%	0.6%	1.0%	0.0%	0.7%
Retail	745.95	149.25	0.0%	1.3%	1.2%	1.2%	1.1%	0.9%	1.3%	0.0%	1.0%
Wholesale	73.93	168.37	0.0%	1.4%	1.3%	1.3%	1.1%	1.0%	1.4%	0.0%	1.0%
Banking	1,484.23	16.69	0.0%	0.9%	0.9%	0.9%	0.7%	0.6%	0.9%	0.0%	0.6%
Insurance	657.01	335.01	0.0%	1.8%	1.7%	1.8%	1.6%	1.4%	1.8%	0.0%	1.5%
Financial services	91.24	148.30	0.0%	1.3%	1.2%	1.2%	1.1%	0.9%	1.3%	0.0%	1.0%
Business and Legal Services	473.29	20.59	0.0%	1.0%	0.9%	0.9%	0.7%	0.6%	0.9%	0.0%	0.6%
Local Government	462.15	106.83	0.0%	1.2%	1.1%	1.1%	1.0%	0.8%	1.2%	0.0%	0.9%
Central Government	1,247.61	104.31	0.0%	1.2%	1.1%	1.1%	1.0%	0.8%	1.2%	0.0%	0.9%
Healthcare	255.75	281.60	0.0%	1.7%	1.6%	1.6%	1.5%	1.3%	1.7%	0.0%	1.3%
Education	129.01	57.73	0.0%	1.1%	1.0%	1.0%	0.8%	0.7%	1.0%	0.0%	0.7%
Home	11.78	29.12	0.0%	1.0%	0.9%	0.9%	0.8%	0.6%	1.0%	0.0%	0.7%
Other	314.53	2.66	0.0%	0.8%	0.8%	0.8%	0.7%	0.5%	0.9%	0.0%	0.6%
Total as per HP scope	10,011.37	70.99	0.0%	1.1%	1.0%	1.0%	0.9%	0.7%	1.1%	0.0%	0.8%
Combined Finance	2,232.48	2,259.71	0.0%	7.0%	7.1%	7.0%	6.9%	6.7%	7.1%	0.0%	6.8%
Combined Manufacturing	985.45	503.90	0.0%	2.3%	2.2%	2.2%	2.1%	1.9%	2.3%	0.0%	2.0%
Combined Government	1,709.76	222.43	0.0%	1.4%	1.5%	1.4%	1.3%	1.1%	1.5%	0.0%	1.2%
		385.92	0.0%	2.0%	1.9%	1.9%	1.7%	1.6%	1.9%	0.0%	1.6%



Continued:

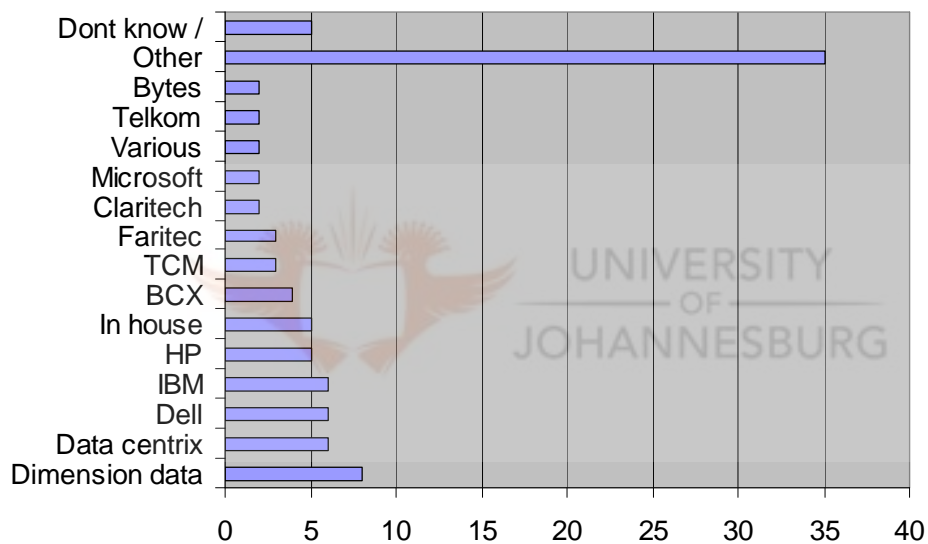
		[%] - Managing IT environment	[%] - ITIL / ITSM Quick assessment	IL/ITSM Intermediate asses	ITSM Comprehensive Ass	[%] - ITIL/ITSM Custom Assessment	Service Provider Certificate	SAP Joint Solution Asses	[%] - System Replication for SAP	[%] - Proof of concept services	[%] - Application and infrastructure consolidation
		17%	0.7%	0.0%	0.0%	0.0%	0.0%	2.1%	0.0%	9%	8%
		0.10	11.98	0.00	0.00	0.00	0.00	35.81	0.00	0.17	69.41
Agriculture, Construction and Mining	1,046.35	177.88	1.0%	0.0%	0.0%	0.0%	0.0%	2.4%	0.0%	90.68	83.71
Discrete Manufacturing	503.41	85.58	0.7%	0.0%	0.0%	0.0%	0.0%	2.1%	0.0%	43.83	40.27
Automotive*	100.83	17.14	0.5%	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%	8.74	8.07
Process Manufacturing	482.03	81.95	0.7%	0.0%	0.0%	0.0%	0.0%	2.1%	0.0%	41.78	38.56
Transportation	498.16	84.69	0.7%	0.0%	0.0%	0.0%	0.0%	2.1%	0.0%	43.17	39.85
Telecommunications	707.82	120.33	0.8%	0.0%	0.0%	0.0%	0.0%	2.2%	0.0%	61.34	56.63
Broadcasting and Media	165.89	28.20	0.5%	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%	14.38	13.27
Utilities	661.23	112.41	0.8%	0.0%	0.0%	0.0%	0.0%	2.2%	0.0%	57.21	52.90
Retail	745.95	126.81	0.8%	0.0%	0.0%	0.0%	0.0%	2.2%	0.0%	64.65	59.68
Wholesale	73.93	12.57	0.5%	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%	6.41	5.91
Banking	1,484.23	252.32	1.2%	0.0%	0.0%	0.0%	0.0%	2.6%	0.0%	128.63	118.74
Insurance	657.01	111.69	0.8%	0.0%	0.0%	0.0%	0.0%	2.2%	0.0%	56.94	52.58
Financial services	91.24	15.51	0.5%	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%	7.91	7.30
Business and Legal Services	473.29	80.46	0.7%	0.0%	0.0%	0.0%	0.0%	2.1%	0.0%	41.02	37.86
Local Government	462.15	78.57	0.7%	0.0%	0.0%	0.0%	0.0%	2.1%	0.0%	40.05	36.97
Central Government	1,247.61	212.09	1.0%	0.0%	0.0%	0.0%	0.0%	2.4%	0.0%	106.13	99.81
Healthcare	255.75	43.48	0.6%	0.0%	0.0%	0.0%	0.0%	2.0%	0.0%	22.17	20.46
Education	129.01	21.93	0.5%	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%	11.18	10.32
Home	11.78	2.00	0.5%	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%	1.02	0.94
Other	314.53	53.47	0.6%	0.0%	0.0%	0.0%	0.0%	2.0%	0.0%	27.26	25.16
Total as per HP scope	10,011.37	1,701.93	5.1%	0.0%	0.0%	0.0%	0.0%	6.5%	0.0%	867.65	800.91
Combined Finance	2,232.48	379.52	1.5%	0.0%	0.0%	0.0%	0.0%	2.9%	0.0%	193.48	178.60
Combined Manufacturing	995.45	167.53	0.9%	0.0%	0.0%	0.0%	0.0%	2.3%	0.0%	85.41	78.84
Combined Government	1,709.76	290.66	1.3%	0.0%	0.0%	0.0%	0.0%	2.7%	0.0%	148.18	136.78



