

**THE EFFECTS OF OUTSOURCING ON
RURAL COMMUNITIES AND BUSINESS PERFORMANCE
IN THE SELECTED AREAS OF THE
SOUTH AFRICAN FORESTRY INDUSTRY**

by

Sakhile Glen Ngcobo

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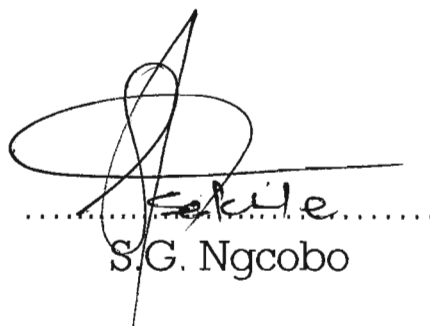
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This thesis is my own work
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for a degree to any other university.



.....
S.G. Ngcobo

'In-house service and support activities are de facto monopolies. The productivity of support work is not likely to go up.... until such work is done by separate, free-standing enterprises.'

Peter Drucker, Wall Street Journal1989

ABSTRACT

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The objectives of the study were to examine the socio-economic impact of outsourcing on forest-dependent communities, to evaluate the current outsourcing management system in Mondi Forests, and to assess the financial impact (costs savings) of outsourcing on Mondi Forests: Natal Region in KwaZulu-Natal.

Participatory Rural Appraisal exercises were used to assess the socio-economic impact of outsourcing on forest-dependent communities. A questionnaire was then used on a sample of Mondi Forests personnel to evaluate the current outsourcing management system in Mondi Forests. Finally, cash-flow trends were used to assess the financial impact (costs savings) of outsourcing on Mondi Forests, Natal Region. Activities that have been outsourced include transport, harvesting operations, silviculture operations, security services, mechanical services, training, payroll services and information systems.

Results show that outsourcing has impacted negatively on the livelihoods of some of the forest-dependent communities sampled. The negative impacts are mainly associated with a reduction in hygiene services offered to these communities and an increase in unemployment in some of these villages. Forest-dependent communities perceive outsourcing as the cause of poor relationship between the rural communities, forest companies and contractors as well as being the cause of high unemployment rates.

Mondi Forests' personnel perceive that outsourcing goes beyond costs savings to include redirecting scarce resources toward core business activities. Lower morale and insecurity among forest staff members and negative views of the forestry companies by rural communities, unions and government departments were perceived as the disadvantages of outsourcing. Uncertainty with regards to employment continuity and social problems (e.g. increased forest fires, poor



relationship with local communities) were perceived as outsourcing risks. Results show that Mondi Forests has implemented a number of strategies in order to reduce some of these risks and disadvantages by giving preference to their ex-employees when offering contracts, by providing start-up capital to emerging black contractors, and by initiating community development programmes in order to uplift the standard of living of the forest-dependent communities.

Mondi Forests' personnel suggested that forest management, accounting, conservation management, and human resources are the best candidates for future outsourcing, since most other forest organizations in the world are already outsourcing them successfully. Most of these activities are still kept in-house in Mondi Forests.

Results also show that outsourcing can be used with other rationalization methods to save costs. This is because costs savings in Mondi Forests: Natal Region, since 1998 to 2001 were not only due to outsourcing, but also to some other management decisions such as reduced fertilizer and pesticides use. The total costs savings were R14.5 million from 1998 to 2001.

Results support the need to strengthen the current rural development programmes in Mondi Forests, and to the establish Community Liaison Forums to improve communication with rural communities and to start community development programmes. A contractor upliftment programme was also recommended for developing the emerging black contractors. Lastly, company/contractor agreements must be reviewed in order to ensure that social responsibility aspects are appropriately managed. Outsourcing relationships need to consider the economic, environmental and social effects in order to be sustainable.

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ABBREVIATIONS

ABC	Activity Based Pricing
AIDS	Acquired Immune Deficiency Syndrome
BPO	Business Process Outsourcing
CBOs	Community Based Organisations
CPU	Contractor Upliftment Programme
DOA	Department of Agriculture
FSC	Forest Stewardship Council
HL&H	Hunt, Leuchars and Hepburn
ICFR	Institute for Commercial Forestry Research
IT	Information Technology
Manex	Mondi Forests Management Executive Committee
NGOs	Non Governmental Organisations
NOSA	National Occupational Safety Association
NWFPs	Non Wood Forest Products
PRA	Participatory Rural Appraisal
SA	South Africa
SAAPAWU	South African Agriculture, Plantation and Allied Workers' Union
SAFCA	South African Forestry Contractors Association
SAQA	South African Qualifications Authority
Safcol	South African Forestry Company LTD
SLA	Service Level Agreement
SWOT	Strength, Weaknesses, Opportunities and Threat
UIF	Unemployment Insurance Fund
US	United States of America

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background of the Study

Outsourcing, as a concept, is not new. Companies have hired outside providers to help them with payroll, accounting, cafeteria management, and the like for as long as those services have been required. What was different in the 1990s was the range of services that companies were asking contractors to provide, and the extent to which outsourcing had become the politically correct response to changing corporate conditions (Winkleman, 1993).

Among the many "truths" to emerge during the 1980s was that most businesses are good at one or two things (their core capabilities) but have to engage in other non-core activities to make the operation work. Scarce resources that could be applied to the core, revenue-generating function are diverted to cost-generating peripheral activities (Hancock and Oates, 2001). In the past, many companies believed they could plan, design, manufacture, market, and sell their products and services, while maintaining a good relationship with their customers. They did not recognize the benefits of specializing in their core competency (Anonymous, 2001a).

Thus, increasingly, businesses looking to focus their resources on core capabilities decide to outsource their peripheral functions. But outsourcing should not be confused with sub-contracting, where a job may be handed over to somebody else but the responsibility and the function for which the job is done remains with the company that awards the sub-contract. With outsourcing, the organization transfers to a specialist in that field of activity the responsibility, the authority and the resources to achieve the result. More recently, outsourcing has grown, with more and more companies deciding to concentrate on what makes them money and appoint somebody else to do the rest. The Gartner Group/Dataquest estimates that Business Process Outsourcing (BPO) worldwide is worth about US\$200 billion today, and that this figure will double by 2003 (Piturro, 2001).

Many authors have discussed the issue of outsourcing worldwide and have supported their positions with anecdotal evidence (Gilley and Rasheed, 2000). Many intuitively appealing arguments have been offered both for and against outsourcing as a means of achieving sustainable competitive advantage. For example, Quinn (1992) proposed that by allowing outside specialist organizations to concentrate on certain tasks, firms may increase their performance by focusing more narrowly on the things they do best. However, Bettis *et al.* (1992) argued that outsourcing may reduce organizational innovation, may shift knowledge to supplier organizations, and may reduce control over firm's activities. In this way, outsourcing may destroy long-term competitive advantage. The business risks in the South Africa (SA) forestry industry are unique as it takes many years before tree crops are harvested. Many things can happen during this period such as forest fires, political turmoil, diseases, theft and mass environmental destruction. No empirical work has yet been published on how this outsourcing affects the well being of forest-dependent communities in SA. There is also limited reported analysis of the effects of outsourcing on business performance in the SA forestry industry. Goedeke and Ortmann (1993) reported that SA forestry companies used contractors because they were cheaper, reduced the transaction costs of dealing with a large number of employees and reduced trade unions' bargaining power. Their study, however, did not evaluate the management of these contracting activities or quantify the potential cost savings from outsourcing. Clearly, more research is needed on the effects of outsourcing on forest-dependent communities in SA, the management challenges it raises, and how it affects the business performance of forestry firms in SA.

1.2 Aims of the Study

The main aims of this study are to improve understanding of the effects of outsourcing on forest-dependent communities in selected areas of South Africa, and on the business performance of Mondi Forests: Natal Region in KwaZulu-Natal.

1.3 Objectives of the Study

- Evaluate the current outsourcing management system of Mondi Forests;
- Examine the socio-economic impact of outsourcing on forest-dependent communities in selected areas of the South African forestry industry; and
- Assess the financial impact (cost savings) of outsourcing on Mondi Forests: Natal Region in KwaZulu-Natal.

1.4 Intended Outcomes of the Study

- To provide an update of the effects of outsourcing on forest-dependent rural communities, business risks and the financial performance of Mondi Forests, Natal Region;
- To review the current system of managing outsourcing used by Mondi Forests and to recommend any necessary improvements;
- To recommend strategies to use the outsourcing process as a potential vehicle to engage local communities and to contribute to their development.

1.5 Structure of the Thesis

The thesis is divided into several chapters, each chapter relating to one of the research objectives. Each chapter, therefore, has its own literature review, research question(s), research methodology, results and discussions, and conclusions. Chapter two gives an overview of outsourcing management with major focus on the evaluation of the outsourcing management system used by Mondi Forests. It emphasizes on the reasons for outsourcing, outsourcing risks, activities that are currently outsourced and the management of contractor relations. Chapter three gives an overview of the importance of the SA forestry industry to the economy of SA and its potential impact on rural communities. It then focuses on the effects of outsourcing on forest-dependent rural communities (particularly on the socio-economic impact), living near forests operated by commercial forest companies. Chapter four focuses on the financial impact of outsourcing for Mondi Forests: Natal Region, focusing on the cost savings due to outsourcing. Finally, Chapter five summarizes the conclusions from the three

chapters, recommends ways to manage future relations with the forest-dependent communities and to change Mondi Forests' outsourcing management system, reviews the limits of this study and identifies areas for future research.

CHAPTER TWO

EVALUATION OF THE OUTSOURCING MANAGEMENT SYSTEM USED BY MONDI FORESTS

2.1 Introduction

When outsourcing first gained popularity some 20 years ago this new business practice was usually associated with reducing costs and cutting the number of employees. The global changes over the last five years have broadened the range of reasons to outsource (Anonymous, 2001b). The rise of the Internet has in turn produced two forces, which are driving companies to outsource, namely highly competitive global markets and an increased demand for "e-business"(trading over the Internet).

These two trends are forcing companies to think about conducting some aspects of their business differently and are expanding the role that outsourcing and alliances play in a highly competitive global economy (Anonymous, 2001b). There are two basic drivers behind the growth of outsourcing today: cost reduction and a strategic shift in the way companies are managing their businesses. Global economic recession has forced companies to look closely at ways in which they can reduce costs. In many cases, the solution has been found in downsizing and outsourcing has been used as the vehicle (Dole and Pinkard, 2001).

Outsourcing has helped companies to ameliorate competitive pressures that squeeze profit margins and eliminate investments in fixed infrastructure that can be quickly outdated (Gilley and Rasheed, 2000; Corbett *et al.*, 2001a). It has also allowed for greater product/service quality and efficiency, increased access to functional expertise, the potential for creating strategic business alliances, and fewer administrative problems.

This chapter analyzes and reports the views of Mondi Forests' personnel on the current outsourcing management system used by Mondi Forests. Relevant literature on outsourcing management - including a definition of, reasons for, and the advantages and disadvantages of, outsourcing - is first reviewed to outline the material that was adapted to construct a questionnaire used for these purposes. The main research question is then presented, after which the results obtained from responses to the questionnaire are discussed. The management implications of these results are considered in a concluding section.

2.2 Literature Review

2.2.1 Definition of Outsourcing

Loh and Venkatraman (1992) defined outsourcing as "the significant contribution by external vendors in the physical and/or human resources associated with the entire or specific components of the Information Technology (IT) infrastructure in the user organisation." Kotabe (1992) defines outsourcing as " products supplied to the multinational firm by independent suppliers from around the world" and " the extent of components and finished products supplied to the firm by independent suppliers". Hitt and Lei (1995) reported a definition as "the reliance on external sources for manufacturing components and other value-adding activities. According to Johnson (1997), outsourcing is a relationship in which one company transfers the responsibility of one or more of their regular functions to an outside vendor.

Gilley and Rasheed (2000) argued that defining outsourcing simply in terms of procurement activities does not capture the true strategic nature of the issue. They suggest that outsourcing is less common and represents a fundamental decision to reject the internalization of an activity. In this way, outsourcing is a highly strategic decision that has the potential to cause ripple effects throughout the entire organisation. Furthermore, they propose that outsourcing may arise in two ways. Firstly, it may arise through the *substitution* of external purchases for internal activities. In this way, it can be viewed as a discontinuation of internal production (whether it be production of

goods or services) and an initiation of the procurement from outside suppliers. To the extent that this type of outsourcing reduces a firm's involvement in successive stages of production, substitution-based outsourcing may be viewed as vertical disintegration. This seems to be the most commonly understood type of outsourcing. However, outsourcing may also occur through *abstention*. Outsourcing need not be limited to those activities that are shifted to external suppliers. On the contrary, outsourcing may also arise when a firm purchases goods or services from outside organizations even when those goods or services have not been completed in-house in the past. Abstention-based outsourcing may be unique from basic procurement, because the former only occurs when the internalization of the good or service outsourced was within the acquiring firm's managerial and or financial capabilities.

Griever (1999) view outsourcing as the act of transferring some of a company's recurring internal activities and decision rights to outside providers, as set forth in a contract. Because the activities are recurring and a contract is used, outsourcing goes beyond the use of consultants. As a matter of practice, not only are the activities transferred, but the factors of production and decision rights often are too. Factors of production are the resources that make the activities occur and include people, facilities, equipment, technology, and other assets. Decision rights are the responsibilities for making decisions over certain elements of the activities transferred.

2.2.2 Reasons for, and Advantages of, Outsourcing

There are many "top six reasons to outsource" surveys, each giving somewhat different results (Griever, 1999). The populations surveyed vary, and how reasons for outsourcing are ranked often depends on which chair one sits in. Reasons for outsourcing are many and varied, and include:

Improvement-Driven Reasons

- Improve operative performance;
- Improve management and control;
- Improve risk management;
- Acquire innovative ideas;
- Improve credibility and image by associating with superior good/service providers.

Revenue-Driven Reasons

- Gain market access and business opportunities through the provider's network;
- Accelerate expansion by tapping into the provider's developed capacity, processes and systems;
- Commercially exploit the existing skills;
- Expand sales and production capacity during periods when such expansion could not be financed.

Cost-Driven Reasons

- Reduce costs through superior provider performance and the provider's lower cost structure;
- Turn fixed costs into variable costs.

Organizationally- Driven Reasons

- Transform the organization;
- Increase product and service value, customer satisfaction, and shareholder value;
- Enhance effectiveness by focusing on what you do best;

- Increase flexibility to meet changing business conditions; demand for products and services.

Financially-Driven Reasons

- Reduce investments in assets and free up these resources for other purposes;
- Generate cash by transferring assets to the provider.

Employee-Driven Reasons

- Increase commitment and energy in non-core areas;
- Give employees a stronger career path.

Realizing this, many companies have begun to scrutinize each of their internal business operations to identify which ones they can outsource. Going well beyond such traditional outsourcing opportunities as information technology, they have challenged the assumptions about what should be maintained as an in-house support activity and what can be more cost effectively turned over to those outside providers whose own primary business is delivering the needed product or service. Companies that design products are hiring other firms to manufacture them. A growing number of companies are outsourcing the human resource function, real estate management and tax services. Many companies are also using outside providers to re-engineer processes, apply a new or improved technology and upgrade their own expertise. According to Morkel (2002, pers.com.), the reasons for the SA forestry industry to outsource most of its operations is because of the following reasons:

- Contractors are cheaper (less overheads);
- Contractors diffuse the threat of unions (reduce risk and impact of strikes);
- Contractors are more flexible (easier to move, stop and start);
- A contractor owns his business, and with ownership comes a very real and unique focus on business success;
- Outsourcing is an international trend.

contracting clients

Most authors suggested that outsourcing firms often achieve cost advantages relative to vertically integrated firms (Gilley and Rasheed, 2000). Manufacturing or production costs may decline, and investment in manufacturing capacity lowers fixed costs and leads to a lower break-even point. The short run cost improvement swiftly reinforces the outsourcing decision. Thus, outsourcing may be an attractive method of improving a firm's financial performance, especially in the short run. It also tends to promote competition among outside suppliers, thereby ensuring the availability of higher quality goods and services in the future (Kotabe and Murray, 1990). Outsourcers may also realize quality improvements as they can choose suppliers of products or services that are considered to be among the best in the world (Dess *et al.*, 1995). According to Quinn (1992), outsourcing also help to spreads risks.

Outsourcers may also have more time to focus on and foster their core competencies (business activities that they perform particularly well). In addition, outsourcing can eliminate investments in ever-changing technology, maintain a high level of service to customers, and relieve the stress of hiring, training, and staffing new employees. Outsourcers can take advantage of new technology used by contractors, without investing significant amounts of capital (Anonymous, 2001b). In summary, the advantages of outsourcing can include:

- Cost savings;
- Control of costs (accurate budgeting);
- Capital investment can be avoided thus releasing funds;
- Cash-flow and cost accountability is improved;
- Productivity gains (service, cost and human resources);
- Control of internal head count;
- Improved service to customers;
- Internal staff efficiency;
- Better utilization of assets;
- Improved business processes;
- Increased focus on core business;
- Better return on investment.

2.2.3 Disadvantages of Outsourcing

One of the most serious threats due to reliance on outsourcing is declining innovation by the outsourcer. Outsourcing can lead to a loss of long-run Research and Development (R&D) competitiveness (Teece, 1987) because it is often used as a substitute for innovation. As a result, firms that outsource are likely to lose touch with new technological breakthroughs that offer opportunities for product and process innovations (Kotabe, 1992)

According to Molloy (1993), organizationally, outsourcing introduces insecurity into the work force and their unions. Employees may be laid off, transferred to other jobs, or employed by the outsourcing firms. All of these alternatives can have negative impacts on the morale. Handling displaced employees is never easy. When unions are involved, it often adds adversarial charges of "union busting". The monitoring and evaluation of the performance of a third party provider is also a difficult task. The challenge for the firm that is doing the outsourcing is to decide who keeps the records and what data are to be recorded. Administratively, outsourcing requires both additional reports and expanding communication networks. In addition should things not work out, there may be the need to terminate the contract. This usually requires a disruption in continuity, and quality suffers.