4.2.10 Primary IT vendors

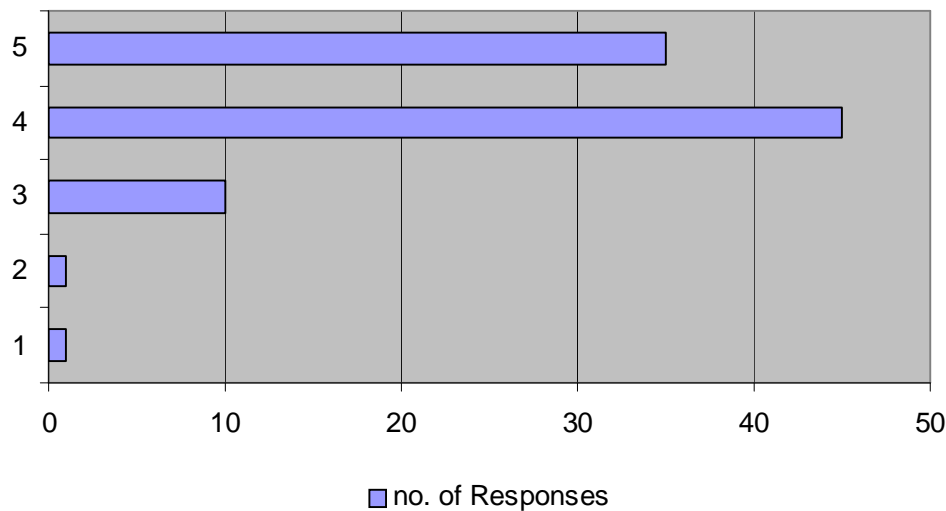
Figure 4.9 and the tables below show which specific primary vendors the interviewed companies use for their products and services. 35% of the respondents have specified that they use other vendors which were not on the list of the common vendors which the author used, followed by 8% with Dimension Data, and the rest of the companies were less. This graph shows the vendors most commonly used and is also in line with the primary objective of vendor satisfaction within the organizations interviewed. This information will be used with the results of vendor satisfaction to make the necessary conclusions.

Figure 4.9, Primary IT vendors



4.3 Vendor satisfaction

Figure 4.10, Vendor satisfaction



1 - LOW, 5 - HIGH

Figure 4.10 is also in line with the primary objective of vendor satisfaction. The results here indicate that 35% of organizations are very satisfied with the services they are getting from their vendors and 45% also satisfied. 12% of respondents are not satisfied with their suppliers which constitutes to a percentage of 30%. This analysis indicates that majority of customers surveyed are satisfied with their IT providers.

Customer service and sales is also important in giving the potential customer peace of mind that the vendor can deliver what it is proposing. Easy to understand solution offerings, inexpensive and negotiable pricing is also important for vendors to note. The below tables show some of the statements made to the author about four leading IT vendors in South Africa. For the purpose of this research, the author does not mention the specific names of these vendors. However, the tables below show the strengths and weaknesses of these vendors as well as areas of improvement.

Table 4.2 Vendor 1

Components of an end-to-end solution	Strengths	Weaknesses
Sales	<p>Strong management</p> <p>After sales service</p> <p>Know their products</p> <p>Market benchmarks</p> <p>Scalable products</p>	<p>Commitments not being met</p> <p>Late deliveries at times</p>
Consulting	<p>Good support</p> <p>Good product range</p>	<p>Lack of knowledge</p> <p>After sales service is weak</p>
Implementation	<p>Good relationship</p> <p>Quick and on time</p>	
Support skills	<p>Security skills</p> <p>Available to help</p>	<p>Weak solutions skills</p>

Vendor 1 is a multinational vendor with a large footprint in the customers around South Africa as well as within the specific customers interviewed. This feedback of the perception of the customers can assist Vendor 1 in ensuring that their weaknesses become their strengths and thus win in the marketplace. Vendor 1 is a multinational vendor with a large footprint in the customers around South Africa as well as within the specific customers interviewed. This feedback of the perception of the customers can assist Vendor 1 in ensuring that their weaknesses become their strengths.

Table 4.3 Vendor 2

Components of an end-to-end solution	Strengths	Weaknesses
Sales	<p>Very good sales team</p> <p>Solid midrange offering and enterprise application suites</p> <p>Wide range of solutions and products</p> <p>Pro active with ideas</p>	<p>Products and solutions too complex for sales people to give a proper pitch</p> <p>Lack of local expertise</p> <p>Not always available</p> <p>Expensive and non-negotiable</p>
Consulting	<p>Global referral base</p> <p>Access to information</p> <p>Focus of the vendor</p> <p>Skilled and professional</p>	<p>Lack of in-depth knowledge</p> <p>Specialists are overseas</p> <p>Local consultants are not of an international standard</p>
Implementation	<p>Good planning skills</p> <p>Access to specialist back office skills</p> <p>Efficient and knowledgeable</p> <p>Motivated</p>	<p>Too slow</p> <p>Often a lack of necessary information</p> <p>Often have to use international experts to assist</p>
Support skills	<p>Have access to proprietary information</p>	<p>Tend to outsource to a dealer network</p>

	Established support channel	Lack support skills Restricted to Vendor 2 staff
--	-----------------------------	---

Vendor 2 is also another multinational with an equally strong footprint both in South Africa and also within the customers interviewed. The interesting analysis here is that Vendor 2 has more weaknesses due to the more negative perception of the interviewed customers. Vendor 2 needs to put in more effort and communicate more and ensure their customers understand their strategy and that they understand their customers as well.

Table 4.4 Vendor 3

Components of an end-to-end solution	Strengths	Weaknesses
Sales	Very good sales team Customer driven Competent staff	Turn-around time
Consulting	Excellent consulting skills Good knowledge of customer systems	Some inexperienced staff
Implementation	Have a good implementation strategy Efficient	But often slow to implement
Support skills	Good support skills Solution orientated	Do not understand our business

Vendor 3 is a local IT vendor with a wide footprint in South Africa but not necessarily amongst the organizations interviewed. The market perception of Vendor 3 is not as

negative. However, they do have areas which they need to improve on which are critical to customers.

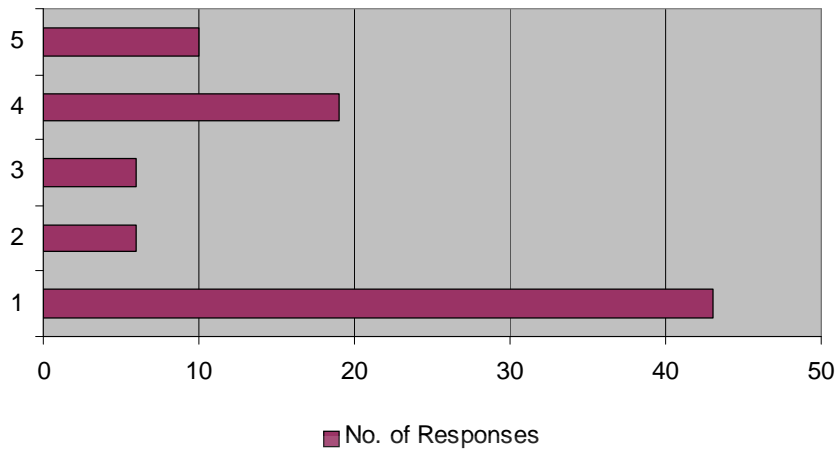
Table 4.5 Vendor 4

Components of an end-to-end solution	Strengths	Weaknesses
Sales	<p>Sales offer a wide range of services</p> <p>e-procurement portal</p> <p>Wide access to suppliers</p>	<p>Poor contracts and documentation</p> <p>Speed of delivery</p> <p>Evaluation capacity</p> <p>Weak management</p> <p>Promises not kept</p>
Consulting	<p>Good expertise</p> <p>Technical skills</p>	<p>Lack of knowledge</p> <p>Reliance on sub-contractors</p> <p>Lack of resources</p>
Implementation	<p>Available when needed</p> <p>High experience levels</p> <p>Planning</p>	<p>Lack of skills</p> <p>“Monopoly”</p>
Support skills	<p>Available when needed</p> <p>Offer SLA’s</p> <p>Technical knowledge</p>	<p>Adherence to SLA’s</p> <p>Turn around times</p> <p>No internal skills</p>

Vendor 4 is another local IT Vendor with a large footprint in the country. The market perception of Vendor 4 is not very positive which means that Vendor 4 needs to do a lot of work in protecting their reputation.