According to Corbett *et al.* (2001a), a successful outsourcing programme requires a significant change in management's mindset. For years, management has been taught that control is critical to success. This has been accomplished through such things as centralization and maximizing the amount of in-house work or vertical integration. Outsourcing operates on the principle that a third-party provider manages a part of the business. Outside providers have their own set of goals and priorities. Meshing these with the company's goals and priorities is rarely easy. In addition it will require a new and more complicated level of communication, especially in outsourcing international activities. The whole theory of mutual dependence will require a new perspective for management. Similarly, taking on a partner brings in a host of new outlooks, personalities and demands that often introduce new problems. Declining innovation by

outsourcing firms and eventual competition from suppliers, make the benefits of outsourcing suspect (Gilley and Rasheed, 2000). Thus, the performance implications of varying levels of outsourcing intensity appear uncertain. In summary, the disadvantages of outsourcing can include:

- Loss of expertise;
- Loss of control;
- Loss of security;
- Wrong supply selection;
- Long-term commitment;
- Vendors may not get better deals on hardware and software;
- Outsourcing can carry hidden costs (i.e. cost of the bidding process);
- Costs of the transition to the contractor;
- Much effort may be required to develop an adequate measurement system;
- A change in the culture ('way of doing business') of the outsourcer.

According to Ngodo (2002, pers.com.), workers and union officials argue that outsourcing leads to job losses; involves decreased conditions of employment (i.e. lower wages and benefits and fewer benefits and increased health and safety risks); increases job insecurity, and vulnerability in the labour market; lowers access to training and skills development; inhibits unionisation; undermines existing legislation and policy (e.g. employment equity).

2.2.4 Determining an Organization's Core Competencies

Selecting the best candidates for outsourcing is a complex business issue. The decision is at times obvious, at other times constrained by the realities of the economic and political moment, and certainly influenced by the enduring corporate culture (Corbett *et al.*, 2001b).

The key to deciding what to outsource lies in determining what it is that differentiates an organization from its competition, especially in the areas of value and quality. While management must own those operations that define a company's core business and its core business processes, other functional areas that are non-core should be

considered potential candidates for outsourcing (Gilley and Rasheed, 2000). By outsourcing non-critical functions, a company can leverage its financial resources, share its financial risks and allow management to concentrate more fully on the core business.

Corbett *et al.* (2001b) recommend six paths for identifying the best candidates for outsourcing among the business activities:

1. Select *non-core* competencies. The first and most obvious activities for outsourcing are those that are purely administrative or supportive in nature – those activities that are the farthest from the business' core activities;
2. Select work processes where the resistance to change is low, and the need for change is the greatest. There may be elements in the organization that welcome and invite the opportunity to fundamentally alter the way they work, and begin to partner with an outside provider. Units that struggle to cope with their workloads, that are chronically under-staffed, unable to retain employees, and looking to change focus, may welcome a change;
3. Select work processes where the chances of success are high. Start with a limited and well-defined set of business activities, and a set that many organizations already outsource, like harvesting and silviculture in the forestry industry, where the value proposition is easily made and the business case can be built;
4. Select work processes where change is already in progress. Change presents a significant opportunity to introduce outsourcing, because the need for change has already been recognized and much of the resistance to change has already been overcome;
5. Selecting activities based on whether outside providers can provide the most leverage to transform the company;

6. Select work processes that are discrete and separable. These are areas where an outside organization can manage the process with their own staff and there is not a great deal of intertwined activities.

According to Gilley and Rasheed (2000), the core competencies provide both the basis and the direction for the growth of firm. Barney (1991) suggested that sustained competitive advantage is possible only through developing resources and capabilities that are valuable, rare, imperfectly imitable, and non-substitutable. Thus, inputs that are traded should be procured from the market, because investments in their creation are unlikely to lead to any sustainable competitive advantage. By peeling off layers of peripheral tasks and shifting their production to highly focused, specialist organizations, firms can see enhanced performance (Kotabe, 1989; Bettis *et al.*, 1992; Quinn, 1992). This performance improvement relative to non-outsourcing firms manifests itself in three ways: First, reducing peripheral activities allows firms to focus on those activities they do best. This may greatly enhance firm performance by allowing the firm to become more innovative and agile in its core domain. Second, outsourcing peripheral activities may greatly improve the quality of those activities (Dess *et al.*, 1995). Specialist organizations, by focusing their attention on a narrow set of functions, perform them much more successfully than could the outsourcing firm, to which a given peripheral activity is only one of many (Quinn, 1992). Finally, outsourcing peripheral activities to the lowest-cost suppliers may lead to incremental improvements in a firm's overall cost position. By pursuing intense peripheral outsourcing strategies, therefore, firms can achieve higher levels of performance relative to firms that do not outsource such activities (Gilley and Rasheed, 2000).

Firm performance may also be influenced by the intensity with which a firm outsources its "near-core", strategically relevant activities. This "core outsourcing" may lead to declining innovation (Kotabe, 1992; Teece, 1987) and eventual competition from suppliers resulting in reduced firm performance. In addition, the transfer of specialized knowledge necessary when firms outsource near-core activities may also place the firm's future performance in jeopardy. The decline of industries that manufacture goods such as televisions, bicycles, and automobiles in the United States (US) has

consistently been used as examples of the dangers of outsourcing near-core activities (Bettis *et al.*, 1992). Therefore, it is proposed that firms outsourcing activities very near to their strategic core will achieve lower levels of performance relative to firms that retain tight control over these activities.

2.2.5 Criteria for Selecting Contractors or Partners

Rackham *et al.* (1996) suggest that there are four conditions that determine whether a supplier-customer relationship can be successfully transformed into a partnership, namely:

1. *Potential for Impact.* Is there some value that can come out of a partnership that could not be achieved in a more traditional supplier-customer relationship?
2. *Common values.* Is there sufficient commonality of values between supplier and customer to make a partnering relationship realistic and viable?
3. *Good environment for partnering.* Are customer's buying patterns and orientation toward suppliers appropriate for a partnering relationship?
4. *Consistency with supplier's goals.* Is the relationship consistent with the supplier's own direction and market strategy?

If these conditions can all be satisfied, partnering usually has a good chance of success.

2.2.5.1 Ingredients for Successful Partnership

Research conducted by Rackham *et al.* (1996) shows that some partnerships are successful for the following reasons:

- Good fit between the people from the partnering organizations;
- High degree of trust as partners;

- Establishing aggressive but attainable goals and aligning both organizations behind them with strong metrics;
- Strong sense of shared values.

Trammell Crow Company (2001) discusses the process of selecting providers (contractors), emphasizing that they must have sufficient resources and the necessary expertise to take on the outsourcing job. The client company will want prospective suppliers to answer questions like: Who are you? What resources do you have? Why should I outsource to you? What will the organization look like? What will happen to my staff? What benefits will outsourcing deliver? Prove it! How will we measure success? Are there any penalties for missing your targets? What will you charge me?

2.2.6 The Outsourcing Negotiation Process *X FW*

Negotiations are needed to structure the outsourcing relationship, identify the key business and legal issues, and negotiate their resolutions. Key questions to resolve include (Griever, 1999; Corbett *et al.*, 2001c; Peterson, 2001a):

- What services will the provider perform?
- What responsibilities will the organization retain?
- On what terms will the provider employ transferring employees?
- Which employees and which pieces of equipment are going and which are staying?
- Which decision rights are being transferred and which are staying?
- Which performance standard will be used for each service?
- What will happen if each performance standard is not met?
- How will changes in volume trigger price changes?
- Which cost of living index will be used in the calculation?
- What will be the terms for terminating the relationship?
- What termination assistance will the provider deliver and how much will the provider be paid for that assistance?

The help of experienced outsourcing advisers and lawyers is particularly important in resolving such questions. If there is a win-lose strategy to the negotiation, it will almost certainly result in a lose-lose result in the relationship. An outsourcing negotiation is a complex endeavor, with interwoven financial, technical, performance, people, and legal issues (Peterson, 2001b).

2.2.6.1 Developing an Effective Service Level Agreement

In a Service Level Agreement (SLA), a supplier agrees to achieve defined levels of performance and a customer obtains rights and remedies if supplier fails to achieve those levels of performance. Whether the SLA is a stand-alone document or a part of a larger outsourcing agreement, it can be an effective tool for aligning the incentives of an outsourcing supplier with the objectives of an outsourcing customer. According to Peterson (2001a), the first step in developing an effective SLA is to ask the right questions, such as:

- *Which service levels will you measure?* A service level generally is a measure of the quality, speed, availability, capacity, reliability, user-friendliness, timeliness, conformity, efficiency or effectiveness of service.
- *What will you measure, exactly, for each service level?* The parties must define the service with precision. For example, what type and quality of forestry harvesting equipment will be used?
- *What process will be used to measure achieved performance?* For each service level, a process for measuring performance that the supplier achieves is needed. The key issues in choosing this process include: accuracy, cost, and visibility.
- *What is the measurement period* (time horizon for measuring performance)?
- *What reports will be provided?* The supplier should make available clear, useful and timely reports on performance for each measurement period.

- *How well will the supplier agree to perform?* The SLA needs to include both minimum service levels and target service levels.
- *Will the minimum and target service levels change over time?* The SLA may include floating, rather than fixed, performance commitments, particularly in long-term, large-scale outsourcing agreements.
- *Will the SLA include service level credits?* A service level credit is a credit that the supplier grants to the customer after a service level failure. Service level credits are an incentive system. Smart customers design the service level credit structure to obtain good performance throughout the contract term. They also retain the right to revise the service level credits structure so that they can re-align the incentives as their priorities change.
- *Will the supplier have the right to service level bonuses?* A service level bonus is an increase in the price triggered by performance above the target service levels.
- *When does failure to meet service levels allow termination?* Setting minimum service levels at the level that allows termination will avoid arguments. Firms can also define an amount of accumulated service level failures that allows termination of the contract.

Outsourcing contracts can generally be divided into four sections (Griever, 2000) that specify the scope of the service, performance standards (service – level agreements), pricing schedules, and terms and conditions. The scope of services section gives a map of the services that will be performed by the provider. Performance standards describe the minimum service levels to which the provider will perform and the consequences of failing to do so. Pricing schedules describe what the provider will be paid for the services. Finally, the terms and conditions section contains the deal's basic business and legal terms, including items like ownership of the factors of production,

provisions for management and control, and transition provisions. Obviously, a lawyer must be involved in drafting the contract (Griever, 2000; Peterson, 2001b).

Without the "buy-in" to, and acceptance by the key internal constituents (such as executives, internal individuals responsible for delivering against commitments, regional offices whose market are impacted by a decision) of the goals of a particular relationship, the overall need for the relationship, the reason why the supplier was chosen, the "trade-offs" made, and the arrangements implications, outsourcing decisions are difficult to implement. In short, the supplier relationship will be sub-optimal and/or the supplier will not be effective. Senior management should, therefore, develop and implement an internal alignment process covering the entire relationship life cycle. This will ensure that all appropriate internal constituencies are included in the decision making process in the appropriate manner (as a decision-maker, as someone to be consulted, etc.). It will also ensure that relationship managers have all necessary information prior to making a decision, and ensure that all decisions, and the reasoning behind those decisions, are communicated in a timely way to all appropriate parties (Corbett *et al.*, 2001d).

Customers are often unhappy with suppliers without recognizing their own contribution to the difficulty-in the form of internal alignment and the mixed messages and missed deadlines that come with it. An internal alignment process can help to minimize that contribution.

2.2.6.2 A Relationship Due Diligence Process

Organizations that hope to create value-expanding relationships via outsourcing ought to engage in a standard relationship due diligence process to identify (Corbett *et al.*, 2001d):

- Relationship management challenges likely to arise with a particular vendor;
- Relationship risks that these challenges might pose to a successful arrangement;
- The potential suppliers capacity to overcome the challenges that may arise;

- The kinds of relationship management mechanisms that the customer and supplier would need to put in place to minimize the likelihood of such challenges arising and to maximize the probability of handling them successfully.

These actions enable customers to both make better choices about which supplier to work with and, even more importantly, help set the stage for successfully working with those that are chosen.

2.2.6.3 Launching the Outsourcing Negotiation Process

Well-designed outsourcing negotiations between the potential partners create the necessary foundation for an effective, collaborative and joint gain negotiation. At the outset, the potential partners must develop a shared negotiation vocabulary and tool set among both the negotiators and others who will be called to play a role in the conversations. They must also identify, discuss, and plan for relationship issues that may be encountered over the course of the negotiation. Given the complexity of outsourcing negotiations, a negotiation launch generally consists of a two to three days off-site meeting. While this can feel like a significant investment, the time saved in the actual negotiation process, as well as the increased substantive value and relationship benefits, make the investment a sound one. The relationship launch helps the partners to identify and agree on relationship goals, tests for monitoring progress towards achieving these goals, relationship management mechanisms for dealing with challenges, and how information on all of these aspects will be communicated to the relevant parties (Corbett *et al.*, 2001d).

2.2.6.4 Standard Integration Procedures and Protocols

The period after the relationship launch and before individuals start to work together and learn about one another is a time rife with relationship risks. Concerns and fears are elevated. The purpose of integration procedures and protocols is to ensure that all results of the relationship launch and any other important information is consistently communicated to the right parties at the right time; to try and ensure that conflict is surfaced and efficiently and effectively handled; to enable and facilitate the creation of

trust related to intent, competence and commitment management; to clarify who is making as what decisions (and on what basis), who will be consulted prior to any decisions, and who will be informed (and through what mechanisms) after. A well-designed and implemented integration process can help customers and vendors to reduce early inefficiencies and dislocation, start finding value, and to set the stage for a value-maximizing ongoing management phase (Corbett *et al.*, 2001d).

2.2.6.5 Standard Conflict Management Practices and Tools

No matter how effective the relationship planning, conflict may arise and disrupt the customer/vendor interface. A good working relationship, however, does not mean an absence of conflict. Rather, it means having the capacity to deal well with differences and conflict as they (inevitably) do arise. To have that capacity, participants in complicated sourcing arrangements ought to have and use a relationship friendly, learning oriented conflict management process that encourages working together to reach solutions; enables the parties to search, together, for the underlying causes of the problem(s); helps the disputants to look, from the systems perspective, what role each of them and/or their organizations are playing in creating the problem; ensures that any resolution is understood and accepted by both parties; and tracks conflict so that recurrent or systematic problems can be identified and proactively dealt with.

Conflict management is an area where there is some of the greatest reliance on the individual skills of individual relationship managers. Thus, it is also an area that has some of the greatest opportunities for improvement. Well handled, conflict is actually an opportunity to enhance, rather than detract from, the quality of the working relationship (Corbett *et al.*, 2001d).

2.2.6.6 A Standard Relationship Audit Process

As outsourcing arrangements progress over time, relationship managers need to take a step back, pause, evaluate how things are going, what changes can and or need to be made, learn for the future, and the like. Unless such efforts are systemized, organizations lose the ability to not only ensure that the activities are as useful as

possible but also look across its many relationships for overall learning's and systemic difficulties. Building and implementing a standard relationship audit process helps to evaluate the performance of the relationship by monitoring (1) the substantive value created and distributed to both parties; and (2) the quality of the working relationship; to identify ways the management of the partnership needs to be adjusted so as to achieve previously defined goals; to ensure that inevitable breakdowns in communication, misperceptions, and conflict are easily and regularly surfaced and constructively addressed; to uncover new opportunities to expand the scope and/or shift the focus of the relationship; to identify effective relationship management practices and tools to share and implement; and to provide a basis upon which an organization can look across all of its relationships and determine where it is going well, where it is doing less well, and why.

The relationship audit is something that is done by the vendor and customer together, with the goal of joint learning so that they can both be better at, and find more value in, working with one another and others in the future (Corbett *et al.*, 2001d).

2.2.7 Pricing Structure for Outsourcing

Once an organization has selected its outsourcing provider, the deal's pricing structure needs to be determined. The managers responsible need to determine the best methodology that will align their organisation's and their provider's interests (Corbett *et al.*, 2001e). A pricing structure must be consistent with the organisation's goals. If both parties are willing to tolerate variability in pricing then the pricing structure can incorporate greater degrees of risk/reward, considerations of provider contribution, and links to the impacts on end user performance. Pricing methodologies for outsourcing have evolved continually since the 1980s, and include (Corbett *et al.*, 2001f):

1. *Activity based pricing*: This pricing structure does very little to align the interests of provider and end user. The provider is paid strictly according to the volume they deliver. Performance is measured strictly on provider contribution, not on end-user value in any way, and little risk or reward is involved.
2. *Indexed pricing*: Payment is according to the volume, cost drivers, and market price. Indexed pricing creates some mechanism to align the interests of both parties. However, the focus is largely on short-term financial gain rather than on long-term shareholder value. Therefore, it creates mutual incentives to drive costs from the equation, and not to introduce innovations and transform the business.
3. *Performance based pricing*: This includes conforming to requirements, availability, timeliness, and continuous improvement. It is an inherently more sophisticated pricing structure requiring more thought and oversight to administer, but still represents a front-end performance measurement.
4. *Shared Risks and Rewards pricing*: This method is a major step toward linking compensation to end-user or back-end performance. Variability is greater and the connection to end-user goals is stronger with risks/reward pricing. Quite

often contracts involve incentives such as gain sharing, value engineering, savings-based pricing, and revenue-based pricing.

5. *"Shareholder Value" based pricing*: This method allows for considerable variability in pricing, significant risk and reward for the provider, and a near perfect alignment of goals between provider and user. These complex pricing schemes frequently involve stock ownership, stock warrants, and profit-shares. Pricing models that reward the provider based on their contribution to the company's success are advantageous in many ways, but their success and acceptance depends largely on the overall economic conditions, the industry position of the buyer, and the potential up-side for the provider. These pricing structures are best implemented with services that have definable implications on business profit performance.

Most recently, pricing methodologies have developed which link the provider even closer to the client's ability to achieve its business objectives. These types of contracts, often referred to as business-value based, can be tied to production targets or similar measures of the client's business volumes; based on a percent of the total savings realized by the customer; based on a percent of the revenue realized by the client from the process supported; have the same performance measures as those of the client company's executive management; or include stock options or other incentives for the vendor based on the client company's overall financial performance (Corbett *et al.*, 2001f).

2.2.8 Outsourcing Risks

About 87% of recent outsourcing decisions involve some level of risk analysis, with nearly 40% of these relying heavily on a formal risk analysis process (Pretium Partners, 2001). The decision to outsource should include a careful assessment of the risks involved, and should examine both the risks it creates and the risks it mitigates. Three key types of risk include engagement risks (associated with the vendor and the conversion process), risks associated with outsourcing itself, and the risks associated

with business that may be impacted by outsourcing. Risks arise from (Corbett *et al.*, 2001g):

- Putting control of service standards in the hands of the third party;
- Loss of in-house skills and the difficulty of reacquiring them;
- Changing business conditions (during the contract) that may negate some of the original advantages to outsource;
- Loss of control of the outsourced process; and
- Loss of critical knowledge.

Gordon and Glickson (2001) reported that 72% of the respondents in a survey of outsourcing by commercial firms in Chicago cited a failure in service levels as their main risk in outsourcing.

2.2.9 Management of Outsourcing Relationships

Kliman and Jones (2000) diagnosed why the goals of outsourcing relationships may not be met, and how to avoid such failure by putting a relationship management infrastructure in place. The main finding is that there is too much focus on substance, and too little focus on the relationship. Many managers assume it is solely the vendor's responsibility to focus on the quality of the relationship, and so they turn to substantive solutions to problems (for example, tighten up the agreement due to lack of trust in the vendor). This traps them in a "value-shrinking" loop. Once in such a loop, customers and vendors are headed for a failed relationship. Both seem to get stuck in negative perceptions and behaviours; find it difficult to share information; waste time on unnecessary activities; and fail to share mutual gains and responsibility for failures. Fortunately, some relationships get into different loop of "value-expanding" in which they work together for mutual benefits. Over time both parties are able to find and distribute joint gain, make more efficient use of time, structure and make wiser choices, enable continuous improvement and share both gains and failures.

Given current increased pressures on SA forestry organizations to deliver against ever-changing requirements, it is easy to fall into a value-shrinking mode that can be costly.

Although both providers and customers can benefit from effective relationships, the customer usually stands to benefit relatively more from good relationships, and to suffer relatively more from bad ones. Customer executives need to ensure that their organizations can systematically and repeatedly develop value-expanding relationships by focusing on building relationship management capacity at both the relationship and organizational level (Kliman, 2000).

Customers and vendors can avoid falling into value-shrinking loops by systematically focusing on building and managing the working relationship. Managers who hope to gain the most from their supplier relationships must distinguish between those things that relate to the substantive aspects of the arrangement (ensuring that the terms and conditions of the contract make sense; making sure that SLAs are tight and well constructed, etc.), and those that affect the quality of the working relationship (for example, the extent to which trust and respect exists). They must then work towards putting a *relationship management infrastructure* in place. This equips people with the necessary processes and tools to manage outsourcing relationships such as: an ongoing internal alignment process; a relationship due diligence process; a standard negotiation process; a negotiation launch process; a relationship launch mechanism; standard integration procedures and protocols; standard conflict management practices and tools; and a standard relationship audit process (Kliman and Jones, 2000; Corbett *et al.*, 2001d). These are shown in the previous section from page 48 – 50.

2.2.10 What Outsourcing Requires of Managers

Managing an outsourcer is a very different proposition to managing in-house the function that the outsourcer will be performing. Most companies and managements have difficulty adjusting to this change, and one reason why outsourcing relationships encounter problems is the unwillingness of the customer to let the outsourcer manage the process (Anonymous, 2001c). Outsourcing requires that the managers responsible are able to practice strategic thinking and be clear-headed about whether and how to outsource in ways that add to competitive advantage, can broker deals in two directions at the same time securing the right services from external providers and

assuring their use by internal managers; can effectively oversee the relationship, and can effectively spearhead change and overcome employee resistance to change.

The next section describes the research methodology used to compile and administer the study questionnaire that was applied to evaluate Mondi Forests' outsourcing management system in KwaZulu-Natal.

2.3 Research Methodology

2.3.1 Outsourcing Management System Evaluation Questionnaire

The study questionnaire (presented in Appendix 1) was prepared with the supervisory panel and given to some key Mondi Forests' staff for prior comment and to test for the clarity of the wording, layout and the time taken to fill in the questionnaire in a pilot survey. After incorporating these suggested changes, a final questionnaire consisting of 20 questions covering the following six sections was developed:

Section one: The purpose was to obtain Mondi Forests' management's definition of outsourcing; the company's reasons for outsourcing; management's perceptions of the advantages, disadvantages, and risks of outsourcing; management's awareness of outsourcing risks; and to identify what strategies Mondi Forests had in place to minimize the negative effects of outsourcing.

Section two: This section focused on activities that have been outsourced by Mondi Forests since 1997 with a view to ascertaining the extent of the participation by contractors in Mondi Forest's operations over time; identifying activities that are not currently outsourced that can be outsourced successfully to either contractors or rural communities; and identifying what management considers are Mondi Forests' core and non-core activities.

Section three: The purpose was to identify what criteria are used by Mondi Forests in selecting its contractors.

Section four: The purpose was identify the terms that are currently used in negotiating outsourcing contracts with contractors.

Section five: This aim was to ascertain Mondi Forests' preferred contractor pricing structure (per unit basis, volume basis, performance-based pricing).

Section six: The last section reviewed the current status of outsourcing relationships, what can be done to improve aspects that need attention, and management's opinions on the future of outsourcing in the forestry industry.

The next section describes the types of managers within Mondi Forests that responded to the survey questionnaire.

2.3.2 Profile of Survey Respondents

The questionnaire was sent to 51 employees of Mondi Forests that were categorized into four groups according to their roles and responsibilities in managing contracting within the company. Category one represented the Members of the Mondi Forests Management Executive Committee (Manex). This team was comprised of all the regional managers, the head of the technical team, the head of the human resources department, the head of the safety and health department, and the general manager. Category two refers to middle management and consists of all the area managers within Mondi Forests. Category three contains first line managers, namely all of the estate managers and foresters within Mondi Forests. Finally, Category four comprises members of the support services within Mondi Forests e.g. Technical Services and Human Resources. All the members of the executive management were selected on the bases of their involvement with outsourcing including the district heads (area managers). The members of the support team were also selected on the basis of their involvement with outsourcing (e.g. drawing-up of tender documents). The estate managers and foresters were randomly selected, also on the basis of their involvement with outsourcing on the basis of day-to-day interactions with contractors. Returned usable responses by the 40 respondents over these four categories to the six sections of the survey questionnaire are presented and discussed in the next section.

2.4 Results and Discussion

2.4.1 Outsourcing Definition, Advantages, Disadvantages and Risks (Section one)

Table 2.1 shows that nearly all of the respondents agree with the definitions of outsourcing presented to them in the survey (ranked on a scale from 1 = strongly disagree to 5 = strongly agree).

Table 2.1 Rankings of Definitions of Outsourcing
(based on a scale from 1 = strongly disagree to 5 = strongly agree)

Definition	All (n=40)	Manex (n=7)	Support Team (n= 11)	Area Managers (n= 9)	Estate Managers (n= 13)
Fundamental decision to stop performing an activity in-house and to transfer that activity to an external contractor who is an expert in that field.	3.79	3.17	3.64	4.22	3.92
The use of contractors for routine production operations (e.g. silviculture, transport, harvesting).	3.84	4.17	3.73	3.88	3.77
A way of promoting small business development in the forestry industry.	3.90	3.57	3.45	4.22	4.23
A strategy to effect downsizing of private companies.	3.74	2.83	3.82	3.63	4.15

The Manex team was neutral (score close to 3) about the first and last definitions of outsourcing. Some respondents also defined outsourcing as an attempt to reduce overheads and management problems, to reduce administration costs, and to enable personnel to best perform their management function planning, control and quality measurements. The neutral stance of Manex to the fourth definition shows that Mondi Forests is not so much interested in contracting for downsizing purposes, but rather for strategic purposes. Most of the added definitions concentrate on reducing overheads and improving management control of operations (tactic to reduce cost rather than a strategy).

According to the results presented in Table 2.2, respondents were neutral (score close to 3) or in agreement (score close to of 4) with the reasons suggested for outsourcing. Cost reduction and opportunity to focus on core activities seem to be the Mondi Forests' main reasons for using contractors.

Table 2.2 Reasons for Outsourcing
(based on a scale from 1 = strongly disagree to 5 = strongly agree)

Reason for outsourcing	All (n = 40)
Allocate more resources to improve planning and control of harvesting, silviculture and other operations	2.87
Accelerate business expansion by tapping into contractors' developed capacity, processes and systems	2.95
Reduce costs through superior contractor performance and the contractors' lower cost structure	4.05
Increase Mondi Forest's focus on core activities	3.57

Some of the respondents felt that outsourcing was used to make contractors responsible for operation decisions, as a rapid response to market conditions, and in order to focus on lower cost structures and to reduce the influence of labour laws and labour unions. Responses are not reported by management category, as the mean scores by category did not differ markedly. Most of these reasons are in line with Morkel's views on the reasons for outsourcing in the SA forestry industry as shown in the literature review in the previous section.

Respondents agreed (mean score over 3) to four of the listed advantages of outsourcing given in Table 2.3 below. Outsourcing, therefore, helps Mondi Forests to improve their short-term financial performance through costs savings; have its personnel spend more time focusing on core competencies; and to reduce time spent finding and integrating new employees. Respondents were neutral on whether using contractors was for quality improvement. Other perceived advantages included reduced investment in vehicles, buildings and development of new businesses. Again,

mean scores by management category did not differ markedly from the scores given in Table 2.3 over all respondents.

Table 2.3 Rankings of Advantages of Outsourcing
(based on a scale from 1 = strongly disagree to 5 = strongly agree)

Advantages	All (n = 40)
Improving short-term financial performance through costs savings	3.98
Gives more time to focus and foster its core competencies	3.57
Eliminates some investments in ever-changing technology	3.36
Relieves the stress of hiring, training, and staffing new employees	3.72
Quality improvement	3.11

Table 2.4 indicates that, on average, all respondents felt that lower morale and insecurity amongst the staff of Mondi Forests is the main disadvantage of outsourcing (score close to 4), while the need for monitoring and evaluation of contractor's performance - which increases transactions costs - was not seen as a disadvantage (average score of 2.39). The Support Team and Estate Managers agreed that other disadvantages of outsourcing are that Mondi Forests may lose touch with new technological breakthroughs that may offer opportunities for product and process innovation; that there are no resources in place within Mondi Forests for long-term contractor upliftment programmes; and the reliability of contractors in terms of quality improvements, delivery and long-term sustainability. Estate managers agreed that outsourcing leads unions, government departments and NGOs to perceive Mondi Forests negatively. The Support Team also felt that outsourcing led to a poor relationship with rural communities neighbouring Mondi Forests' plantations. Other perceived disadvantages of outsourcing noted by respondents were that bigger contractors become stronger with much less business for the smaller contractors, and that social and environmental issues may take a lower priority.

Table 2.4 Rankings of Disadvantages of Outsourcing
(based on a scale from 1 = strongly disagree to 5 = strongly agree)

Disadvantages of Outsourcing	All (n = 40)	Manex (n = 7)	Support Team (n = 11)	Area Managers (n = 9)	Estate Managers (n = 13)
Poor relationship with rural communities neighbouring Mondi Forests' plantations	3.15	3.43	3.45	2.33	3.31
Lower morale and insecurity within Mondi Forests' staff	3.95	4.00	4.18	3.25	4.15
Lose touch with new technological breakthroughs that may offer opportunities for product and process innovation	3.26	2.71	3.55	2.38	3.85
The need for monitoring and evaluation of contractors' performance increases costs of doing business (transactions)	2.39	2.00	3.10	2.25	2.15
The company is perceived negatively by the unions, government departments and NGOs	3.39	3.00	3.45	3.13	3.75
No resources for long-term contractor upliftment programmes	3.36	2.71	3.91	3.00	3.46
The reliability of contractors in terms of quality improvement, delivery and long-term sustainability	3.33	3.14	3.64	2.13	3.92

As regards the perceived risks associated with outsourcing, Table 2.5 suggests that Area and Estate Managers saw uncertainty about employment continuity as a major source of risk. The Support Team agreed that social problems like land tenure issues, and increased forest fires are an outsourcing risk for Mondi Forests. Other risks that were identified by the respondents included the quality of contractor personnel, production targets not being met during holidays and unfavorable weather, the competency levels of the contractors concerned, risks to Mondi Forests' reputation if contractors mistreat employees from local communities, specialized machinery could be lost to the system if contractors go out of business, loss of experience in the forestry industry, and bad working relationships between contractors and the local communities.

Table 2.5 Risks Associated with Outsourcing
(based on a scale from 1 = strongly disagree to 5 = strongly agree)

Outsourcing Risks	All (n = 40)	Manex (n = 7)	Support Team (n = 11)	Area- Managers (n = 9)	Estate Managers (n = 13)
High absenteeism rates among contractor staff	2.95	2.86	3.09	3.00	2.85
Uncertainty with regards to employment continuity	3.86	3.43	3.27	3.78	4.08
Poor quality timber	2.19	2.00	2.18	1.50	2.75
Market delivery failure	2.45	2.67	2.36	2.13	2.62
Poor quality contractor machinery causes staff injuries	3.15	3.43	3.36	3.13	2.85
Social problems (land tenure, increased forest fires, etc)	3.28	3.43	3.45	2.89	3.31

All of the respondents pointed out that Mondi Forests is aware of the risks of outsourcing, giving the following reasons for their perceptions:

- Senior staff has been intimately involved in the process and have had the opportunity to weigh the risks;
- Risks were debated/discussed prior to implementation of the strategy;
- Some staff members were sent overseas to review outsourcing programmes;
- Operational managers are much more aware of these risks since they are ultimately involved with contracting;
- Mondi Forests seems to be using well-established contractors, preventing failure by these small contractors;
- The risk lies with labour health and the future effects of HIV/AIDS on the workforce. Medical services costs will increase;
- Mondi Forests is aware that short-term gains may not be converted to long-term gains, but are driven by the need to provide short-term gains in order to survive as a business;
- Mondi Forests realizes that the contractors could close down due to financial reasons;
- Mondi Forests thoroughly researched outsourcing and considered the financial benefits;

- Mondi Forests just looks at business and not social awareness and well-being of the community and ex-Mondi Forests' staff members;
- Mondi Forests went the outsourcing route without the necessary understanding and system in place;
- Continual liaison between management and contractors, identifying possible short/long term risks e.g. through Mondi's/contractors Contractor Upliftment Programme (C.U.P) program;
- Many risks are only becoming evident now, and management are becoming increasingly aware of the risks;
- The transformation drive has made it a top priority process; and
- Awareness had led to the implementation of checks on most aspects of the contractors' business through FSC, NOSA and contractors association audits.

All the respondents agreed that Mondi Forests has partly implemented a number of strategies to minimize the negative impacts of outsourcing risks, namely: giving preference to former-Mondi Forests employees when offering contracts; the provision of start-up capital to emerging black contractors; and starting-up community development projects to improve the relationship with local communities. Other strategies that are used to minimize the impact of outsourcing were identified as equipment sold at a discount with 'soft' loans to smaller contractors, contractors being instructed to employ existing Mondi employees before taking new recruits, assistance in training and development to improve business skills, the provision of start up capital to any contractor (regardless of race), supplying information to help contractors, and facilitating the supply of protective clothing to the contractors.

2.4.2 Activities that are being/could be Outsourced and the Extent of Contractor Participation Over Time (Section two)

Figures 2.1 to 2.8 show what activities Mondi Forests decided to outsource during 1997-2001 and the extent to which these activities were contracted out over this period. Results varied from area to area and from region to region, but the trends are discussed under each figure. This was because outsourcing was not a once off process, it took place over a period of time and at different scales. All the figures given are in percentages. The activities shown below are regarded as the non-core activities in the forestry industry (Gerber, 2001, pers.com.).

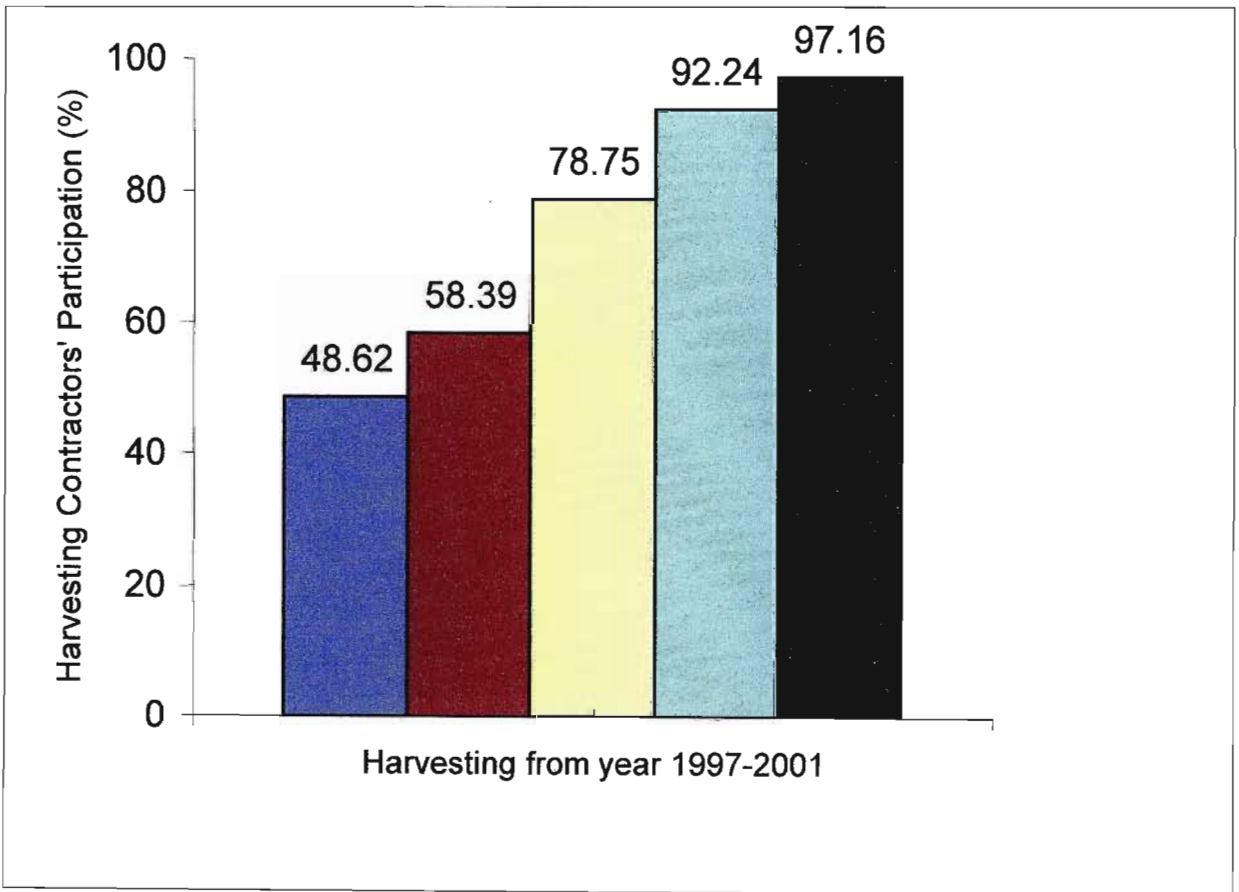


Figure 2.1 Percentage of Harvesting Contractors' Participation in Mondi Forests, 1997 to 2001

Contractors have markedly increased their involvement in harvesting operations, and now account for nearly 100% of all operations.