4.3.1 Churn propensity

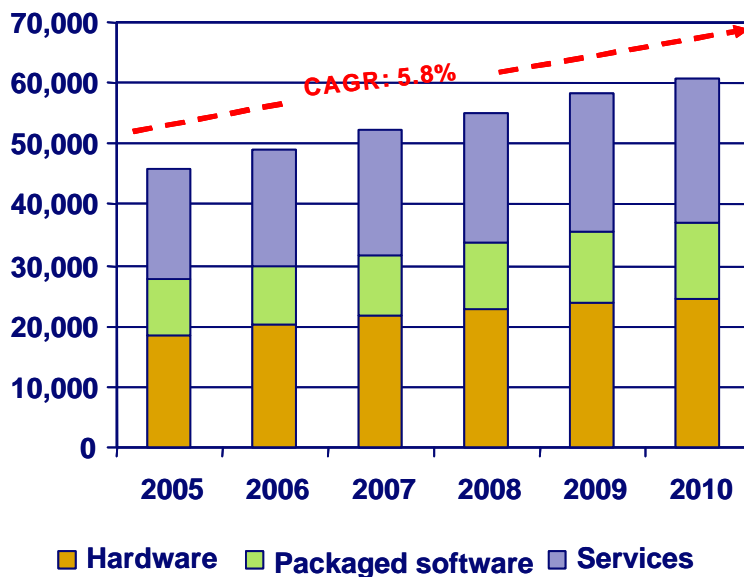
Figure 4.11, Churn propensity



1 - LOW, 5 - HIGH

4.3.2 South African market expected growth from 2005 – 2010

Figure 4.12 South African market expected growth from 2005 – 2010



2005: R45.8 bn

2010: R60.8 bn

The above graph shows the overall IT spend as well as projected growth figures verified with BMI-T projections. The growth is based on the following:

1. Economic forces which include:

- Rising inflation and political stability or instability will play a major role in the future growth
- Interest rates hikes which have been evidently rising continuously in the past months
- Rising oil prices which are a worldwide problem but will affect our economy in the next years

2. Government / regulatory which includes:

- The government is on a drive to improve service delivery in the country and have put in place programs such as the – ASGISA Program to start the improvements
- Telco deregulation creates a lot of open competition which will create a high and growing IT spend
- The new government regulations which are in line with other leading countries such as SOX, Basel, etc

3. Corporate Programs which include:

- Corporate refresh cycle which organizations engage on in order to continuously look at improving their services to their customers
- Pricing pressure with economic and inflation challenges
- Consolidation of resources in order for organizations to save costs to become more effective with less

4. Technology

- Convergence –(Voice over IP) VoIP
- Security, Disaster Recovery and storage

5. Soccer World Cup 2010

4.4 Overall summary of the results

According to the results of the survey the below was derived:

- An interesting discovery in this research is that the highest IT spend in terms of an industry with the highest budget is the Telecommunications sector which is where a majority of IT vendors concentrate on due to the high IT spend. This analysis shows that the Telecommunications sector has the lowest IT budget allocation for the specified selective outsourcing services being investigated. In terms of this sector the budget for this specific sector is low in terms of their specific business requirements.
- Figure 4.6 shows all the organizations and does not reflect the IT spends for the specified selective outsourcing services by sector. Improving IT availability follows improving IT availability at 21% managing IT environments at 17%. This shows that in general there is a requirement for these services and that the interviewed organizations do have a requirement for the services and that there is a high IT budget allocation throughout all the organizations for the specified selective outsourcing services.
- The perception of the IT allocation of budget per customer by sector was clarified where there is now clarity that IT vendors need to add more focus on the manufacturing and public sectors and then followed by the financial sector for the specific selected outsourcing services being investigated.
- Figure 4.2 gives an estimate of the annual turnover as per the questionnaire of the said companies. As seen above between 20% and 25% of the companies interviewed have an annual turnover of between R200 million to R500 million. 15% of the companies interviewed have an annual turnover of

less than R50 million. This feedback also raises concerns back to the author of the validity of some of the above figures provided by the top listed companies.

- As seen above in figure 4.1, majority of the organizations interviewed are from the processing or manufacturing sector. Almost 60% of these organizations have an annual IT budget of up to R2 million, almost 18% are confidential and others have between R2 million and R5 million annual IT budget. The big IT spenders of up to R100 million are less than 5%. In relation to the number of PC's in the interviewed companies of an average of 1500, these provided budgetary figures provide the said figures. This section assists the author to make the necessary conclusions and recommendations in line with the primary objective of the IT budget allocation for the selected specified selective outsourcing services.
- There was a clearer understanding of reasons for delays in IT spend which was majority caused by budget constraints as well as an understanding of what constitutes to accelerated IT spend which in the majority of situations researched was expansion
- Majority of the customers are satisfied with their current IT vendors and only about 30% are not satisfied with their vendor, which does indicate an unbalanced view in terms of customer satisfaction in the customer satisfaction area.
- In this figure we see that the majority of customers' main reason in delay in IT spending is due to budgetary restrictions, followed by a not technology requirement statement. This also confirms the specific role in which IT is viewed in these customers of viewing IT as a tool and not as a business enabler.
- Key accelerations in IT spending are mostly expansion of operations, process efficiency improvements and improved company profitability.
- An interesting finding is that the majority of the organisations interviewed also show that they either do not have contracts with their suppliers or that they do not know. The finding here is that as the majority of organisations interviewed have less than 50 PC's within their organisations, there is a clear trend that they do not have outsourcing or selective outsourcing contracts.

- There are no fixed supplier preferences covering the area of IT Service surveyed, multiple vendors are mostly utilised amongst the interviewed organisations.
- Most companies indicated some level of satisfaction with the current situation, but around 30% indicated that they are not totally satisfied.
- Just fewer than 20% may change vendors, with around 5% indicating a high possibility of change.
- Importance was consistently rated higher than satisfaction. 5% indicated extreme dissatisfaction.
- 50% of the sample indicated that they would or are considering the outsourcing of non-core activities.
- Flexible terms and conditions are also important to most customers and the perception is that most IT Vendors are not flexible.
- Comments which came from the customers interviewed also mentioned that prices in general from Multinational IT vendors are too high as compared to the local IT vendors. The recommendation of how to address this will be covered in chapter five.
- As per the results of the Vendor tables, customer comments were that there seems to be lack of understanding of the customer relationship management process and there is a perception by customers that most IT vendors do not understand their business.
- Customers feel that most IT vendors do not understand their vertical sectors as well as their business requirements which does cause a challenge when the IT vendors recommend solutions to customer.
- During the interviews, various comments from the customers lead the author to conclude that there is also a perception in the market by customers that most IT vendors use their own terminology to describe their solutions and services which are not clearly understood by the customers which does create challenges in customers understanding the proposed solutions.

4.5 Conclusions

Chapter Four presents analyses and interprets the results of the study as supplied by respondents through the questionnaire. The results are presented in tables showing percentage figures and numbers for individual response categories, totals and averages to present a clear picture. Finally there is the analysis and interpretation of each section as presented in the tables. The researcher applied the literature discussed in Chapter Two to support and justify the use of the questions asked, and the application thereof to the concepts of the outsourcing and the specified selective outsourcing services business in South Africa. The research is conducted to address the problem and sub-problems discussed in Chapter One.



CHAPTER FIVE - CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter Four explored the presentation, analysis and interpretation of the results. Each section of the questionnaire was analyzed and interpreted individually with tables showing responses for each.

Chapter Five focuses on the findings of the study in relation to the aims and objectives discussed in Chapter One. The findings are drawn from the survey conducted as per Chapter Three, research methodology, and based on Chapter Four, where the results of the study were presented, analyzed and interpreted. These findings are further analyzed in line with Chapter Two, literature review.

The researcher views recommendations as a way forward and a strategy for the marketing of the specified services advantage for IT vendors in South Africa. Competitive advantage exists when an organization has positioned itself in delivering similar services/products to the competition, with similar benefits and/or added benefits, at lower cost (cost differentiation) and achieving the highest level of profitability.

Sustainable competitive advantage involves every activity the company performs in the market place in order to compete. This includes among other things, products, prices, quality, service delivery, employee satisfaction/loyalty, creativity/innovation, superior processes and compliance with existing rules and regulations.

5.2 Significance of the study to IT vendors

The study has significantly revealed the customer requirements for outsourcing and the specified outsourcing services in the market. This study gives IT vendors an indication of which sector to focus on in order to market the specified selective outsourcing services and also areas where IT vendors can improve in order to increase their customer satisfaction levels. It is also very important for IT vendors to understand what their customers want or need and their spending patterns in terms of delays and accelerations. Recommendations will be articulated in this chapter for ensuring that South African IT vendors meet customer expectations and for competitive advantage. All these are made possible with this research. Research helps IT Vendors to know and understand their market so as to meet and exceed the

needs thereof. Research helps an organization to deliver superior customer service which leads to a sustainable competitive edge, especially in a market where companies offer similar products at the same prices.

5.3 Analysis of findings

The aim of the research was to gather information from South African IT customers on outsourcing and specified selective outsourcing services. Conclusions are made based on data gathered from customers. These conclusions are presented according to the sections covered in the questionnaire.

5.4 Recommendations

Recommendations of this study are that IT Vendors should consider the following action steps, which are intended to strengthen the alignment between providers' strategies and end users' expectations, as outlined by the respondents of this study:

- Each IT vendor needs to map their client engagement approach to the IT outsourcing adoption maturity of individual industries and markets. The process of managing an outsourcing relationship can be as complex as the process itself.
- Many companies interviewed on this research understand the value and need for solid relationship management. Good relationship management requires thought, planning, coordination and dedication of resources to be successful. Senior management cannot overlook the importance of this structure and its supporting processes. (Looijen 1988) also adds in by stating that good relationship management can be used to overcome many ills inherent in a sourcing transaction. An IT vendor needs to establish a solid relationship with the IT market customers in order for them to understand the market's delay or acceleration in IT spending.
- IT vendors need to concentrate on developing very solid client relationship management practices and processes with each customer in the various sectors. Best practices in the industry are clearly defined account planning strategies, ensuring that the sales teams aligned to the specific sectors understand the customer market. This will enhance and improve customer satisfaction levels within the IT market customers.

- In South Africa while this specific area of relationship management among IT vendors is relatively immature, it is nonetheless important if the promise of outsourcing is to be realized. The skills required to manage successfully an outsourcing relationship, the governance roles and responsibilities, the contract management process, the need to create and maintain buy-in, dispute resolution and the need for training and retaining skilled people are areas that need to be focused on more.
- Vendors need to balance vertical industry expertise with other relevant service capabilities. Specialty and expert skills on each specific industry are required. Based on the results of this study, the author concludes that although customers do assess a service provider based on its strength in a particular vertical industry, criteria such as attractive pricing, and IT outsourcing services expertise are also key in making a decision.
- IT vendors who offer the specified selected outsourcing services which were investigated need to make more investments in marketing their services in the manufacturing sector as the research has shown that the majority of the IT spend for these services are there. The second sector for IT vendors to market the investigated services into which the IT analysts also predict as a high IT growth area is the government sector. The financial sector is the third and the telecommunications sector has the lowest IT spend for the investigated selective outsourcing services.
- The challenge of understanding an IT vendor's IT expertise within the specific area which the customer required the outsourcing or selective outsourcing services, is not just keeping track of a myriad of different technologies, each of which exhibits unprecedented speed of change. As other authors such as (Walton 1989) have noted, these technologies and expertise perceptions are non-directive. Their uses are defined by the customer and not the supplier.
- Vendors need to strengthen their IT outsourcing administration and partnering capabilities. This research has also uncovered customer concern in proper experience within South Africa, with the vast number of IT vendors selling outsourcing and selective outsourcing services.
- It is important for South African companies who are offering outsourcing and selective outsourcing services to ensure that they have the proper

infrastructure, capabilities and local experience in these services before positioning them in the market. The key recommendation on this point is that international organizations who do not have local expertise, but international expertise, should rather look at acquisition of local companies with administration and infrastructure experience, to assist them in getting into this services space.

- Vendors need to establish a closer link between IT outsourcing and their customers' business needs. With the focus on ITIL where a host of organizations in South Africa, including the interviewed customers, more and more need to understand the business requirements and align them with IT. Although for some of the organizations interviewed, the business still viewed IT as an expense and not a business enabler the business sees IT as inseparable where there is a clear alignment of objectives, IT vendors, in line with building relationships with the IT department, need to involve the business arm of the organization in order to propose solutions which demonstrate their understanding of the specific customer's business requirements.
- For the purpose of this study where specified selective outsourcing services were investigated in this research, it has been identified that the majority of those services are required in Manufacturing, followed by the Public and Financial Sector, with the Manufacturing sector showing more need for these services. IT vendors need to take this into consideration and focus their marketing activities on these specific sectors around those services.
- Findings from table 4.2 to 4.6 indicate an unbalanced percentage of customers' view of the selected vendors and the need for South African vendors to add more focus and attention to customer satisfaction in the industry.

5.4.1 Recommended strategies

The author suggests that IT vendors target their selective offerings to prospective customers that have little experience with them. In discussions with other IT Service Providers, the author has learned that selling selective outsourcing is often easier to new clients than existing ones. Beyond promoting its service offerings to prospective

clients, the author also recommends that vendors emphasize their vertical expertise as that is regarded as an important factor in the decision to outsource applications.

5.4.2 Recommended investments

Investing in brand marketing is often an activity performed at corporate headquarters and not something in which regional subsidiaries participate. Locally, most of the international vendors' brand perception is towards Hardware and Systems; this is a well known fact, but must not be underestimated. The author recommends continuing effort in this regard, to ensure that the outsourcing and selective outsourcing services offerings and capabilities are increasingly made known to the market.

In this research, a high percentage of respondents told the author that a vendor's understanding of their industry was "very important" or "important" in decisions to outsource business processes or information technology. In fact, the manufacturing and financial sectors regarded the degree of industry expertise more important than any other sector. Consequently, the author suggests that international vendors keep looking for where to invest in its operation to bolster its industry expertise and make it more attractive to South African IT service customers.

5.5 Actions to consider

- In the environment of the changes to the types of contracts being signed involving smaller shorter-term deals, vendors should think about how to preserve their margins by managing their engagement costs more carefully and lowering the cost of service delivery.
- Combining elements of outsourcing with business change management is likely to become an increasingly important selling point for outsourcing, incorporating the outsourcing of IT and business processes into one comprehensive contract.
- Most international vendors should focus on market education. The shift to a utility model (including SOA and other related adaptive concepts) will require significant market education. Until the concepts are understood and embraced by the market, the impact will be limited in terms of contract signings.

- Demonstrating financial stability. Perhaps one of the most critical attributes in the eyes of customers in today's economic climate and uncertain business environment is financial stability. In the world of IS outsourcing, this is crucial because the customer is dependent on the outsourcing vendor to support the customer's technology infrastructure on an ongoing basis. Any failure by the service provider would have enormous negative implications for the day-to-day operations of the customer. Therefore, customers are most likely to entrust their technology infrastructure to well-established, financially stable firms with strong track records in providing IS outsourcing services.
- IT Vendors need to clarify market positioning and focus whilst reinforcing brand. Clarity of role and forward direction is becoming increasingly relevant in customers' assessments of potential outsourcing partners. Fragmentation and evolution of outsourcing services models will raise questions of capability and commitment around the IT Service Providers community.
- Clear and strong branding will reap benefits of differentiation and help to reinforce the all-important element of trust.
- More focus for these specific services needs to be put primarily in the manufacturing sector, followed by the public sector and then the financial services sector. Vendors need to invest more resources in these sectors for the specified selective outsourcing services, as there is an overall high IT budget allocated for these services.
- Customer service is important and IT vendors need to focus their resources in understanding their customer patterns and IT requirements more effectively, in order to provide excellent service to their customers, both sales, implementation and after sales services. The majority of interviewed customers are satisfied. However, the 30% not satisfied requires attention from IT vendors.