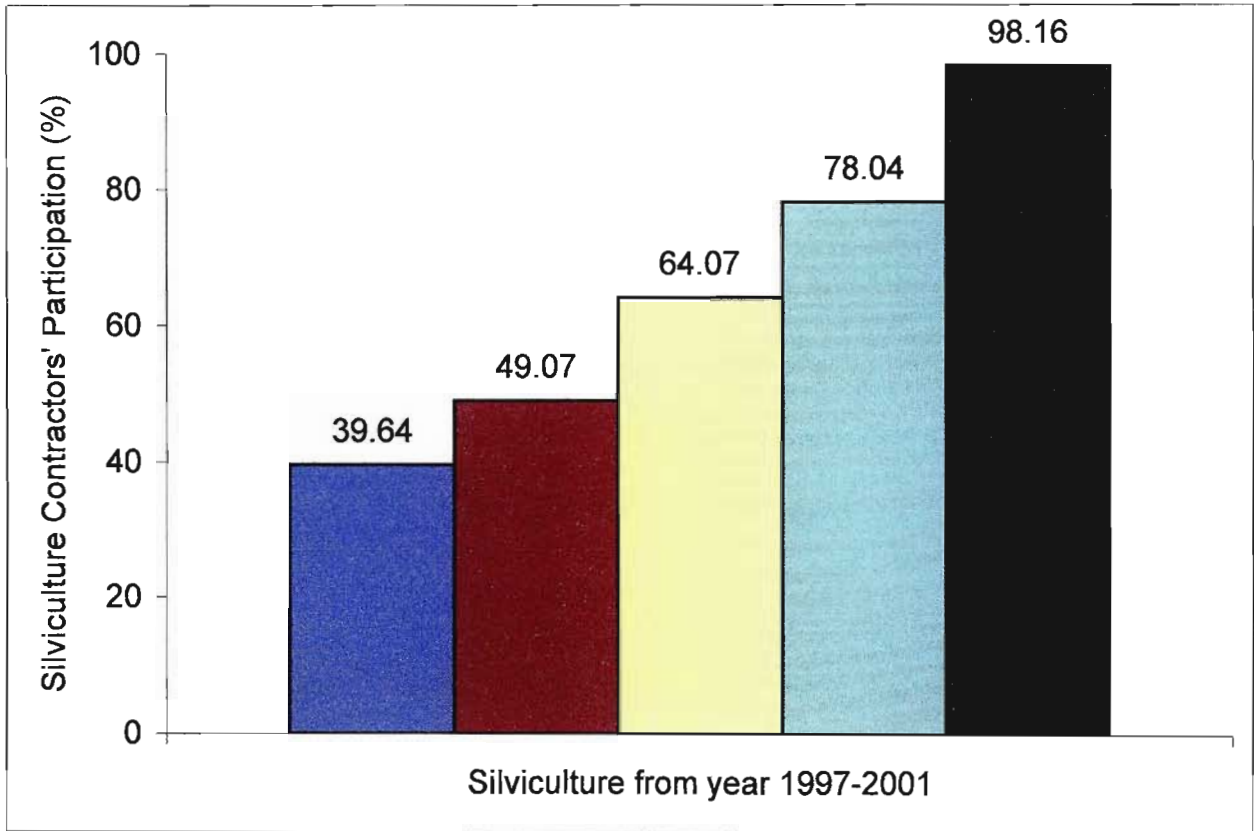


Figure 2.2 Percentage Silviculture Contractors' Participation in Mondi Forests, 1997 to 2001

The trend towards outsourcing of silviculture operations mirrors that of harvesting, with a more than doubling in the rate of outsourcing, to close to 100% by 2001.

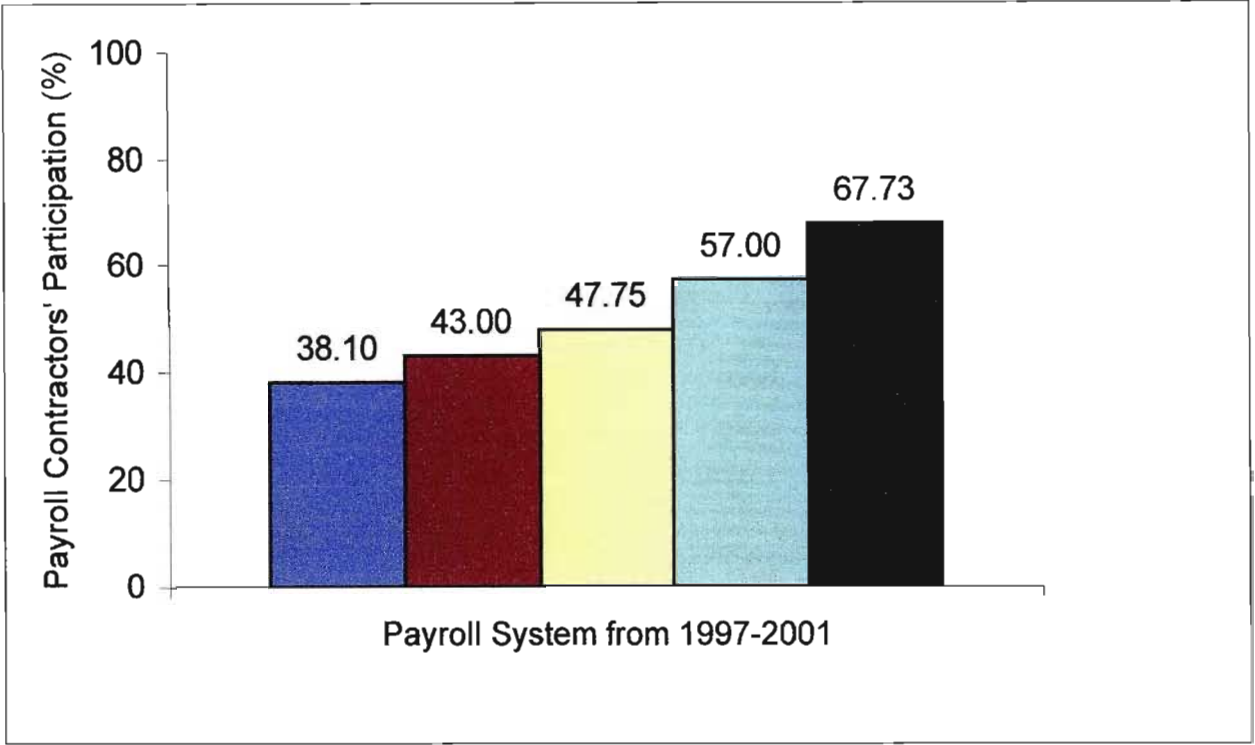


Figure 2.3 Percentage Payroll Contractors' Participation in Mondi Forests, 1997 to 2001

The proportion of payroll activities that has been contracted has also doubled since 1997, and currently stands at just over two-thirds. Figure 2.4 below indicates that security services are now almost completely outsourced by Mondi Forests. According to the results obtained in Figure 2.5, contractors increased their share of training activities from about 53% to nearly 89% during 1997-2001. Figure 2.6 suggests that the outsourcing of mechanical services has followed much the same trend as that of harvesting and silviculture services, rising from about 40% to almost 100% by 2001. It is notable from Figure 2.7 that the outsourcing of fire protection services has grown the most of all outsourcing components, from about 25% in 1997 to some 94% by 2001. The use of contractors for information technology activities has the lowest proportion (58% by 2001) but has grown markedly since 1997 (see figure 2.8).

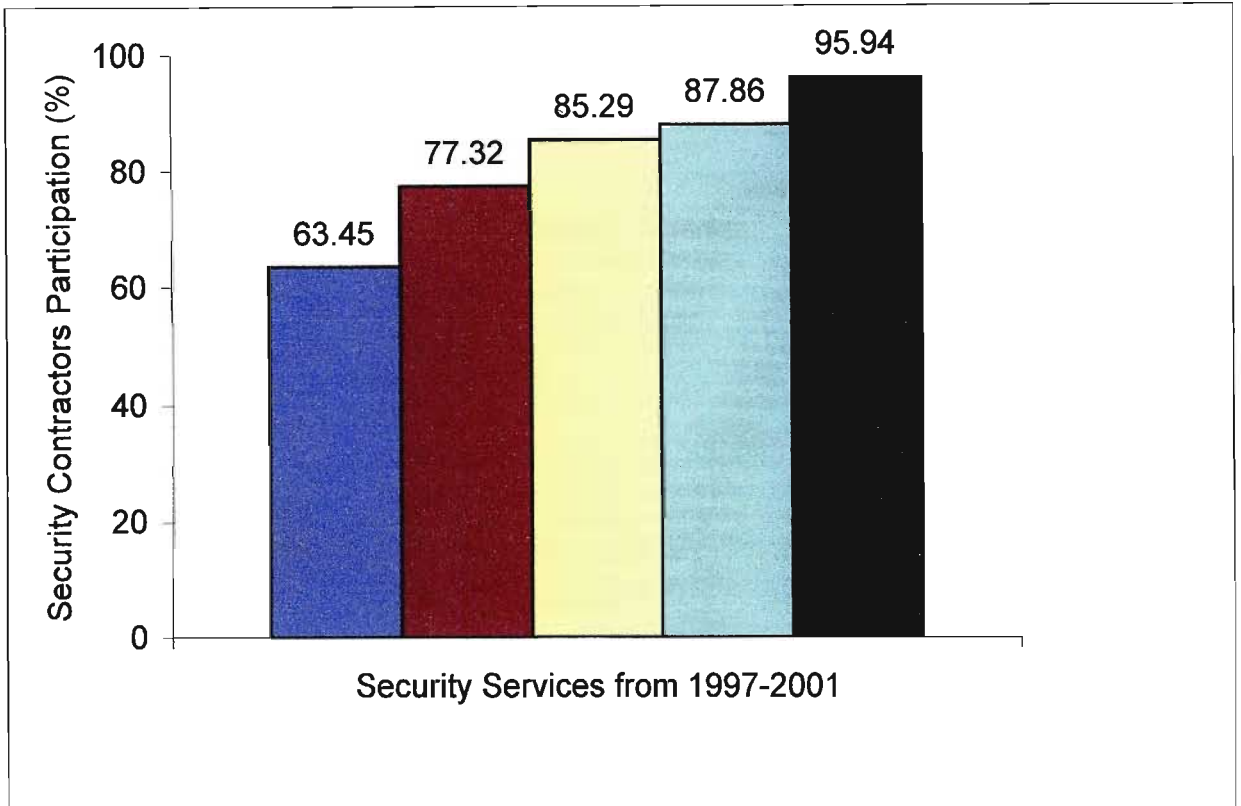


Figure 2.4 Percentage Security Services Contractors' Participation in Mondi Forests, 1997 to 2001

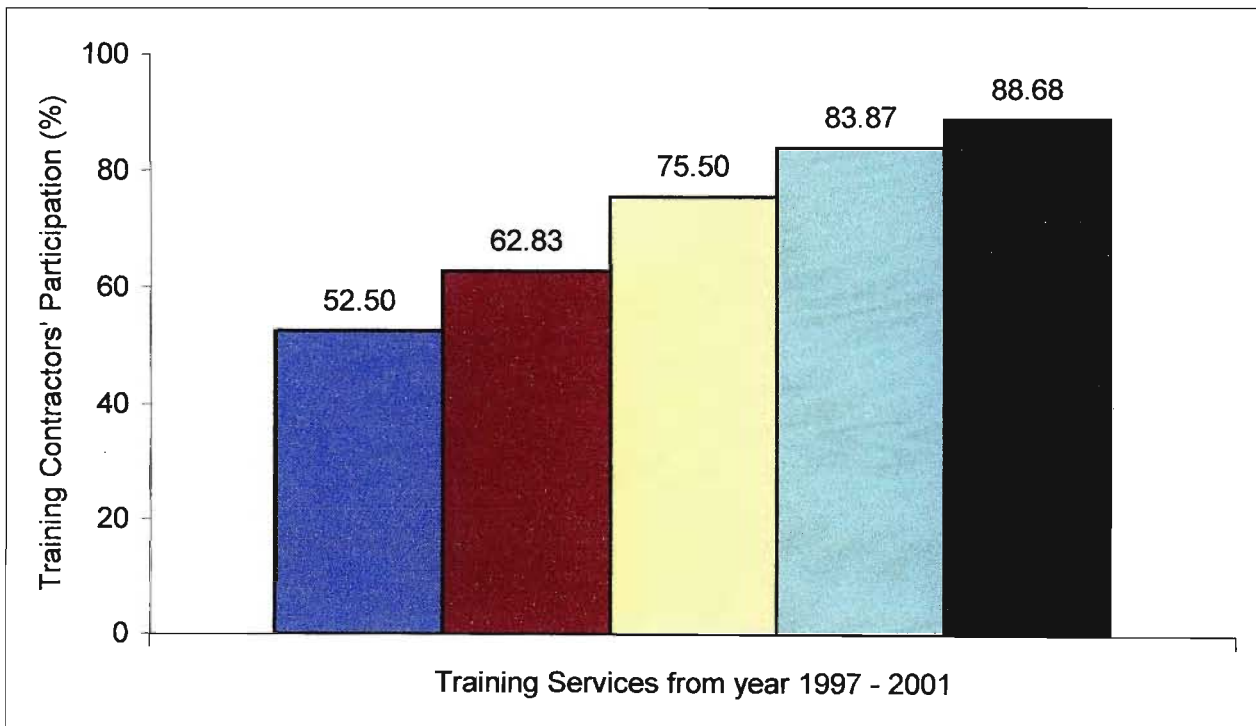


Figure 2.5 Percentage Training Services Contractors' Participation in Mondi Forests, 1997 to 2001

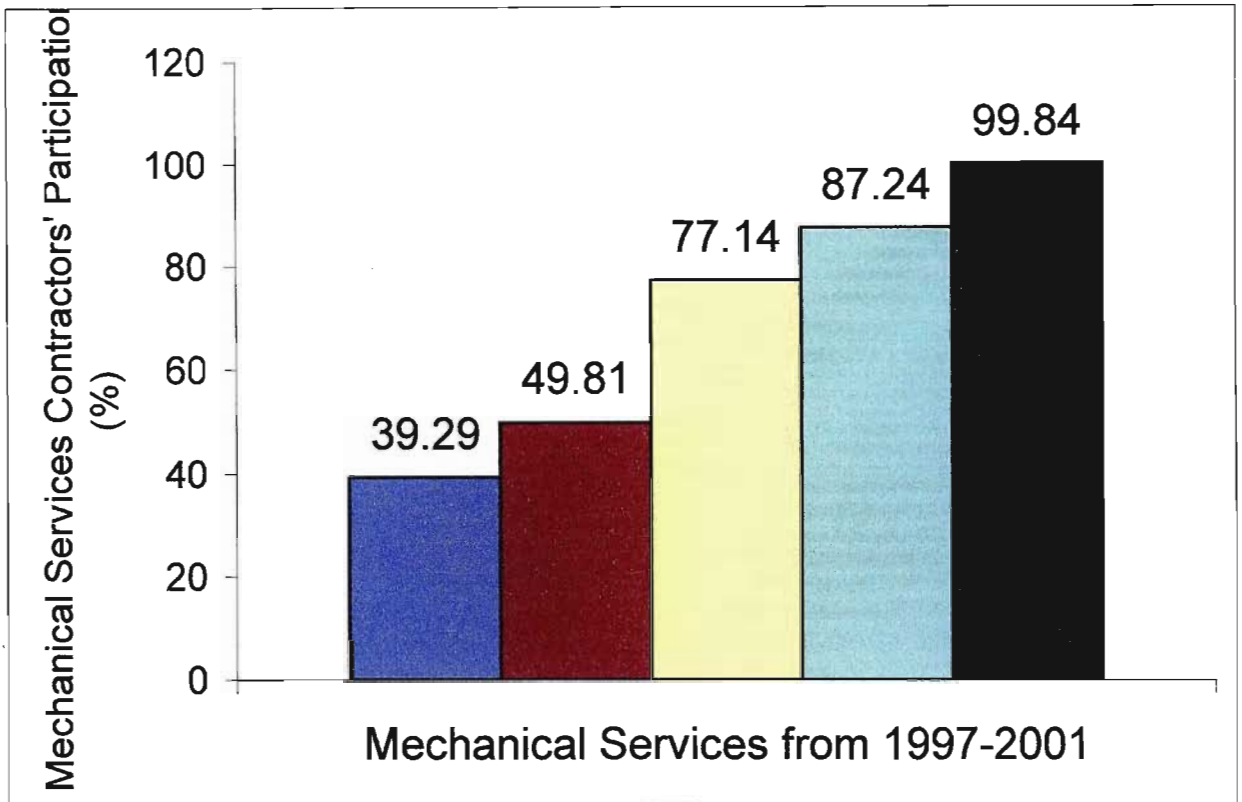


Figure 2.6 Percentage Mechanical Services Contractors' Participation in Mondi Forests, 1997 to 2001