“Critical Success Factors are the critical long term successes of the organization. These are examined to determine the appropriate information requirements and to determine how systems can be developed to provide that information.” (Eccles, Julyan, Boot, Van Belle 2000:247)

5.6 Conclusions

When choosing an IT outsourcing vendor, end users favored the following characteristics, in no particular order:

- Responsiveness and customer service
- Attractive pricing
- Flexible terms and conditions
- Vertical expertise



BIBLIOGRAPHY

- Albrecht, K. & Bradford, L. J.** (1990): The service management: How to identify and fulfil customer needs, USA: Richard D. Irwin, Inc.
- Band, W.A.** (1991): Creating value for customers: designing and implementing a total corporate strategy, USA: John Wiley & Sons, Inc.
- Berry, L. L.** (1999): Discovering the soul of service, New York: The Free Press.
- Bell, C. R. & Zemke, R.** Managing knock your socks off service, New York: Performance Research Association, Inc.
- Blume,R:** (2007) BMI-T Senior Researcher. Telephone Conversation 15/10/2007
- Burn,J, Marshall, P and Barnett M** (2002) e-business strategies for virtual organizations, London
- Churchill, G. A.** (1999): Marketing research: Methodological foundation, USA: The Dryden Press.
- Caruso LS.** (1996) Selecting and Managing an Outsourcing Provider. America. Hewitt Associates LLC, American Compensation Association
- Chisnall, P. M.** (1992): Marketing research, Britain: McGraw-Hill Book Company
- Clemons E, and Row, M** (1988)McKesson Drug Company 'Journal of Management Information Systems, 5 (1) Summer , pp 36-50
- Copeland, D and McKenney,J** (1988) Airline Reservation Systems: Lessons from History, MIS Quarterly 12 (3) September pp 353-370
- Cooper, D. R.** Emory, C. W. (1995): Business research methods, USA: Richard D. Irwin, Inc.
- Corbett ,MF.**(1996) Redefining the Corporation: Bringing Order to a New Industry. (In 1995/1996 Outsourcing Leadership Forum. America. The Internet <http://www.outsourcing.com>
- Coughlin, M** (2005) IDC Services Taxonomy whitepaper
- Dorrain, P.** (1996): Intensive customer care: Competitive strategies for South African companies, RSA: CTP Book Printers (Pty) Ltd.

- Emory**, (1985): Business research methods, USA: Richard D. Irwin, Inc.
- Feeny,D** and **Wilcocks,L** (1998) Core IS Capabilities for Exploiting IT. Sloan Management Review, April
- Freemantle, D.** 91993): Incredible customer service, UK: McGraw-Hill Book Company.
- Gartner Group** (2005) Whitepaper: Industry Developments and Models
- Gary M. Zeiss**, Esq (2007). The Lift and Shift Dilema. June 2007. Outsourcing.Org staff. Posted in Outsourcing. The Internet <http://research.outsourcing.org/> . accessed 24/09/2007. Hardcopy in possession of researcher
- Glomark-Governan** (2006) Quantifying Outsourcing Intangible Benefits – Third Edition, August 2006. Copyright © 2006 of Governan LLC, d.b.a. (www.glomark.com) Economic Value Creation™ Best Practices
- Harris, E. K.** (1996): Customer service: A practical Approach, USA: Prentice-Hall, Inc.
- Hopson, B. & Scally, M.** (1991): Steps to success through service, London: Lifeskills Communications Ltd.
- Holtzhauzen L** (1999) Risk taken away from the client. Mining Weekly :9, Oct.7
- Integrated** Development Plan (2003) South African Chamber of Commerce
- Jackson D** (1997) Getting down to the business of business. Sunday Times, Business Times: 23, Jun. 29
- Kettinger W, Grover V, Guha S, Segars A** (1994) Strategic Information Systems Revisited. A Study in Sustainability and Performance, MIS Quarterly 18 (1) March pp 31-58
- Kotler, P.** (1997): Marketing management: Analysis, planning, implementation and control, New Jersey: Prentice-Hall International.
- Kumar, V. Aaker, D. A. Day, G. S.** (1999): Essentials of marketing research, Crawfordsville: John Wiley & Sons, Inc.
- Krass, P** (1990) The Dollars and Sense off Outsourcing. Information Week 259 February 26, pp 26-31

- Lacity, M** and **Hirschheim, R.** (1995) *Beyond the Information Systems Bandwagon*, Wiley, Chichester
- Looijen, M** (1998) *Information Systems, Management, Control and Maintenance*, Deventer, Holland: Kluwer Bedrijfsinformatie
- McFarlan, FW** and **Nolan, R** (1995) *How to manage an IT Outsourcing Alliance*, Sloan Management Review, Winter pp 9-23
- Mehler, M** (1992) *The Age of Megacontract* Information week July 13, pp 42-45
- Morris, S. & Willcock, G** (1996): *Connecting with your customers*, London: Pitman Publishing.
- Morse, J. M. & Richards, L.** (2002): *Read me first: for a user's guide to qualitative methods*, London: Sage Publishers.
- Nakayama, M** and **Sutcliffe N** (2005) *Managing IT Skills Portfolio*. Idea Group, USA
- Parasuraman, A.** (1991): *Marketing research*, USA: Addison-Wesley Publishing Company, Inc.
- Pralahad, C** and **Hamel, G.** (1991) *The Core Competence of Corporation*. Harvard Business Review 63,(3) pp 79-91
- Protcor, R.W & Dutta A.** (1995) *Skill Acquisition and Human Performance*. Thousand Oaks, CA
- Raysman R** (1999) *Single Intergrators or Best-In-Class: Weighing the Two Approaches*. Outsourcing Journal. Aug
- Rochester, J** and **Douglas D.** (eds)(1990) *Taking an Objective Look at Outsourcing*, I/S Analyzer , 28 (8) September
- Sherratt J.** (2000) *Outsourcing: Foundations for Success*. Management Today 15(10):50-51 Yearbook 2000
- Saunders, M. Lewis, P. & Thornhill, A** (2000): *Research methods for business students*, Gosport: Ashford Colour Press Ltd.
- Schoeman, E.** (1997): *Achieving success with super service*, Pretoria: Van Schaik Publishers.
- Stamatis, D. H.** (1996): *Total quality service: Principles, practices and implementation*, Florida: St. Lucie Press.

- Statistics** South Africa Report (2005) Department of Statistics in South Africa
- Sudman, S. & Blair, E.** (1998): Marketing Research: A problem solving approach, Singapore: McGraw-Hill Book Co.
- Turban E, McLean E, Wetherbe J, Bollouju N, Davidson R.** (2002) Information Technology For Management, Transforming Business in the Digital Economy. USA
- Van Bon J.**(2002) The Guide to IT Service Management Volume 1. London
- Van der Spoel, C and Holton MC** (1999) Separate Outsourcing of Mining Technical Systems, (In leaner and Smarter outsourcing in the Mining Industry: 1999 colloquium organized by South African Institute of Mining and metallurgy. Mintek. Randburg
- Venkatraman, N and Short, J** (1990) Strategies for Electronic Intergration: From Order Entry to Value-added Partnerships at Baxter, MIT Working Paper, Sloan School of Management, Mass
- Viardot E.** (1999) Introduction to Information-Based High-Tech Services. London. British Library Cataloguing in Publication Data
- Walker, A. C. Boyd, H. W. & Larreche, J.** (1999): Marketing strategies: Planning and implementation, Singapore: McGraw-Hill Book Co.
- Walton, R.E** (1989) Up and Running: Integrating Information Technology and the organization, Harvard Business School Press, Boston, Mass
- Willcocks, L , Petherbridge, P and Olson, N** (2002) Making IT count. Strategy, delivery, infrastructure. Britain
- Willcocks, L and Fitzgerald, G.** (1994) A Business Guide to IT Outsourcing: A study of European Best Practice in the Selection, management and Use of External IT Services. Business Intelligence, London
- Willcocks, L, Feeny, D, Islie, G** (1997). Managing IT as a Strategic Resource. London

ANNEXURE

This section contains all the necessary appendices, such as survey questionnaires and any other documentation relevant to the study.

Annexure A: Questionnaire

Good day, my name is Palesa Mapetla, an MBA student from the University of Johannesburg. I am conducting a research study on the South African IT Corporate Market and would appreciate your time to complete the interview. Can we schedule a meeting?

I would like to assure you that responses to these questions would not be attributed to specific vendors or end user organisations in the write-up of the analysis but may be combined with other comments and aggregated to support the analysis. This research is part of my MBA dissertation which will assist in understanding certain specific selective outsourcing services which will be discussed with you during the interview.

Company

Name.....

Postal

address.....

.....

Respondent.....

Designation.....

Telephone.....

e-mail

address.....

Researcher and

date.....

Back-check and

comment.....



COMPANY DEMOGRAPHICS

1. Please indicate which industry sector your organisation falls under. SINGLE RESPONSE

Automotive manufacturing		
Banking		
Petroleum		
Process Manufacturing		
Private Healthcare services		
Insurance		
Retail & Distribution		
Other Financial services		
Short Term		
Long Term		
Process manufacturing		
Telecommunications		
Broadcasting		
Media		
Public Sector – Please specify		
State Owned Enterprises		
Professional Services		
Other		

2. For demographic and segmentation purposes please indicate your annual turnover bracket, 2005/2006

< R50 million	
R50 million to R100 million	
R100 million to R200 million	
R200 million to R500 million	
R500 million to R2 billion	
More than R2 billion	

3. If there are branches, how many employees are currently working in the whole company, including this site?

SINGLE RESPONSE

	Head Office or site	Whole company
Less than 2000		
2001 to 3000		
3001 to 4000		
4001 to 5000		
5001 to 6000		
6001 to 7000		
7001 to 8000		
8001 to 9000		
9001to 10000		
More than 10000 (specify number please)		

4. Number of IT related employees?

	Head Office or site	Whole company
Technical		
Architecture/Strategy		
Managerial/Administrative		
Other Please Specify		

IT BUDGET

5. In the latest fiscal year, what was your whole company's IT expenditure (capex and opex), including expenditures on hardware, packaged software, external IT services such as consulting, integration, training services, data communication services and equipment, excluding voice communication?

	Internal	External
Up to R2 million		
R2 to R5 million		
R5 to R10 million		
R10 to R20 million		
R20 to R50 million		
R50 to R100 million		
R100 to R200 million		
R200 to R500 million		
R500 to R1 billion		
More than R1 billion		

6. What one factor will be the most likely to delay IT spend for 2006?

Unstable business environment	
Low confidence by management in IT's ability to deliver	
Lack of appropriate solution available in the market-place	
Insufficient resources – skills	
Budgetary restrictions	
No technology requirement	
Other, please specify	

7. What one factor will be the most likely to accelerate IT spend for 2006?

Improved company profitability	
Process efficiency improvement	
Competitive pressures	
Expansion of operations	
Improving customer understanding	
Compliance requirements	
Other, please specify	

TECHNOLOGY BASE

8 Approximately how many personal computers are currently in use at your company? Include both desktop and notebook

9 How many personal computers do you expect to acquire over the next 18 months? Include both desktop and notebooks.

	Desktop		Notebook	
	Currently	Next 18 months	Currently	Next 18 months
Less than 50				
51 – 100				
101 – 200				
201 – 300				
301 – 400				
401 – 500				
501 – 800				
801-1000				
1001 – 2000				
2001 to 3000				
3001 to 4000				
4001 to 5000				
5001 to 6000				
6001 to 7000				
7001 to 8000				
8001 to 9000				
9001to 10000				
More than 10000 (specify number please)				

10 Which of the following do you currently run on your PCs and in the next 18 months?

	Currently	Next 18 months
Linux		
Mac OS		
NetWare		
Others		

SCO UnixWare		
Windows 2000		
Windows 98		
Windows ME		
Windows NT		
Windows XP		
DOS Only		
Total		
Other		

11 How Many Servers and Mainframes do you have installed?

	Number off
IBM Mainframe	
Other mainframe Specify	
IBM AS/400	
Other midrange server such as HP	
PC Server x86	
Only standalone PCs	
Other (Specify)	

12 Which is the most important system at your company; that is, the system running your core business applications?

12.1 Hardware

IBM Mainframe	
Other mainframe	
IBM AS/400	
Other midrange server such as HP	
PC Server x86	
Only standalone PCs	
Other (Specify)	

13. Which of the following do you currently run on your mainframe/server; and in the future? INTERVIEWER, FOR THE FUTURE, DO YOU INTEND TO PURCHASE IN THE NEXT 18 MONTHS OTHERWISE INDICATE NONE

	Currently	Next 18 months
Solaris		
HPUX		
AIX		
OS/390		
OS/400		
MVS/VAI		
Windows		
Unix		
Linux		
NetWare		
OpenVMS		
True 64		
Other (specify please)		

14. Which of the following storage technologies do you currently run on your mainframe/server; and in the future? INTERVIEWER, FOR THE FUTURE, DO YOU INTEND TO PURCHASE IN THE NEXT 18 MONTHS OTHERWISE INDICATE NONE

	Currently	Next 18 months	Vendor
NAS			
SAN			
Remote			
Local			
Other (specify please)			

14.1 What is driving spend on storage (If applicable)

14.2 What is the percentage of IT budget allocated to storage and what is the split between technology and storage administration?

Percent of IT Budget *(use the scale) Percent to technology *(use actuals not the scale) Percent to administration *(use actuals not the scale)

< 1%

1-5%

5-10%

10+%

Other

15. Which data source is being used at this site and/or company? MULTIPLE RESPONSE POSSIBLE.

	Site	Company	Total no. of licenses
Adabas			
Cobol			
Flat files			
IBM			
Icam			
Informix Software			
Microsoft (SQL)			
Microsoft Access			
NCR Teradata			
NEC			
Oracle			
Progress Software			
SAS Institute			
Sybase			
Other (Specify)			
Don't know			

TECHNOLOGY INVESTMENT AREAS

- 17. Please indicate the percentage of IT budget allocated to the areas as applicable.
- 18. Percentage breakdown per segment of the original percentage
- 19. a) Who is the main implementation partner responsible for implementing the project (e.g. BCX, DD, GijimmaAST, CSC)?
- 20. b) how satisfied are you that the implementation process has met promises thus far, on a scale of 1 to 5 (1 = extremely unsatisfied, to 5 = extremely satisfied), and
 - c) how important is this implementation to your company (1= not at all important, to 5 = very important)?
- 21. a) Who is the main software vendor (e.g. JD Edwards, Oracle, SAP), b) how satisfied are you that the software supplies the promised functionality, on a scale of 1 to 5
 - (1 = extremely unsatisfied, to 5 = extremely satisfied), and c) how important is this software component to your company (1= not at all important, to 5 = very important)?
- 22. What is the likelihood of changing suppliers? (1 = extremely likely, to 5 = extremely unlikely)
- 23. .What is the balance of the contract duration in years, if applicable?
- 24. Please indicate your primary IT service vendor

Supplier	Satisfaction (1 low 5 high)	Contract Balance	Churn (1 low 5 high)	Propensity (1 low 5 high)	Preferred supplier	alternate
----------	--------------------------------	------------------	-------------------------	------------------------------	--------------------	-----------

COMPANY & IT STRATEGY

- 25. In your opinion, which of the following statements best describes your company’s top 5 business priorities over the next 18 months? *1 most important 5 least important*
- 26. Which of the following statements best describe your company’s top 5 IT priorities over the next 18 months? *1 most important 5 least important*

	Q11	Q12
	Top 5 Business Priorities	Top 5 IT Priorities

	Q11	Q12
	Top 5 Business Priorities	Top 5 IT Priorities
Increase levels of outsourcing		
Improved integration within one enterprise architecture		
Reallocate IT budgets		
Rationalise budgets		
Improve organisation's infrastructure		
Exploit existing markets more efficiently		
Improve customer care		
Introduce products and services at a faster rate		
Cross-sell products across Corporate divisions		
Better understand customers requirements		
Expand into new industry sectors		
Expand into new regions and / or countries		
Create tighter integration with suppliers, distributors etc.		
Improve productivity		
Improve operational efficiency		
Move into Africa		
Reduce Corporate/Customer fraud		
Identify and reduce expense leakage		
Server consolidation		
Convergence (data / voice on network)		
Information Lifecycle management		
Business Intelligence		
Services on demand (Data Centre, Storage on demand, Secure Messaging, Service Management Centre)		
Other (Specify)		

27. To what extent does each of the following statements describe the character of the company's IT investment over the next 18 months?