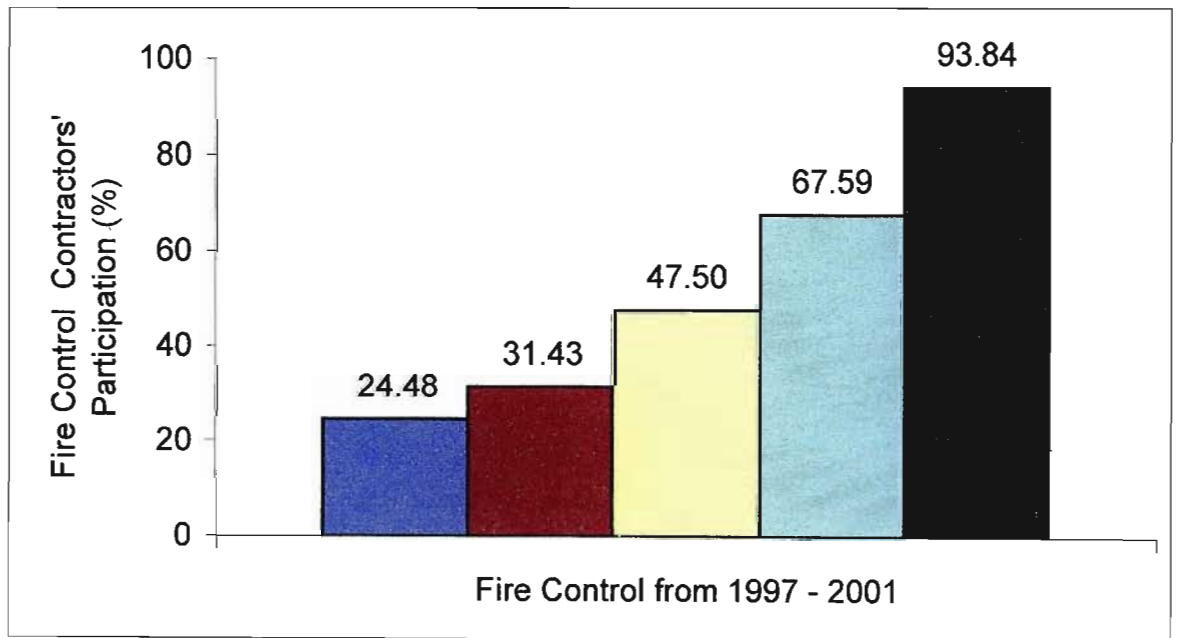


Figure 2.7 Percentage Fire Control Services Contractors' Participation in Mondi Forests, 1997 to 2001

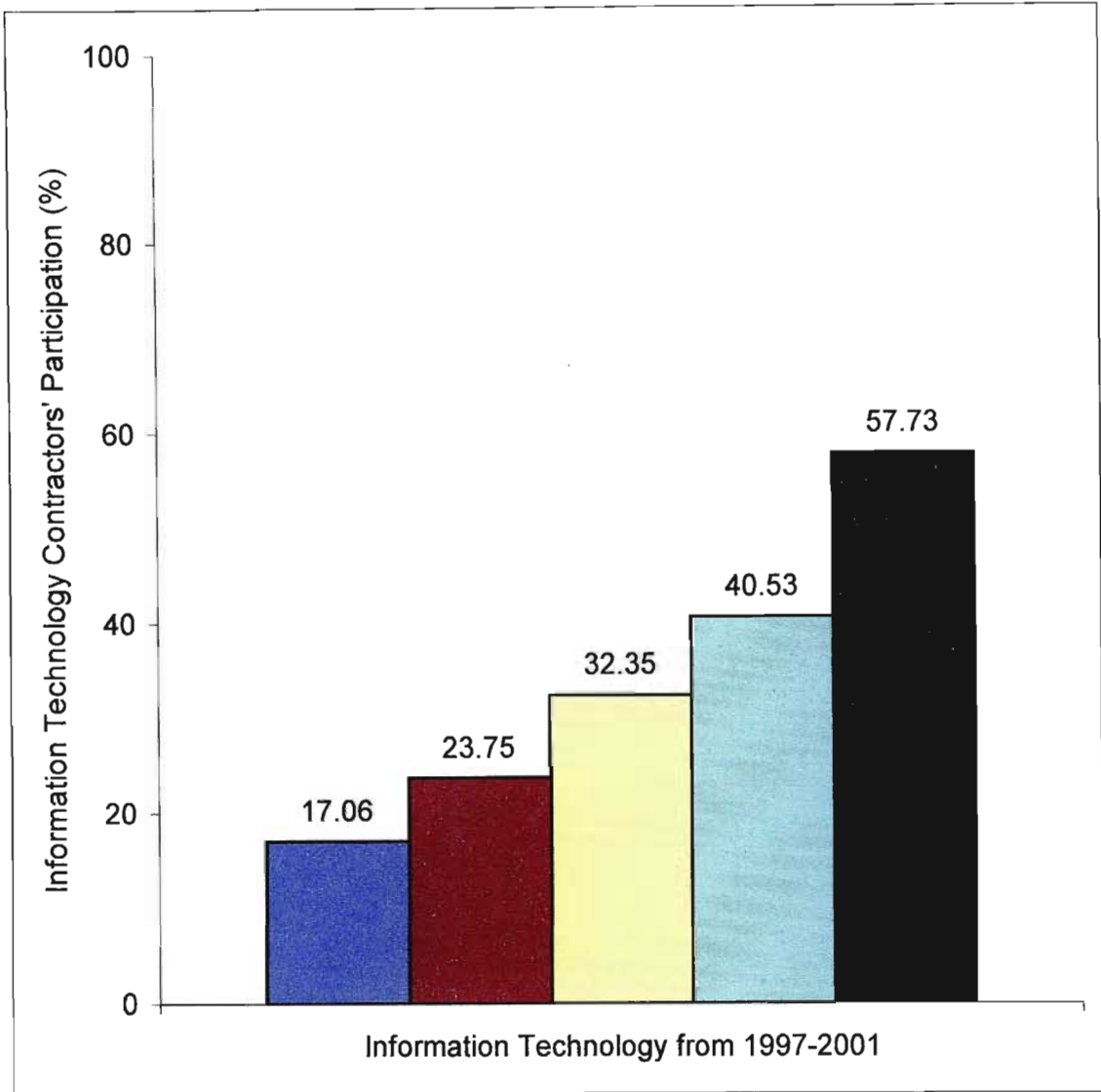


Figure 2.8 Percentage Information Technology Contractors' Participation in Mondi Forests, 1997 to 2001

Table 2.6 lists other activities that the survey respondents suggested could be outsourced by Mondi Forests, with reasons for these answers. Half of the respondents (20) were able to list the activities suggested. Activities identified in Table 2.6 have some of the characteristics of the six best candidates for outsourcing as suggested by Corbett *et al.* (2001b). For example fire protection, accounting, conservation management and forest management, are activities where the chances of success are high, they are well defined and some organizations are already outsourcing them e.g. forest management and fire protection. Technical support (e.g. wood technology) is an area in which outsiders can provide the most leverage to transform the company. Social responsibility and technical support, however, may not be best candidates as

they are not discrete and separable from other activities. Any activity that is outsourced should be one where an outside organization can manage the process with their own staff and where a great deal of intertwined activities are not present (Corbett *et al.*, 2001b). Activities to be outsourced should be those that are purely administrative or supportive in nature and those that are the farthest from the business' core activities.

Table 2.6 Other Activities that Mondi Forests Could Outsource

Activity	Why
Fire Fighting	Needs a focused approach.
Finance	Certain functions (e.g. creditors) because other corporations have outsourced them.
Social responsibility	Contractors are working in the estates close to the stakeholders, therefore have experience..
Management and/or Forest manager	It would be more effective; Foresters must be given management contractors because they have experience.
Human resources	Good experts outside; not core business.
Tally clerks, and or administration	Other areas did outsource; more focus.
Accounting	Not core; use a outsourcing company.
Games/conservation management	It makes sense to have the correct qualified person to do this.
Tree breeding assessments and or nursery technicians	Qualified contractors available to perform this function.
Technical support	Technical support capacity needs to be based in a research institution (e.g. Institute for Commercial Forestry Research [ICFR]) and universities. A private company has to draw in expertise as needed; There are many knowledgeable people in the industry. A cheaper system than employing them.

The respondents were also asked to list, with reasons, those activities that they feel can be successfully outsourced to rural communities as part of Mondi Forests' commitment to rural development. Over half of the respondents (27) suggested the activities outlined in Table 2.7 overleaf which range from fire protection (communities know the dangers of fires) to silviculture (aspects are labour intensive and require less capital input) and to tree breeding assessments. Respondents seemed to suggest activities that people in the communities already had skills to carry out and/or that required relatively less capital investment.

Table 2.7 Activities that can be Successfully Outsourced to Local Communities

Activity	Why
Fire Protection.	They know the dangers, the grazing and the politics in the area; seasonal activity.
Gardening in plantations.	Skilled in farming.
Security services.	Do not require high-tech skills and equipment; There are people that have all the skills. They know people in there area, crime can drop. Can form contractor group. Better liaison with communities; Cooperation with neighbours is essential – make them part of it.
Road maintenance; Building and construction.	Labour intense; Skills available; Skilled artisans are there.
All	Provided required standards can be met.
Conservation	Don't require high-tech skills and equipment; Certain operations only.
Silviculture, Harvesting, Transport.	Certain operations only, current outsourcing for Khulanathi to rural community. Low cost and less intensive parts of the operation that are less mechanical and more labour intensive. Less machinery needed in silviculture operations. No high level skills or high capital investment required (silviculture). Protective clothing and equipment is affordable. Low-tech skills required. Labor intensive.
Building contractors of new buildings.	Will be able to get people from rural areas to perform these activities. There are many people in rural communities who are experts in building.
Garden services	Not capital intensive
Sub contracting	To build them up
Cleaning of Valleys	Valleys are closer to communities and will increase the conservation awareness to local communities and the knowledge of Indigenous trees.
Cleaning services	Unskilled.
Open area management	Doesn't require any additional training than those offered anyway – chainsaw operations, we decide training etc.
Tree breeding assessments	Contractors available.

Table 2.8 indicates those activities that the survey respondents classified as core and non-core for Mondi Forests. These responses support the results given in Table 2.7, as many of the non-core activities were suggested as activities that could be outsourced to local communities. Candidates include security services, mechanical services, silviculture and transport.

Table 2.8 Activities Classified as Core and Non-Core for Mondi Forests

Activities	Core Activities	Non-Core activities	Percent of respondents (%)
Harvesting		X	82.5
Marketing	X		87.5
Security Services		X	87.5
Procurement	X		75
Wood Technology	X		87.5
Tree improvement		X	72.5
Human Resources role		X	67.5
Staff development and Training		X	57.5
Community development		X	92.5
Mechanical services		X	57.5
Technical services		X	60
Research and Development (R&D) other than in 5 and 6 above		X	72.5
Information Technology (IT)		X	62.5
Silviculture		X	82.5
Transportation		X	89.4

2.4.3 Criteria for Selecting Contractors (Section three)

Table 2.9 shows that all of the respondents agreed (score close to 4) that the criteria used by Mondi Forests when selecting contractors include looking at the contractor's potential for producing required results, whether the contractor's values are similar to Mondi Forests business principles; the contractor's experience and history; and whether contractors give preference to employing retrenched employees of Mondi Forests. The responses were neutral (score close to 3) with regards to appointing contractors to meet affirmative action goals and due to their fee charges (selecting the lowest fee per unit of output).

Table 2.9 Ranking of Criteria for Selecting Contractors
(based on a scale from 1 = strongly disagree to 5 = strongly agree)

Criteria for Selecting Contractors	All (n = 38)
Look at the contractors' potential for producing required results	4.38
Look at whether the contractor's values are similar to Mondi Forests' business principles	3.77
Look at the contractors' experience and history	4.25
Look at contractor in terms of meeting affirmative action goals	3.15
Look at contractor in terms of giving preference to retrenched employees	3.67
Look at contractors' fee charges (where the lowest fee charge per unit output is selected)	2.81

Some respondents indicated that other criteria used to select contractors included salary record (implies meeting legal requirements such as Unemployment Insurance Fund (UIF) contributions), the contractor's qualification and experience, requiring large contractors (rates are low compared to small companies that cannot compete), the contractor's ability to meet FSC requirements, contractor's technological advancement, the contractor's safety records and attitude towards health and safety, the contractor's company's dynamics and leadership qualities, the competence (knowledge and training) of the contractor's staff and labour, empowerment opportunities, potential Black contractor, and the contractor's planning/supervisor abilities.

2.4.4 Negotiation of Contract Terms (Section four)

All respondents on average strongly agreed that the aspect of what activities the contractor will perform is discussed during contract negotiations (mean score of 4.73). They agreed that discussions are held about what responsibilities Mondi Forests will retain; who has the right to make operational decisions, e.g. equipment to be used, and transportation mode (mean score of 4.32); which performance standard will be used for each service (mean score of 3.80); and the terms for contract termination (mean score 4.11). The respondents were neutral about whether the negotiations discuss the terms on which the contractor will employ Mondi Forests' former employees and people from local communities.

2.4.5 Contractor Pricing Structure and Criteria for Evaluating Mondi Forests' Outsourcing System (Section five)

Table 2.10 overleaf shows that on average, all of the respondents preferred paying contractors by volume - as per contractor input costs, or according to the going market price for contractor services - and performance-based pricing which includes conformance to requirements (quality and standard), reliability, timeliness and continuous improvement (scores close to 1 indicate not preferred; close to 2 indicate preferred; and close to 3 indicate most preferred). They all least preferred paying contractors on a per unit basis or the use of shared risks and rewards pricing which includes sharing productivity gains and/or cost savings. The Manex team showed relatively more preference than other groups for shared risks and rewards pricing. This could reflect that there is inadequate communication between estate managers and the forestry executive management committee on this particular pricing structure.

Table 2.10 Preferred Contractor Pricing Structure
(based on a scale from 1 = not preferred to 3 = most preferred)

Pricing Structure	All (n = 40)	Manex (n = 7)	Support Team (n = 11)	Area-Managers (n = 9)	Estate Managers (n = 13)
Paying on per unit basis	1.79	1.50	1.71	2.11	1.75
Paying by volume, as per contractor input costs, or the going market price for contractor services	2.53	2.60	2.86	2.13	2.58
Performance-based pricing: includes conformance to requirements (quality and standard), reliability, timeliness, and continuous improvement.	2.73	3.00	2.57	2.67	2.75
Shared risks and rewards pricing: includes sharing productivity gains and/or cost savings	2.36	2.60	2.43	2.11	2.42

This result implies that the Manex team regards 'contractors' as potential business partners. This needs to be communicated better to the operational managers, since it appears that managers are focusing on short-term operational issues while executive managers are thinking more strategically.

The respondents were also asked in this section to give their opinions on the criteria that Mondi Forests uses to monitor and evaluate outsourcing, and to comment on the effectiveness of those criteria. Only 33% of the respondents were able to answer this question, and most of them could not comment on the effectiveness of the monitoring and evaluation systems as reported overleaf (Table 2.11).

Table 2.11 Criteria for Evaluating Mondi Forests Outsourcing System

Criteria	Comments
Silviculture South Africa Harvesting South Africa Continuous Compliance Audits	No comment
Cost Quality Reliability	No comment
Forestry Stewardship Council (FSC) Process NOSA Audits (Safety audits) Contractor Upliftment Programme	No comment
Qualification, experience capability	No comments
Self assessment program	No comment
Environmental Standards	Needs to be stronger
The Social Responsibility checklist	Good

2.4.6 Current Management of Outsourcing Relationships, and the Future of Outsourcing in the Forestry Industry (Section six)

On a scale of 1 to 5 (where 1 = very poor and 5 = excellent), all the respondents on average regarded their relationship with harvesting contractors (3.88), transportation contractors (3.61), silviculture contractors (3.97), security service providers (3.97) and mechanical services contractors as good (3.77) for the following reasons:

- Very close working relationship with contractors, where transparency is the key in management system – mutual trust and respect,
- Contact processes – audit results,
- Constant communication is exercised at all times with service providers,
- The working relationship is good, but contractors always complain about rates. 'They see this as a strategy to make you feel sorry for them',
- Working relationships depend on the person in charge of the activity (subjective). 'We need to be more objective',
- Most contractors have been in services for long time and each partner is well known to the other (have a friendly relationship).

Respondents pointed out that many average size operational contractors in harvesting, silviculture and transportation will not survive in business in the medium term, and that several contractors face liquidation. Other areas of concern are instances where tenders are awarded with no formal evaluation criteria, bid documents are incomplete, and changes to conditions are enforced at contractor's expense (cut volume, change standards). Poor working relations and inconsistent orders in some cases also result in poor credit rating of some contractors.

The respondents suggested the following strategies that need to be implemented in order to improve working relationships with contractors:

- Good management, regular interaction, measure performance and react,
- Listen to the contractor's problem i.e. 'do not always institute budget cuts as a norm, which is what happens at present',
- Mondi Forests needs to set the standards and be aware of the implications that these have on the costing provided by contractors,
- Better communication, partnership building, and understanding of each other's business,
- Better communication with, and training and monitoring of, contractors (e.g. Wetland Delineation, Integrated Environmental Management),
- Contractors required to employ qualified supervisors to perform duties (e.g. at harvesting),
- Improve contractors' involvement in strategic planning,
- Transparency in negotiations between Mondi Forests and contractors will enable trust and working out of a minimum of three year contracts. Expanding major contractors to take on more responsibilities and developing of smaller contractors,
- Contractor forums need to be established to monitor all aspects of contractors,
- Proper investigation is needed before deciding on the methods to perform a task. More tangible input by contractors for their workers' social life is needed,
- Budgets must to be based on sound cost structures – not individual perceptions and negotiation. Clear evaluation criteria and procedures are also required.

Treat contractors with respect and dignity. Follow legal and ethical tender processes and formalize and standardize bid documents and contracts. Provide contractors with a grievance procedure.

Most of the respondents (90%) said that there is no structure within Mondi Forests that is specifically dedicated to managing contractor relationships. The other 10% of respondents indicated that there is some structure as some task teams have been recently put into place, there was a 100-day contractor project and profile and aspects are considered under the Mondi Forests social responsibility self-assessment program.