	Not applicable	Yes, to a limited extent	Yes this statement fully describes the nature of the IT investments

Improve operational efficiency (short term)			
Support competitive priorities			
Reengineer business (long term)			
Reduce expense leakage			
Other (specify)			

28. For activities your organisation is planning (in the next 18 months), please indicate the proportion of IT budget allocation. PER ACTIVITY.

	Not applicable	1% - 10%	11% - 30%	31% - 60%	60% and more
Add new development capacity					
Build corporate Web site					
Consolidate hardware					
Distribute hardware					
Implement data warehouse / BI infrastructure					
Implement new enterprise applications					
Integrate systems/solutions					
Build networks (LAN/WAN)					
Re-host enterprise applications					
Implement new enterprise architecture or framework					
Implement or build a BPM solution					
Re-engineer business processes					
Data / Voice / Video convergence and / or VOIP					
Services on demand (Data Centre, Storage on demand, Secure Messaging, Service Management Centre)					

	Not applicable	1% - 10%	11% - 30%	31% - 60%	60% and more
Implement open source solutions					
Other (Specify)					

IT RELATED SERVICES

29. Which of the following statements best describes your organisation's philosophy towards outsourcing information technology activities in the next 18 months?

We outsource all IT activities	
We outsource some IT activities when justified on a case by case basis	
We plan to outsource all IT activities	
We plan to outsource some IT activities	
We do not outsource any IT activities	

30. Which of the following statements best describes your organisation's philosophy towards business process outsourcing activities in the next 18 months?

We outsource some activities when justified on a case by case basis	
We plan to outsource all non core activities	
We plan to outsource some non core activities	
We do not outsource any non core activities	

Thank you for participating in this survey.

Annexure B: Interviewed Companies

LISTED COMPANIES: A

Company	Issuer Code	Postal Address	Phone No	Fax No	Transfer Secretary
ABSA Group Limited	AMAGB	P O Box 5438 JOHANNESBURG 2000	011 350 4000	011 350 4009	Computershare Investor Services 2004 (Pty) Ltd
Absolute Holdings Limited	ABO	P O Box 74121 LYNNWOODRIDGE 0040	012 993 0370	012 993 0376	Computershare Investor Services 2004 (Pty) Ltd
AECI Limited	AFE	Private Bag X21 GALLO MANOR 2052	011 806 8700	011 806 8701	Computershare Investor Services 2004 (Pty) Ltd
Alexander Forbes Limited	AFB	P O Box 787240 SANDTON 2146	011 269 0000	011 269 1111	Computershare Investor Services 2004 (Pty) Ltd
Anglo American plc	ANAAL	20 Carlton House Terrace London ENGLAND SW1Y 5AN	0944 207 698 8888	0944 207 698 8500	Ultra Registrars (Pty) Ltd
Anglo Platinum Limited	ANANP	P O Box 62179 MARSHALLTOWN 2107	011 373 6111	011 373 5111	Computershare Investor Services 2004 (Pty) Ltd
Anglogold Ashanti Limited	ANANO	P O Box 62117 MARSHALLTOWN 2107	011 637 6000	011 637 6624	Computershare Investor Services 2004 (Pty) Ltd
Barloworld Limited	BAW	P O Box 782248 SANDTON 2146	011 445 1000	011 444 3643	Ultra Registrars (Pty) Ltd
Barnard Jacobs Mellet Holdings Limited	BJM	P O Box 62200 MARSHALLTOWN 2107	011 283 0300	011 283 0303	Ultra Registrars (Pty) Ltd
Bridgestone Firestone Maxiprest Limited	BDS	P O Box 543 BERGVLEI 2012	011 448 2255	011 448 2268	Computershare Investor Services 2004 (Pty) Ltd
Business Connexion Group Limited	BCX	Private Bag X48 HALFWAY HOUSE 1685	011 266 5111	011 266 5537	Ultra Registrars (Pty) Ltd
Capitec Bank Holdings Limited	CPI	P O Box 12451 Die Boord STELLENBOSCH 7613	021 809 5900	021 880 1840	Computershare Investor Services 2004 (Pty) Ltd
Clientele Life Assurance Company Limited	CLE	P O Box 1316 RIVONIA 2127	011 320 3333	011 884 9056	Computershare Investor Services 2004 (Pty) Ltd

Company	Issuer Code	Postal Address	Phone No	Fax No	Transfer Secretary
Comair Limited	COM	P O Box 8050 BONAERO PARK 1622	011 921 0111	011 395 2546	Computershare Investor Services 2004 (Pty) Ltd
Combined Motor Holdings Limited	CMH	P O Box 1052 DURBAN 4000	031 337 8281	031 337 4411	Computershare Investor Services 2004 (Pty) Ltd
Datacentrix Holdings Limited	DCT	P O Box 74415 Lynnwood Ridge PRETORIA 0040	012 348 7555	012 348 7543	Computershare Investor Services 2004 (Pty) Ltd
Dimension Data Holdings plc	DIDDT	Fleet Place House 2 Fleet Place LONDON EC4M 7RT	0944 207 651 7000	0944 207 651 7001	Computershare Investor Services 2004 (Pty) Ltd
Discovery Holdings Limited	DSY	P O Box 786722 SANDTON 2146	011 529 2888	011 529 2958	Computershare Investor Services 2004 (Pty) Ltd
Distell Group Limited	DST	P O Box 184 STELLENBOSCH 7599	021 809 7000	021 886 4611	Computershare Investor Services 2004 (Pty) Ltd
Distribution and Warehousing Network Limited	DAW	P O Box 75545 GARDENVIEW 2047	011 622 6680	011 622 3864	Computershare Investor Services 2004 (Pty) Ltd
Edgars Consolidated Stores Limited	ECO	P O Box 100 CROWN MINES 2025	011 495 6000	011 837 5019	Ultra Registrars (Pty) Ltd
Faritec Holdings Limited	FRT	P O Box 76784 WENDYWOOD 2144	011 800 7400	011 802 3814	Computershare Investor Services 2004 (Pty) Ltd
Firststrand Limited	FSR	P O Box 786273 SANDTON 2146	011 282 1808	011 282 8088	Computershare Investor Services 2004 (Pty) Ltd
Foord Compass Limited- Debentures	FCPD	PO Box 135 HOWARD PLACE 7450	021 531 6988	021 531 1935	Computershare Investor Services 2004 (Pty) Ltd
Foschini Limited	FOS	P O Box 6020 PAROW EAST 7501	021 938 1911	021 938 7473	Computershare Investor Services 2004 (Pty) Ltd

Company	Issuer Code	Postal Address	Phone No	Fax No	Transfer Secretary
Gencor Limited	GMF	Postnet Suite 222 Private Bag X30500 HOUGHTON 2041	011 647 6203	011 484 1653	Computershare Investor Services 2004 (Pty) Ltd
Gijima AST Group Limited	GIJ	P O Box 10629 CENTURION 0046	012 675 5681	012 663 9922	Ultra Registrars (Pty) Ltd
Glenrand M.I.B. Limited	GMB	P O Box 2544 RANDBURG 2125	011 329 1111	011 329 1333	Computershare Investor Services 2004 (Pty) Ltd
Gold Reef Casino Resorts Limited	GDF	Private Bag X1890 GOLD REEF CITY 2159	011 248 6800	011 248 6886	Ultra Registrars (Pty) Ltd
Group Five Limited	GRF	P O Box 5016 RIVONIA 2128	011 806 0111	011 803 1324	Computershare Investor Services 2004 (Pty) Ltd
Harmony Gold Mining Company Limited	HAPS	Suite No. 1, Private Bag X1 MELROSE ARCH 2076	011 684 0140/0141	011 684 0188	Ultra Registrars (Pty) Ltd
Illovo Sugar Limited	ILV	P O Box 194 DURBAN 4000	031 508 4300	031 508 4525	Ultra Registrars (Pty) Ltd
Impala Platinum Holdings Limited	IMPO	P O Box 61386 MARSHALLTOWN 2107	011 481 3900	011 484 0254	Computershare Investor Services 2004 (Pty) Ltd
Imperial Holdings Limited	IPL	P O Box 3013 EDENVALE 1610	011 372 6500	011 372 6550	Computershare Investor Services 2004 (Pty) Ltd
Insurance Outsourcing Managers Holdings Ltd	INS	P O Box 2867 RANDBURG 2125	011 449 6800	011 789 5036	Computershare Investor Services 2004 (Pty) Ltd
Investec Bank Limited- Preference	INVS	PO Box 785700 SANDTON 2146	011 286 7000	011 286 7777	Computershare Investor Services 2004 (Pty) Ltd
Investec Limited	INL	P O Box 785700 SANDTON 2146	011 286 7000	011 286 7966	Computershare Investor Services 2004 (Pty) Ltd
Investec plc	INP	2 Gresham Street LONDON EC2V 7QP	0944 207 597 4485	0944 207 597 4491	Computershare Investor Services 2004 (Pty) Ltd

Company	Issuer Code	Postal Address	Phone No	Fax No	Transfer Secretary
Italtile Limited	ITE	P O Box 1689 RANDBURG 2125	011 510 9050	011 510 9060	Computershare Investor Services 2004 (Pty) Ltd
JD Group Limited	JDG	P O Box 4208 JOHANNESBURG 2000	011 408 0408	011 408 0604	Computershare Investor Services 2004 (Pty) Ltd
Johnnic Communications Limited	JCM	P O Box 1746 SAXONWOLD 2132	011 280 3000	011 280 5099	Computershare Investor Services 2004 (Pty) Ltd
Johnnic Holdings Limited	JNC	P O Box 231 JOHANNESBURG 2000	011 266 3100	011 266 3120	Computershare Investor Services 2004 (Pty) Ltd
Kumba Resources Limited	KMB	P O Box 9229 PRETORIA 0001	012 307 5000	012 323 3400	Computershare Investor Services 2004 (Pty) Ltd
Lewis Group Limited	LEW	PO Box 43 Woodstock CAPE TOWN 7925	021 460 4400	021 447 6491	Computershare Investor Services 2004 (Pty) Ltd
Liberty Group Limited	LIBU	P O Box 10499 JOHANNESBURG 2000	011 408 3911	011 408 2109	Computershare Investor Services 2004 (Pty) Ltd
Liberty Holdings Limited	LBH	P O Box 10499 JOHANNESBURG 2000	011 408 3911	011 408 2020	Computershare Investor Services 2004 (Pty) Ltd
Liberty International plc	LILII	40 Broadway LONDON SW1H 0BT	0944 207 960 1200	0944 207 960 1333	Computershare Investor Services 2004 (Pty) Ltd
Massmart Holdings Limited	MSM	Private Bag X4 SUNNINGHILL 2157	011 517 0000	011 517 0020	Computershare Investor Services 2004 (Pty) Ltd
Mercantile Bank Holdings Limited	MTL	P O Box 782699 SANDTON 2146	011 302 0300	011 302 0729	Computershare Investor Services 2004 (Pty) Ltd
Metrofile Holdings Limited	MFL	P O Box 1697 BRAMLEY 2018	011 677 3000	011 622 9085	Computershare Investor Services 2004 (Pty) Ltd
Metropolitan Holdings Limited	MET	P O Box 2212 BELLVILLE 7535	021 940 5911	021 940 5730	Ultra Registrars (Pty) Ltd

Company	Issuer Code	Postal Address	Phone No	Fax No	Transfer Secretary
Mittal Steel South Africa Limited	MLA	P O Box 2 VANDERBIJLPARK 1900	012 352 2600	012 352 2667	Computershare Investor Services 2004 (Pty) Ltd
MTN Group Limited	MTN	Private Bag 9955 Cresta 2118	011 912 3000	011 912 4093	Computershare Investor Services 2004 (Pty) Ltd
Murray & Roberts Holdings Limited	MUR	P O Box 1000 BEDFORDVIEW 2008	011 456 6200	011 455 1025	Computershare Investor Services 2004 (Pty) Ltd
Mutual Federal Insurance Company Limited	MAF	P O Box 1120 JOHANNESBURG 2000	011 374 9111	011 374 2652	Computershare Investor Services 2004 (Pty) Ltd
Mvelaphanda Group Limited	MVG	P O Box 1639 RIVONIA 2128	011 290 4200	011 783 0027	Computershare Investor Services 2004 (Pty) Ltd
Mvelaphanda Resources Limited	MVL	P O Box 413420 CRAIGHALL 2024	011 325 5323	011 325 5320	Computershare Investor Services 2004 (Pty) Ltd
Nampak Limited	NPK	P O Box 784324 SANDTON 2146	011 719 6300	011 444 4794	Computershare Investor Services 2004 (Pty) Ltd
Naspers Limited	NPN	P O Box 2271 CAPE TOWN 8000	021 406 2652	021 406 3753	Ultra Registrars (Pty) Ltd
Nedbank Group Limited	NED	P O Box 1144 JOHANNESBURG 2000	011 294 0999	011 295 0999	Computershare Investor Services 2004 (Pty) Ltd
Nedbank Limited-Preference Shares	NBKP	PO Box 1144 JOHANNESBURG 2000	011 294 0999	011 295 0999	Computershare Investor Services 2004 (Pty) Ltd
Pick n Pay Stores Limited	PIK	P O Box 23087 CLAREMONT 7735	021 658 1000	021 683 2514	Computershare Investor Services 2004 (Pty) Ltd
Sage Group Limited	SGG	P O Box 7755 JOHANNESBURG 2000	011 377 5000	011 834 2107	Computershare Investor Services 2004 (Pty) Ltd
Sanlam Limited	SLM	P O Box 1 SANLAMHOF 7532	021 947 9111	021 947 3670	Computershare Investor Services 2004 (Pty) Ltd

Company	Issuer Code	Postal Address	Phone No	Fax No	Transfer Secretary
Santam Limited	SNT	P O Box 3881 TYGER VALLEY 7536	021 915 7000	021 914 0700	Computershare Investor Services 2004 (Pty) Ltd
Sappi Limited	SAVVI	P O Box 31560 Braamfontein JOHANNESBURG 2017	011 407 8111	011 403 1493	Computershare Investor Services 2004 (Pty) Ltd
Sasfin Holdings Limited	SFN	P O Box 95104 GRANT PARK 2051	011 809 7500	011 887 6167	Computershare Investor Services 2004 (Pty) Ltd
Sasol Limited	SOL	P O Box 5486 JOHANNESBURG 2000	011 441 3111	011 788 5092	Computershare Investor Services 2004 (Pty) Ltd
Shoprite Holdings Limited	SHP	P O Box 215 BRACKENFELL 7561	021 980 4000	021 980 4468	Computershare Investor Services 2004 (Pty) Ltd
Standard Bank Group Limited	SBK	P O Box 7725 JOHANNESBURG 2000	011 636 9112	011 636 4207	Computershare Investor Services 2004 (Pty) Ltd
Telkom SA Limited	TKG	Private Bag X881 PRETORIA 0001	012 311 3566	012 311 4777	Computershare Investor Services 2004 (Pty) Ltd
Tiger Brands Limited	TIIH	P O Box 78056 SANDTON 2146	011 840 4345	011 514 0477	Computershare Investor Services 2004 (Pty) Ltd
Tiger Wheels Limited	TIW	P O Box 6007 HALFWAY HOUSE 1685	011 256 4500	011 256 4515	Computershare Investor Services 2004 (Pty) Ltd
Tongaat-Hulett Group Limited, The	THGL	P O Box 3 TONGAAT 4400	032 439 4000	032 945 3333	Computershare Investor Services 2004 (Pty) Ltd
Truworths International Limited	TRU	P O Box 600 CAPE TOWN 8000	021 460 7502	021 460 7132	Computershare Investor Services 2004 (Pty) Ltd
Wooltru Limited	WLO	P O Box 671 CAPE TOWN 8000	021 464 1900	021 465 6891	Computershare Investor Services 2004 (Pty) Ltd