Finally, the respondents gave their personal views about outsourcing in the forestry industry as practiced now, and its future prospects, as reported below:

- Good, though, it must be closely managed.
- A need to measure productivity.
- There is place for outsourcing.
- We need to find the economical cut off point where it is not viable for the company.
- Good potential, but if not treated as an important part of the business, it is not sustainable.
- Outsourcing is currently in an immature phase;
- Future will see full management contracts given to professional contractors.
- Good to outsource.
- Mondi Forests must give smaller contractors a chance, not only well-established contractors.
- Outsourcing specialized work is good, but contractors do not have the well being of people at heart, and only do contracting for the financial benefits.
- If run properly it can lead to empowerment, upliftment and sharing of wealth.
- Not sufficiently monitored by doing before and after assessments.
- Contracting industry will have to improve productivity to become globally competitive.
- Outsourcing is a world trend.

- Have no doubt that principle of outsourcing is definitely the correct route.
- Have come a long way but it has been a slow process, as Mondi Forests does not have a strategy and outsourcing was implemented in a 'shotgun approach'.
- Correct way to go so long as it is not at one's employees' expense. There is a bright future as long as contractors are managed properly and fair.
- Good for forestry companies. But it is not good for workers, since salary is low, and people suffer.
- Done to reduce overheads and no commitment from management in developing the new contractors.
- Numerous ideas, from a maturity level must transcend the insecurity of 'letting go'.
- Outsourcing has been overdone.
- See Mondi Forests taking back a labour force again in order to gain control of health, safety and social issues. Shift away from bottom line management to "3-leg approach" of Economic, Environmental and Social aspects.
- Is the way for the future, will see the development of small contractors.
- Large contractors will have trouble competing, as their overhead structure will grow, thus reducing their cost and effectiveness.
- Employment, "Super" contractors that will manage forestry estates.
- It is a money-driven decision - perceived short-term benefits (financial) will be replaced with long-term losses (lack of quality and ownership of operations).
- Has advantage for forestry organizations because they make profit, but on the other hand it is a disadvantage to poor people.
- Not sure what will happen in the future.
- The most effective contractors must be used.
- Opportunities for staff to be made available, outsourcing must be for good reasons only, not because it is "flavour of the month".
- Good future, However all the risks of people and technology need to be integrated.
- Outsourcing is an excellent tool for managing large assets and a large number of people. However, SA contractors carry these risks at very low costs – contractors are not competent to grow, or to improve the conditions of

employment (exploitation). Image given of forestry low cost rule at the expense of everything else.

It seems, therefore, that most of the respondents felt that outsourcing is a good move in the forestry industry. They also see it as still in the immature phase and being done at the expense of the welfare of employees and communities. It is seen as a short-term way to cut costs and is acknowledged as a global trend. Regarding the future, most respondents view outsourcing in the forestry industry as a system with a long future. The issues of contractor training, the management of outsourcing relationships (including local communities) and the monitoring of contractors will require attention in the future. A balance needs to be found between social, economic and environmental factors to make outsourcing sustainable.

2.5 Conclusions

Outsourcing in Mondi Forests is seen as way to reduce production costs and to enable the Mondi Forests staff to focus on their core activities. It is important that the latter strategic reason be well communicated throughout the organization in order to ensure common understanding and approaches. The main perceived advantages of outsourcing for Mondi Forests were improved financial performance, less stress in the hiring, training and staffing of new employees, and that it allows staff more time to focus on the core competencies. The main perceived disadvantages of outsourcing for Mondi Forests were reduced staff morale, loss of access to technical innovation, negative views of the company by unions, local communities and government departments, and a lack of resources for long-term contractor upliftment programmes.

Respondents consider uncertainty about employment continuity, social problems (like land tenure issues and increased incidence of forest fires) as the main risks in outsourcing, in addition to poor working relationships between contractors and local communities, and low competency levels of the contractors. Strategies to minimize these risks need to be devised, such as subcontracting inexperienced contractors for a specific period of time (about two to four years) until they can operate alone. The level of awareness of these risks within Mondi Forests is satisfactory, and efforts have been

made to manage these risks via encouraging contractors to employ ex-Mondi personnel, and providing start up capital and skills training.

Since 1997, Mondi Forests has almost completely outsourced harvesting, silviculture, security service, training, mechanical service, fire protection, and transport activities. Some two-thirds of payroll system, and 60% of IT system activities are also outsourced. Human resources, accounting, social responsibility, tree breeding assessments and technical support were identified as future candidates for outsourcing. Activities that could be successfully outsourced to local communities because of low capital and skills requirements include silviculture, harvesting, security services, road maintenance, and cleaning services.

Key criteria for selecting contractors were identified as potential to produce results, experience and history, giving preference to retrenched employees, match of Mondi Forests business' values, contractor qualification and experience; technological advancement; and safety record and attitude towards healthy and safety. Much is being done to help contractors meet these criteria, but efforts differ from region to region. More emphasis could be placed on empowerment opportunities as a criterion for selecting contractors. The main issues discussed during negotiations with contractors include required services levels, and the roles and responsibilities of the contractors. An issue that needs further attention is the measurement of the quality of services that are being provided by the contractors. Terms that the contractors need to use in employing people from local communities, and transferring employees, could also be reviewed.

Performance-based pricing, and paying by volume, was the models that respondents' preferred for pricing contractor services. Senior managers looked more favourably on shared risks and rewards pricing. Paying by volume as per the contractors' input pricing structure is currently used by Mondi Forests. There is an urgent need to develop a system of assessing the effectiveness of Mondi Forests' outsourcing system.

Survey results show that in order to succeed in improving contractor relationships, firms must avoid the "value-shrinking loop" where the focus is mainly on substance and

not on building relationships with contractors. All respondents felt that working relationships with harvesting, transport, silviculture, security service and mechanical service contractors were good. Mondi Forests has started to put a relationship management infrastructure in place, but could give more attention to further establishing a structure that will look at standardizing the tendering process, involve contractors in Mondi Forests' strategic planning, help to find ways to improve contractor-local community working relations, consider contractor development programmes in order to assist the smaller contractors, and empower contractor employees in reporting safety and health issues. Following Kliman and Jones (2000), this structure must also review the roles, skills levels, and responsibilities of Mondi Forests' managers that are directly involved in managing outsourcing relationships. This is crucial since outsourcing is relatively new to most of these managers.

Finally, Mondi Forests' personnel have a positive view about the future of outsourcing and they will consider working with "super" (very large) contractors. Mondi Forests' General Manager, Kevin Cazalet sums this up: "...it is providing wonderful opportunities for all involved. Historically this country has not encouraged entrepreneurial activities in that it has either been the government or the large corporations that have provided employment. Now it is the individual that has an opportunity to improve his or her own lot, and is not restricted by what he or she is told to do."

CHAPTER THREE

THE SOCIO-ECONOMIC IMPACTS OF OUTSOURCING ON FOREST-DEPENDENT COMMUNITIES LIVING NEAR COMMERCIAL FOREST PLANTATIONS IN SOUTH AFRICA

3.1 Introduction

Over the past few years the major companies in the forestry industry in South Africa have invested more than R240 million in buildings and infrastructure. The annual running costs for various services including housing, health care, schooling, training and social welfare, exceed R6 million in the areas they operate (Forests Owners Association, 1997). To date, the industry has been undergoing a lot of changes in terms of how it runs its business. Many activities that used to be conducted "in-house" such as harvesting, silviculture, mechanical services, and transportation of timber products are being outsourced. There is little published information to help ascertain what impact outsourcing has on forest-dependent rural communities in South Africa.

This chapter begins with an overview of the importance of the SA forestry industry in the economy of SA and its impact on rural communities. It then reviews literature on forest-dependent rural communities, such as their livelihoods, forest employment trends, and socio-economic issues (housing and infrastructure, health care and social services, and education). The research questions and research methodology used to assess the impact of outsourcing on forest-dependent communities living in the villages in and around commercial forest plantations are then outlined, after which study results are presented. The implications of these results for the future management of relations with these communities are discussed in a concluding section.

3.2 Importance of the Forestry Industry to the Economy of South Africa

South Africa currently has about 40 million people, all of whom use wood in one form or another produced by the SA forestry industry (Edwards, 2000). The major companies are Mondi Forests, Sappi Forests, the South African Forestry Company LTD (Safcol), Masonite and the Hans Merensky Foundation. In terms of planted area, they represent 74% of the private forestry sector and 65.5% of the entire forestry industry (Forest Owners Association, 1997). Plantation forests are located mainly in the Northern Province, Mpumalanga, KwaZulu-Natal, Eastern Cape and Western Cape Provinces, where climatic conditions are suitable, with the largest plantation areas being in Mpumalanga (571 000 ha) and KwaZulu-Natal (529 000 ha). Overall, 53% of these areas are planted to pine trees, 39% to eucalypts and 8% to wattle (Forest Owners Association, 1997).

Wood is used for purposes such as building and construction material, furniture manufacture, poles for communication and agricultural purposes, mining support systems, fuel wood, and a multitude of industrial applications. In fibre form, wood-based products include all types of paper for writing and reading purposes, paperboards for packaging purposes, dissolving pulp for textile manufacture and many more (Edwards, 2000). Current domestic consumption of solid wood products amounts to around 1.6 million tons per annum, and for fibre-based products about 0.05 tons per capita [2 million tons per annum](Edwards, 2000).

Current industry turnover is estimated to be R12 billion per annum with an investment value at current replacement cost of around R35 billion (Edwards, 2000). The annual production of timber (plantations) contributes some 8.5% or R2.1 billion to the total value of agricultural output (R24.6 billion), whereas the annual production of timber products (forest products) contributes some 8% or R12.6 billion to the total value of manufacturing output (R150 billion). These figures reflect the important role of the Forestry Industry in the national economy, particularly as most of the investment and production takes place in rural areas (Edwards, 2000). The forest industry's role in the national economy, employment and job creation is particularly important given that by far the largest part of its activity takes place in rural areas (Edwards, 2000).

Aside from meeting almost the entire domestic demand for wood and wood products, the scale of the industry's operations is such that it exports significant quantities of its output. Exports of forest products are currently valued at R6.6 billion per annum, against which imports of forest products amount to R3.3 billion per annum. The net positive trade balance of R3.3 billion per annum, therefore, makes a significant contribution to the country's foreign exchange position (Edwards, 2000).

Timber growing and wood processing collectively employ an estimated 140 000 people directly, in over 1 500 enterprises associated with and/or reliant on the industry. Research has shown that in both downstream and upstream activities, for every one job in the industry an additional four jobs are created elsewhere, meaning that an additional 560 000 job opportunities are created, giving an overall employment figure of more than 700 000 (Edwards, 2000). According to Edward (2000) this research assume that, on average, each of these people supports four dependents, therefore, the forestry industry provides a livelihood for almost three million people (7.5% of SA's entire population). This has a considerable impact on poverty alleviation, rural upliftment and people development.

3.3 Literature Review

3.3.1 Definition of Forest-Dependent Rural Communities

The legal, political and economic marginalization of many rural people in developing countries, is often longstanding and well entrenched in terms of law and other overall relationships between rural people and their government (Lynch, 1998). According to Tallontire and Maynard (2000) the term 'forest-dependent rural communities' is used to capture the range of rural people depending directly upon a forest resource for the livelihoods. They are known to be the largest - but often politically and economically weakest - forest constituency and they are the most in need of the minimal legal leverage necessary for pluralism and sustainable forestry to flourish (Lynch, 1998). The types of legal and institutional changes that are needed to promote substantive and sustainable community-based forest management are closely associated with more

general processes of promoting pluralism and democratization. Without political capacity it is exceedingly difficult for local people directly dependent on forest resources to organize or have an impact on policy-making processes (Lynch, 1998).

The SA forestry industry has been regarded as one of the largest employers in rural areas, and as a result most people in rural areas residing in and around the plantations are dependent on forestry companies for employment. It is estimated that about 75% of people who have been employed previously by the forest companies have lost their jobs because of outsourcing, and the other 25% who have been re-employed by the contractors complain about supposed "unfavourable" working conditions (Forestry Policy Discussion Paper, 2000).

3.3.2 Rural Livelihoods

Rural people constitute 40% (about 16 million) of the total SA population, and they are predominantly women and children (Forestry Policy Discussion Paper, 2000). According to Forestry Policy Discussion Paper (2000), the average income earned by rural households is much less than that earned by urban households. Rural areas have a history of restricted resources, forced re-settlement, lack of democratic control over their development, poor education and in white farming areas and forestry plantations, inadequate protection of labour rights (Forestry Policy Discussion Paper, 2000).

Rural unemployment in the Eastern Cape is currently 56.3% and in the Northern Province it is 50.7%, compared with 16.7% in the Western Cape. More than 80% of rural people in the Eastern Cape, 61.7% in Mpumalanga and 69.4% in KwaZulu-Natal have no tap water in or near their homes. A lack of electricity affects 92.9% of rural residents in the Eastern Cape, 90.7% in the Northwest, 86.7% in Mpumalanga Province and 77.1% in the Free State. There are disproportionately high levels of unemployment for women, particularly in rural areas. Women are especially important among SA rural people since they are often the effective heads of rural households, and bear the major burden of maintaining the well being of those households (Forestry Policy Discussion Paper, 2000). According to Forestry Policy Discussion Paper (2000), it is estimated that women between the ages of 16 and 65 outnumber men by 40%.

3.3.3 Sources of Rural Energy in South Africa

About one-third of households in South Africa rely on fuel-wood, and women in these households often walk great distances to fetch firewood. The average time spent this way is estimated conservatively at five hours per household per week (Forestry Policy Discussion Paper, 2000). Use of this wood is estimated at about 11 million tons of wood per year, of which an estimated 6.6 million tons is harvested from natural woodlands. The amount of wood consumed for household needs equates nearly to that used in the formal forestry industry, which provides sales of R8 billion per year (Forestry Policy Discussion Paper, 2000).

3.3.4 The Value of Indigenous Forests and Woodlands to Communities

Trees and tree products of the woodlands and natural forests play an important and often under-estimated role for forest-dependent rural communities such as:

- Fuelwood, the major source of energy for cooking, lighting and heating;
- Timber for construction material and wood carving;
- Fruit, an important dietary supplement and sap for brewing of beer and wine;
- Bark for making ropes and weaving;
- Medicinal products such as bark, bulbs, leaves and roots;
- Grass for thatching, weaving and for grazing by cattle.

3.3.5 Forestry Contractors

There has been a strong trend in recent years towards using contractors in forestry operations such as transport, silviculture and harvesting, although each company differs in the type and quantity of work that it is subcontracting. About 15 000 people were estimated to be employed by forestry contractors. Problems experienced by both forestry companies and workers as a result of this trend include (Forestry Discussion Paper, 2000):

- Poor quality of work by contractors, related to being under- equipped, a lack of experience, and employing workers without the necessary skills;
- Failure to adhere to accepted operating standards;
- Payment of unacceptably low wages;
- Insecurity among workers employed by contractors;
- Social problems in some of the forest villages.

Measures taken to address these problems include the establishment of the South African Forestry Contractors Association (SAFCA), whose 194 members include most of the main contractors. SAFCA operates a grading system that reflects the quality of work of each of its members, negotiates group rates on insurance and facilitates access to training services. In addition, companies are working at improving the standard of contractor work by selecting contractors according to quality of work, requiring minimum wages and acceptable employment conditions, and pressing for improved skills and equipment. According to Blakeway (2001, pers.com.), SAFCA is also encouraged to apply South African Qualifications Authority Standards (SAQA). Most of the major companies have developed comprehensive policies for managing their relationships with contractors. Contractors tend to employ labour-intensive methods. The trend towards contracting has probably helped to maintain employment levels in the industry (Forestry Policy Discussion Paper, 2000).

Forestry contracting offers an important avenue for the creation of new black enterprises in rural areas, as is already happening. The promotion of small business is an important part of the SA government's national economic strategy. However, satisfactory working conditions and human resource management must be achieved if these businesses are to be acceptable and sustainable. Forest companies are also actively involved in the promotion of other small black-owned business ventures, assisting aspirant entrepreneurs in a number of ways, particularly with training and finance (Forestry Policy Discussion Paper, 2000). Mondi Forests and Sappi Forests run on-going rural wood-lot schemes with more than 8 000 small growers. The motivation for these woodlot schemes initially was for commercial fibre production (Gardiner, 2001, pers.com.).

3.3.6 Wage Rates in the South African Forestry Industry

Average wage rates for workers in the large SA forestry companies range from R570 - R2 400 per month. Unskilled workers in these firms earn R570 - R600 per month, semi-skilled earn R880 - R920 per month, and skilled workers R2 200 - R2 400 per month. Only five percent of workers fall into the skilled category (Forests Policy Discussion Paper, 2000). Trade union members report that in some areas, wages are as low as R200 per month. On average, forestry contractors probably pay 50% - 70% of the wages paid by the large SA forestry companies. This would mean that for unskilled jobs, the average pay is about R300 - 400 per month. The South African Agriculture, Plantation and Allied Workers' Union (SAAPAWU) argues that no employee in the sector should earn less than R750 per month before benefits, to ensure a reasonable minimum standard of living (Forests Policy Discussion Paper, 2000). According to Ngondo (2002, pers.com.), SAAPAWU view outsourcing as having a negative impact on society as a whole, including increased levels of unemployment, rising poverty, and reinforcement of a low-wage low skill black labourer.

3.3.7 Housing and Provision of Essential Services

According to Forests Owners Association (1997), all forestry companies provide employees with acceptable standards of housing and offer social facilities that enhance the quality of life. More than 65% of all employees are provided with accommodation, and the majority of these people have access to running water, sanitation and electricity (Forests Owners Association, 1997). Millions of rands have been invested in housing infrastructure, with annual expenditure in excess of R15 million (Forests Owners Association, 1997). The forestry industry is committed to creating an environment in which as many employees as possible can be provided with title and ownership of property. This is being done in a number of innovative ways such as the establishment of "agri-villages" (villages with open plan for vegetable production) and recreational facilities.

3.3.8 Occupational Safety and Health

Practices in forestry can be a dangerous occupation. Since many tasks are performed outdoors, workers frequently experience difficult working conditions. Management of safety and of the working environment is a special need in this industry (Forestry Discussion Paper, 2000). The use of machinery and chemicals in large plantations often exposes workers to accidents and health problems (Lewis and Addo, 2000). The assurance of workers health and safety is, therefore, part of the Forest Stewardship Council (FSC) requirement for certification. All forestry companies comply with the Occupational Safety and Health Act, and all major companies participate in the National Occupation Safety Association (NOSA) programme. Safety standards have steadily improved in many companies over time (Lewis and Addo, 2000).

All forestry companies operate clinics on their properties, providing medical services not only to employees but also to the broader local communities (Forest Owners Association, 1997). Health care is not limited to treating ailments. The provision of preventive medicine is practiced through the running of numerous health care courses, including Acquired Immune Deficiency Syndrome (AIDS) awareness, primary health care and first aid. All employees are covered by retirement funding through either pension or provident funds as well as by Unemployment Insurance Fund (UIF). The companies provide recreational facilities for their employees and their families, the most popular being soccer fields, television and recreation halls. Nevertheless, some workers in the industry express ongoing concern regarding health and safety provisions. Continuous improvement is needed, and there is a long way to go in ensuring uniform minimum health and safety standards in the forests and the wood processing industry (Forest Discussion Paper, 2000).

3.3.9 Land Tenure Issues

Unresolved land tenure disputes can provide obstacles to the emergence of new farmers and rural enterprises, and can also cause continuing social unrest and violence and, thereby, discourage future capital investment (Forests Policy Discussion Paper, 2000). Claims for restitution by the victims of forced removal (e.g. in the Tsitsikamma or in the St Lucia area) are being treated via the mechanisms of the Restitution of Land Rights Act 34 of 1996. This Act provides that people who were prevented from retaining or obtaining rights to land as a result of racially discriminatory laws shall be entitled to restitution of the land they lost. Other claims, such as ownership or security of tenure by labour tenants where their prior rights have been jeopardized by the sale of the land to a forestry company, or claims of need arising from land shortages and lack of alternatives, are not being addressed through the restitution process (Land and Agriculture Policy Centre, 1996).

3.3.10 Education

All levels of schooling are supported by and made available by SA forestry companies, from crèches to high schools (Forest Owners Association, 1997). Once again, this is not limited to the children of employees of the forest companies, but is extended to families in the local communities. The companies currently own and run 84 crèches, 96 primary schools and six high schools (Forest Owners Association, 1997). In all, about 15 000 children are being educated at a cost of many millions of rands a year.

Where forest industry schools are not available, children are transported to the local school and, where necessary, families are assisted financially to send their children to local and regional schools. Investment in improving educational facilities is ongoing, although there are some concerns from the forest companies that this responsibility should rest with the government. According to Forest Owners Association (1997), forestry companies operate their own technical training centres, representing an investment of more than R7.5 million. About 14 000 employees are trained each year. More than 1000 forestry employees are also sent to external training centres each year.

A general low level of literacy among the lower grades of forestry employees had compelled the forestry companies to run adult education courses, adult literacy, life skills, numeracy and grade eight to twelve courses. Bursaries and study loans have also long been made available to forestry employees and their dependants (Forest Owners Association, 1997).

3.3.11 Non Wood Forest Products Enterprises

Although it is still a small fraction of the world trade in timber products, trade in Non Wood Forest Products (NWFPs) is far from insignificant. Rural economies benefit from the impact of NWFPs trade on national economies; for example, Indonesian exports of rattan and other NWFPs exceed US\$134 million per year, and Indian trade is estimated to be US\$1 000 million (Freese, 1998). World trade in medicinal plants alone reaches US\$10 000 million annually (Freese, 1998). The numerous small enterprises involved in NWFPs can potentially foster broader-based economic growth than large-scale timber operations. Earlier this decade in Zimbabwe, such small forest enterprises employed 237 000 people, compared to the 16 000 people employed by the formal forest industry (Arnold, 1995). Harvesting of NWFPs often employs women and minorities to a greater extent than large-scale timber operations, it has potentially greater equity benefits (Taylor, 1999).

Recent studies from Amazonia and elsewhere point to the significant contribution of rain forest products to household, local, regional and even national economies (Fearnside, 1989; FAO, 1993). Encouraged by these findings, numerous Non-Governmental Organizations (NGOs) and other groups are working to help traditional "forest people" (forest-dependent rural communities) secure their rights to forest resources and to develop management regimes for the sustainable and mutually profitable harvesting of local non-wood resources. In doing so, such groups hope to preserve the forest, conserve its resources and enhance rural welfare by raising the income of forest people. Increasingly, however, practitioners and researchers are recognizing the need for a deeper understanding of the factors that influence the income generation among "forest people", beyond the market value of the wood and NWFPs (Barham *et al.*, 1999). In most study regions, "forest people" pursue numerous activities to

generate subsistence and commercial income, some of which are feasible only in certain seasons or under particular conditions.

Most traditional forest peoples are economically poor, although within and among forest communities significant differences are seen in holdings of land and other assets. These differences are of considerable importance to the use of NWFPs and other forest resources. Differences in household wealth – although they may appear to be small – can be instrumental in differentiating resource use and ultimately income generation. Barham *et al.* (1999) suggest that there are three questions that need to be addressed in the process by which forest peasant households accumulate (or disperse) wealth; *First*, how do forest peoples come to hold different types and levels of wealth? Clearly a broad suite of factors can influence wealth accumulation, including the initial endowment in land or capital, access to labour, forest knowledge, and "extractive" skills (obtain or extract [juices or medicinal fluid, etc] by crushing). *Second*, what are the roles of NWFPs in the process of wealth accumulation? Central to this issue is the problem of how forest peoples invest proceeds from forest product extraction. Some households, for example, rely on such products primarily for consumption, whereas others may invest a part or all of their earnings. How they invest is also important: some households may use their earnings to purchase productive capital (and thus position themselves to deepen their involvement in extraction); others may invest in land (and perhaps shift their focus more to agriculture) or in consumer durables; still others may invest in human capital by sending their children to the city for education. Each investment path gives rise to new opportunities and suggests distinct roles for forest products in wealth formation and accumulation. *Third*, how do diminishing stocks of NWFPs and other forest resources influence prospects for forest people to accumulate wealth? Whereas some NWFPs are sustainably harvested, forest peoples deplete others, and as a result the economic opportunities and the possibilities for amassing wealth available to different segments of the forest population shift through time.

The above literature review highlights that there is limited research conducted in SA on the socio-economic impacts of outsourcing on forest-dependent communities living close to commercial forests. This further supports the study aims and objectives, and raises the research questions outlined in the next section.

3.4 Research Questions

The following four questions were considered in the study to assess the socio-economic effects of outsourcing on forest-dependent rural communities:

1. Was outsourcing of any benefit to the forest-dependent rural communities with regards to employment levels, conditions of employment, socio-economic issues, and small business development?
2. What is the current state of the relationship between commercial forestry companies and their neighbouring communities? Is it improving or deteriorating because of outsourcing?
3. What is the state of livelihoods in rural communities living in and around forestry plantations in SA?
4. What needs to be done in order to improve the livelihoods of forest-dependent communities, and foster a good relationship between forestry companies and these rural communities?

3.5 Research Methodology

3.5.1 Data Collection

The research conducted to answer the four questions in section 2.4 is based on *qualitative* data and predominantly on a study of the *attitudes* and *perceptions* of appropriate forest-dependent rural communities living near commercial forest companies. Participatory Rural Appraisal (PRA) was used to gather data from the selected communities.

3.5.1.1 Background to Participatory Rural Appraisal

The PRA technique emerged in the 1970s as a response to the failure of conventional research techniques to adequately address development issues in Third World countries. Participatory research is based on the belief that development should be people-centred. People are central to any kind of developmental process, and communities should be part of the decision-making processes (Chambers, 1994). The PRA approach is a practical field-level methodology where actual experience is gained from working with the selected community. Thus, practitioners/researchers act as facilitators and catalysts, not experts, so that the ownership of the outcome of the development process is held directly by the community (PRA Handbook, 1993). Chambers (1994) emphasized that PRA is not a rigid method but rather a "systematic yet semi-structured activity carried out in the field by a multi-disciplinary team and designed to acquire quickly new information on and new hypotheses for rural development". According to PRA Handbook (1993), the PRA approach is based on the following principles:

- **Local knowledge:** this fundamental principle of PRA holds that learning "is from, with and by local people, eliciting and using their criteria, classification and categories, and finding understanding of, and appreciating, indigenous technical knowledge, viewpoints and skills".
- **Local resources:** communities have resources and they can undertake their own development using these resources if they become mobilized.
- **Critical self-awareness:** this principle is based on the understanding that practitioners have a particular mindset that impacts on what they attempt to do and can influence the outcome.
- **Embracing error:** error is not viewed in a negative light, rather it is seen as an opportunity to learn something new. The PRA method tries to seek "trade-offs" between the quantity, accuracy and relevance of information.

3.5.2 The Participatory Rural Appraisal Process

3.5.2.1 Selection of Communities

Forest-dependent communities to be interviewed in the study were randomly selected from those communities that are residing permanently in some villages, and have been there for more than 20 years. These villages were specifically designed as housing facilities for forest employees many years ago mainly by Hunt, Leuchars and Hepburn (HL&H). Three communities in Jessievale, part of Mpumalanga Province next to Carolina, the closest small town, were chosen, namely: Nganga Village, Lochiel Village and The Brook Village (Figure 3.1). The three communities chosen from Piet Retief, also part of Mpumalanga Province, were the New Homes Community, Rustplaas Community and the Belfast Community (Figure 3.2). In KwaZulu-Natal, three communities were involved, namely: Townlands Community, Holmesdale Community and Woolstone Community (the closest town to these villages is Greytown) (Figure 3.3). All these villages are located inside the forest plantations. The purpose of each step and exercise that were used in the PRA workshops is given in Table 3.1.

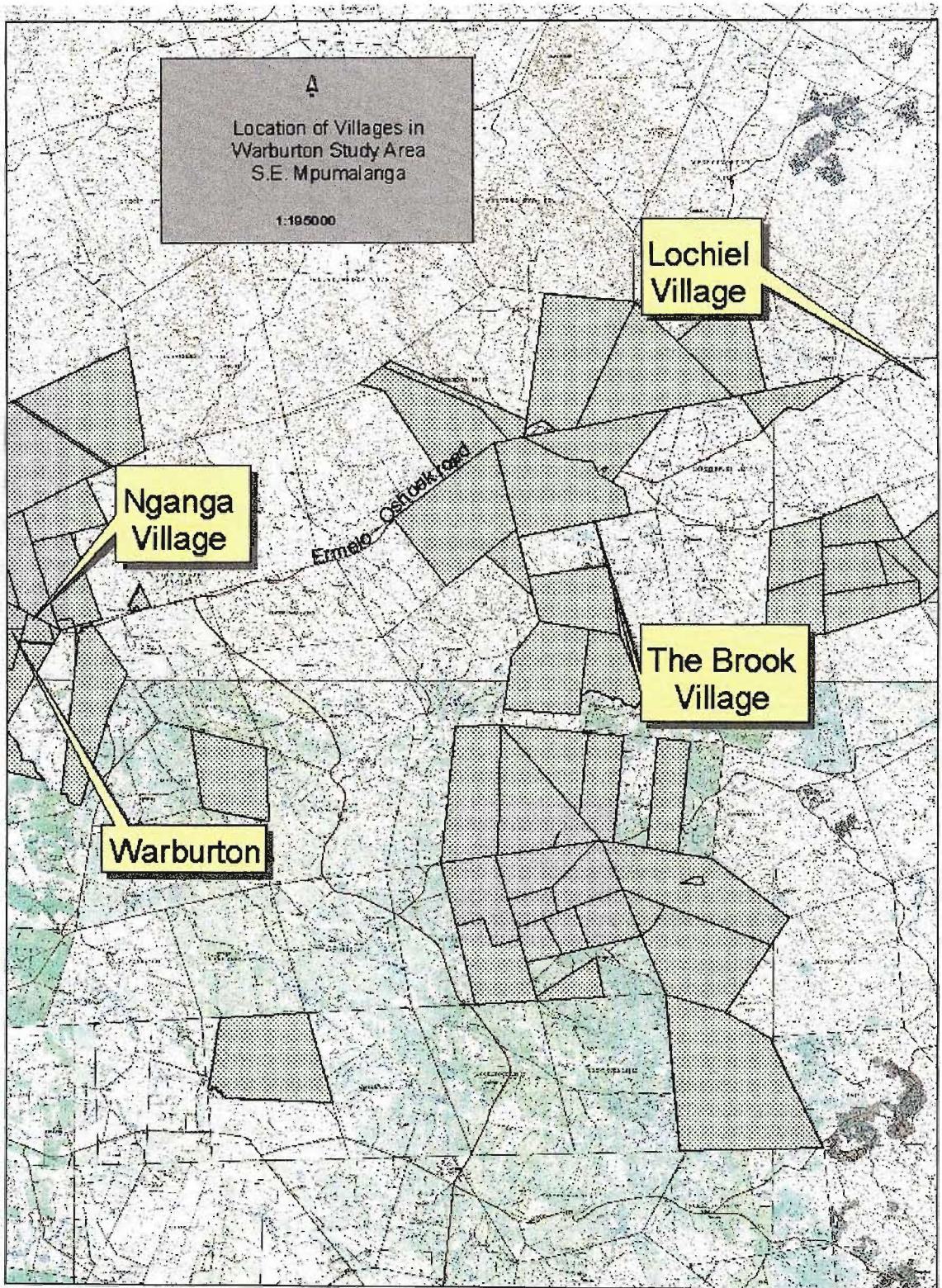


Figure 3.1 Nganga, The Brook and Lochiel Villages in Jessievale (Mpumalanga Province, South Africa)

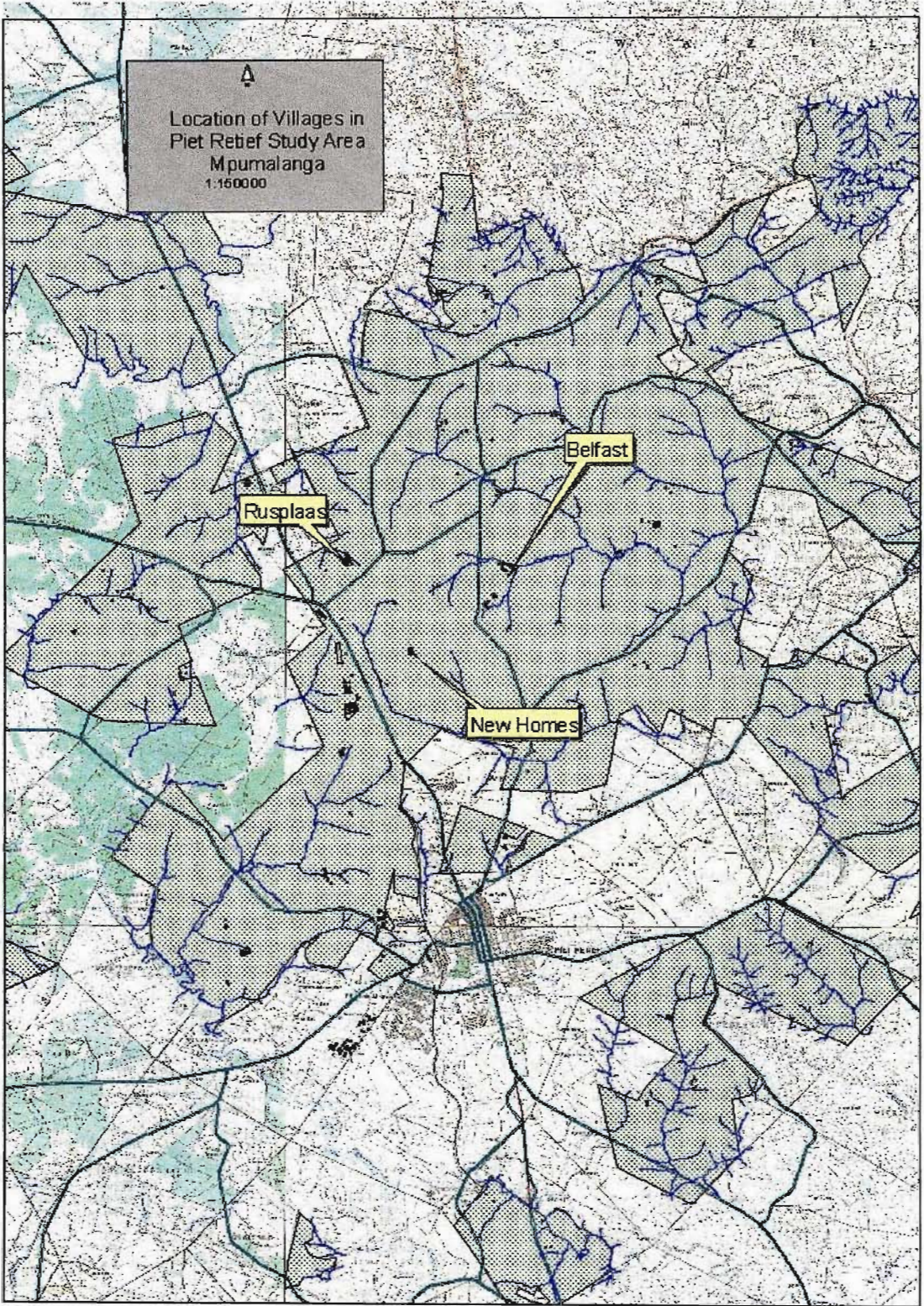


Figure 3.2 Rustplaas, New Homes and Belfast Villages in Piet Retief (Mpumalanga Province, South Africa)

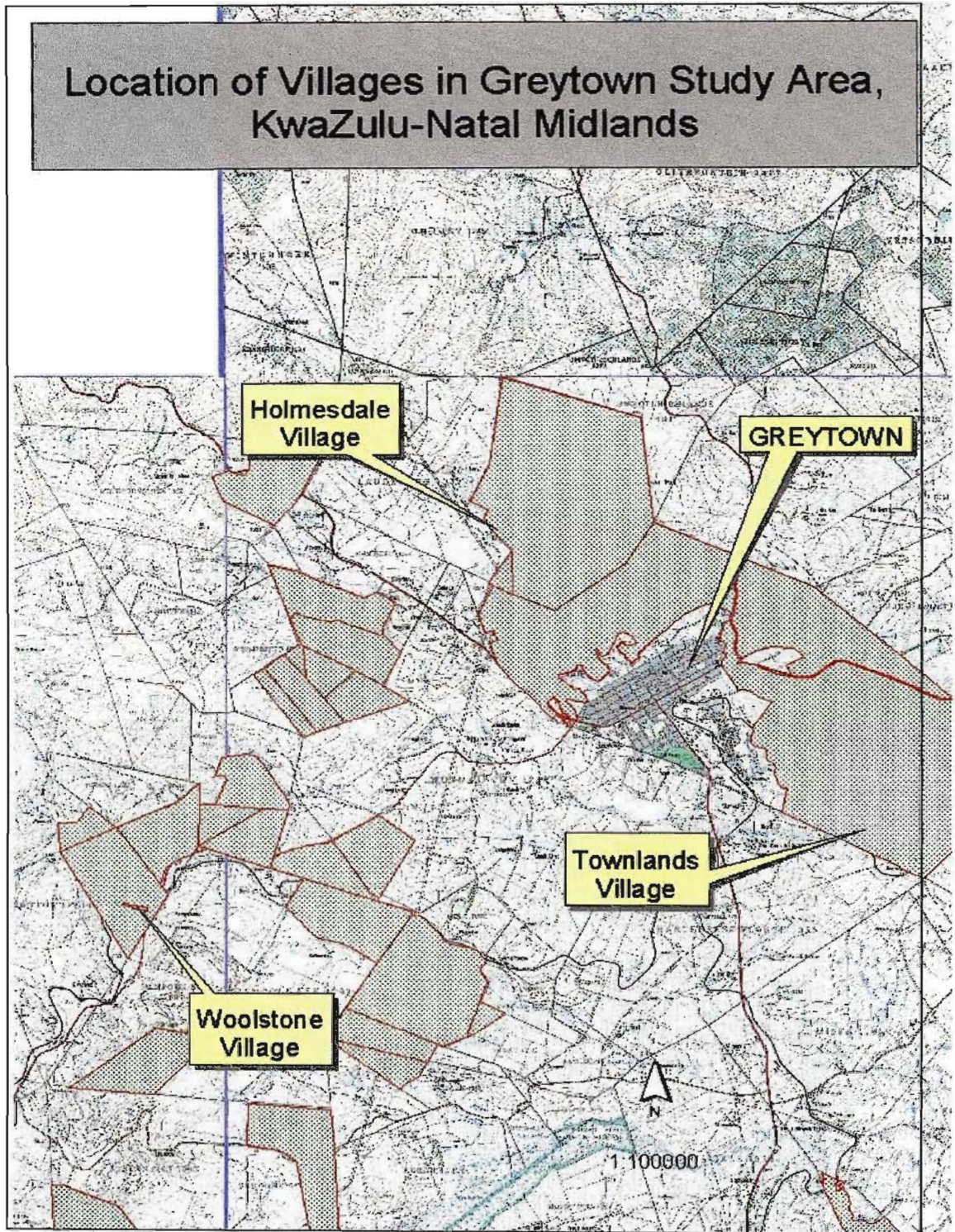


Figure 3.3 Woolstone, Holmesdale and Townlands Villages in Greytown, (KwaZulu-Natal Province, South Africa)

The following exercises (the purposes of which are explained in Table 3.1) were also selected because of their potential in exploring the four research questions:

- Time Line Exercise: explore questions 1, 2 and 3
- Venn Diagram: explore question 2
- Livelihood Matrix: explore question 3
- Problem Solution Exercise: explore question 1, 2, and 3
- Skills & Resources Identification: explore question 4
- Project Identification Exercise: explore question 4
- Action Planning: explore question 4.

The results of the PRA for each community is presented and discussed in section 3.6.

3.6 Results and Discussion

3.6.1 Workshop Processes

Four facilitators that were skilled researchers in PRA ran the workshops. The roles of the facilitators during the PRA exercises were to:

- a) Introduce the exercise and its objectives to the community;
- b) Ensure that the people were clear about the instructions of each exercise;
- c) Ensure that everyone's viewpoint was catered for in the discussion; and
- d) Provide resources for the exercise.

As a result of the large number of attendance at each workshop (on average 44, Table 3.2), the facilitators divided the participants into subgroups so as to maximize the participation of each community member in the exercises. After each exercise, each subgroup had to select a spokesperson to present their outcomes of the exercise to the plenary. After each presentation of each exercise the participants were also allowed to comment and put their questions forward.

Table 3.1 Steps and Exercises Followed During Each Participatory Rural Appraisal Workshop

Steps followed	
1. Community Liaison – Introductory Phase	
Preliminary visit	<ul style="list-style-type: none"> ▪ Establish contact with the community and meet with its leaders ▪ Introduce ourselves to the leaders and to outline purpose of our visit ▪ Clarify suitable meeting venue, time and date with the whole village or community ▪ Insure that false expectations are not raised by making it clear that the organization that facilitates the PRA exercise will not necessarily "bring money".
2. Information Gathering and Analysis during each PRA Workshop	
Exercise	Purpose
Time Line	Participants discuss and record major historical events in the community and attach approximate dates to each event.
Social Mapping	Draw the location in question, where socio-economic information about the individual households will be collected, as well as the entire location.
Venn Diagram (of the Institutional relationship)	Show the key institutions and individuals in and around the community and the status of the relationship. The principle is that different sized shapes are used to show relationships or importance – the larger the size of the circle, the more important the institution. The distance between the community and the shape is indicative of the nature of the relationship.
Livelihood, Income Matrix	Describe the principal types of livelihood in the community and the most important sources of income.
Problem and Solution Identification (emphasis on the effects of outsourcing)	Participants list and rank their problems; analyze the priority problem; propose solutions; analyze the feasibility of alternative solutions; and programme concrete activities.
Skills and Resources Availability	Participants list all of the available resources (physical) and skills in the community, so as to identify possible projects that can be started with minimum financial injection.
Project Identification and Feasibility	Participants are asked to identify projects based on the available resources and local skills, and to justify their feasibility (by the use of Strength, Weaknesses, Opportunities and Threats (SWOT) analysis.
Action Planning	Participants are asked to draw-up a plan of action eliciting the action or activity to be accomplished, assigning a person responsible for that action, specifying the date of completion, and the resources required to accomplish the activity or action.

3.6.2 Community Profiles

Table 3.2 shows the number of participants for each of the communities that were involved in the research (an average of 44 people attended each workshop).

Table 3.2 Number of Participants and Gender Proportions in Each Workshop

Name of Community	Number of participants	Number of males	Number of females
Rustplaas	52	30	22
Belfast	49	31	18
New Homes	41	19	22
Nganga	53	33	20
Lochiel	47	28	19
Woolstone	40	16	24
Townlands	31	15	16
Holmesdale	46	27	19
The Brook	37	18	19
Average	44	24	20

3.6.3 Fieldwork Processes

3.6.3.1 Community Liaison

In most of the communities, the facilitators were able to meet with community representatives and make necessary arrangements. Most of these communities do not have formal structures like traditional systems or effective local council structures.

3.6.3.2 Outcomes of the Workshops

3.6.3.2.1 Time Line (Historical Events)

The results of this exercise are reported for communities near Jessievale, Piet Retief and Greytown. This exercise was used: as an introductory exercise to help the communities to start interacting with the facilitators via a period of "brainstorming" and to identify the problems of the community using an "up-stream" approach. This helped

the facilitators to assess how any problems experienced by the community have been developing over time. This exercise helped the facilitators to identify the following questions:

- What are the most significant events for this community?
- What organizations have been working with the community? What happened to them?
- Why is the community where it is now (socio-economic and politically)?
- What have been survival strategies used by the community?
- Has the community been victimized in the past?

Table 3.3 summarizes the Time Line results for the Lochiel, Nganga and The Brook communities in the Jessievale area. All the results from different villages have been condensed together as findings and issues raised were similar. Therefore all the results from Nganga, The Brook and Lochiel are grouped as Jessievale results; results from New Homes, Belfast and Rustplaas are grouped as Piet Retief results; and results from Holmesdale, Woolstone and Townlands are grouped as Greytown results.

Table 3.3. Time Line Results for the Jessievale Communities

Year	Events	Comments
1970s	Some community members from Lochiel Village were working in the welding firm for Franse Van der Merwe without eye protectors (necessary safety equipment).	Some members of the community were affected negatively, in such a way that their eyes no longer work properly.
1992	The community used to work for Rand Forest, and members were retrenched without an adequate package. Some of the community members were given as little as R3000 after working for more than 11 years.	Appears to be unfair labour treatment.
1994	Levels of unemployment increased. White employers told the community members that were looking for employment to seek employment from the government that they had voted for.	High level of unemployment.
1996	Some community members were subcontracted under Fred (forest contractor) who left without paying his employees. Some community members were working as subcontractors for some white-owned contractors. They were not paid, but were physically assaulted.	Poor relationship with local contractors.
1999	Some community members were working as subcontractors at Mondi Forests, and Mondi Forests refused to pay them without any valid reasons.	Poor relationship with Mondi Forests.
2000	The contractors were not giving first priority to local people when employing. Poor access to firewood; withdrawal of services (transportation of local kids, health services and cleaning of the villages)	Local people have to be given first priority when there are employment opportunities in Mondi Forests.

Table 3.4 overleaf reports the condensed Time Line results for the communities from New Homes, Rustplaas and Belfast in Piet Retief area.

Table 3.4 Time Line Results for the Piet Retief Communities

Time	Event	Comments
1952	HL&H started working in the area; some community members used to work for Hulett where they received food rations.	Most people were employed and there was good relationship between the community and the forest companies.
1967	The area used to be rural, and there were no modern houses	
1973	HL&H started building modern houses, and later on toilets and water taps. The school was also built in the Rustplaas village.	HL&H employees cleaned the villages almost regularly.
1980s	People used to work from 07h00 in the morning up to 02h00 the next morning. People were not allowed to keep any form of livestock in their homesteads.	
1984	People started to join the unions, and working hours changed to be from 07h00 in the morning to 17h00 in the afternoon.	Unionization of the forest company employees as a result of unacceptable working conditions.
1987	There was huge retrenchment, and the staff retrenched were not compensated.	Poverty started to be a problem in the area.
1993	Land committees were formed in all the villages in order to discuss land tenure issues in the area.	
1994	General election in the area.	People were hoping that land tenure issues were to be resolved, more job opportunities.
1997	Mondi took over from HL&H; When Mondi Forests was taking over, they promised that they would not retrench people.	HL&H sold the land to Mondi because they could not solve the land issues and associated problems.
1998	Mondi started retrenching people, and using contractors.	Many people lost their jobs, and those who are working for the contractors are sometimes not paid a cent, or paid unfairly.
1999	Mondi Forests helped the Rustplaas community to start a crèche, community garden, sewing clubs and other small business development projects. They also afforded us with a number of training programmes.	This has opened a number of job opportunities to most women in the area.
2000	More and more people were retrenched. All the services that used to be provided for free in the community were stopped. These services include health services, the cleaning and maintenance of villages, transportation of school children to local schools and health services.	Poverty levels increased, and some children had to drop out of school because of distances to get to school. In some villages, contracts were given to local communities to take up the responsibility of cleaning the villages.

The condensed results of the Time Line exercises for the Woolstone, Holmesdale and Townlands communities in the Greytown area are shown below (Table 3.5).

Table 3.5 Time Line Results for the Greytown Communities

Time	Event	Comments
1930s	People started to settle in this area; most people in the area used to plough their fields, keep a lot of livestock.	There was no poverty.
1939	Communities from Woolstone were working for the local farmer- Mr. Hailin	People had a good relationship with the local farming community.
1940 to 1945	Most people in the area worked for the local municipality.	Job opportunities were plentiful.
1988	HL&H took over the land from the local municipality.	Job opportunities were still plentiful and there was enough land to stay on.
1994 to 1995	Silvacel took over from HL&H. Silvacel used to help the local community by extending the local school; they brought water to the homesteads (5 room houses), electrification of some houses, and provided transport for local children to schools outside of the villages.	The community had a good relationship with Silvacel.
1996 to date	Mondi Forests took over with their contractors and security personnel. Retrenchment started, electricity was disconnected, transportation of our children was stopped, and some communities (Bomvini) ended up having no houses, electricity and water.	Unemployment levels started to increase, and most community members got confused about whom to contact. Poor communication between local communities and Mondi Forests. Poor access to firewood and grazing land, poor relationship with contractors.

3.6.3.2.1.1 Discussion of the Time Line Exercise Results

Most of the communities involved in the study felt they have been exposed to the harsh experience of forced removals from their original lands, illegal labour practices, a lack of assistance from outsiders (including government departments and local forest companies), rising unemployment rates, and ill treatment by forestry contractors. The communities also have a strong feeling of being deprived of access to critical resources (e.g. firewood and grazing land) that have a major effect on their livelihoods.

The increase in the number of forestry contractors used raised a number of new issues for the forest-dependent communities, namely:

- Poor or no provision of health services to some communities. Those communities, therefore, had to rely on the government health services that are a new thing to them. Since these communities were not part of the local health services plan, this is a serious problem.

- Increased health hazards, as a result of decreased water sanitation, the cleaning of toilets and waste removal, since these services that were previously provided by the forest companies were withdrawn.
- Poor access to local schools (in some areas this problem is mainly associated with high school education). This is because transport used to be provided for school children by the forestry companies, as there was no other form of transport in these villages. The other reason is that most of these villages are very remote (in some cases children walk on average 7 km to get to school).
- Poor access by the forest-dependent communities to government services. This is because the forestry companies had previously provided these services to the communities.
- Poor communication between the local communities and forest companies. Communities felt that they do not have a platform on which to voice their issues. This partly because of the poorly organized community structures.
- Increased unemployment rates that have resulted in greater levels of poverty and crime in most villages.

In some areas, forestry companies are aware of most of the above issues and are doing their best to address them. Examples were given of some community members being contracted to do some work in the forests, and of financial support provided for small business development.

3.6.3.2.2 Venn Diagram

The Venn Diagram exercise was used in order to identify local stakeholders and community structures, and to assess how the forest-dependent communities were related to these structures or institutions. Figure 3.4 gives an example of the Venn Diagram that was produced by one of the communities involved in the study.

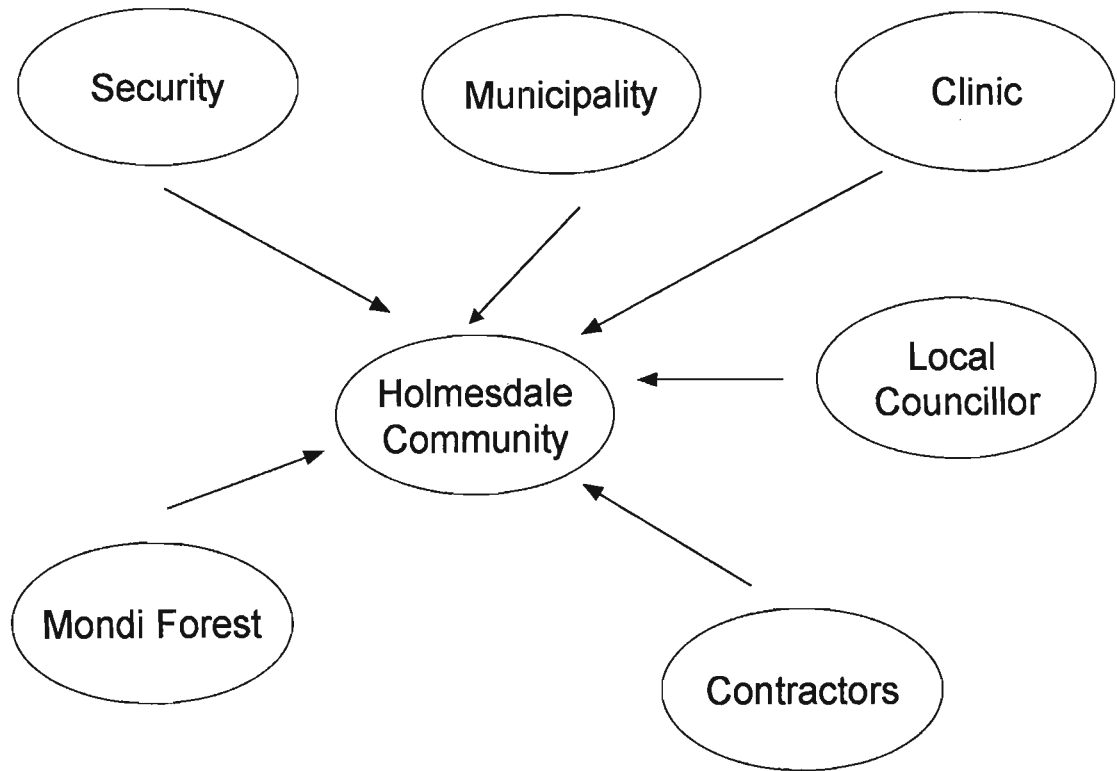


Figure 3.4 Venn Diagram for the Holmesdale Community

The results of this exercise showed that most communities have a poor relationship with most of the local institutions, including forestry companies and government departments. In some areas, like Rustplaas in Piet Retief though, there is a good relationship with Mondi Forests (Table 3.4). During the discussion of this exercise it was clear that there are no formal communication structures among most of the communities involved in the study, and that some communities do not know whom to contact. Most communities were not able to justify the role of the local government in their communities. In most communities people did not know who their councillor is, even though they have voted. The government departments that were mentioned seemed to be playing a role in only one of these communities, namely Rustplaas (in Piet Retief). These structures were rated as important, though the community could not contact personnel at these structures. The major problem is that the communities do not know whether these structures exist in their communities.

3.6.3.2.3 Livelihood Income Matrix

This exercise aimed to explore the current livelihood systems used by the communities in the study. Most members of the communities rely on contract employment as the main source of income. The second ranking source is old age pensions, while members also find formal employment with forest companies or in the nearest towns. Concurrent with the Livelihood Income study, an attempt was made to ascertain the level of unemployment in these communities. Although it was a difficult exercise as there were many households, the Belfast, New Homes and Rustplaas communities from Piet Retief were consulted in order to assess their family sizes, sources of income, levels of unemployment, and gender relations.

Table 3.6 shows the proportion of family sizes in Piet Retief. In the context of these households, on average about 66.7 % of the families in these villages are small (one to five family members), about 27% are medium size (six to ten), and about one percent have a large family size (more than 11 people in one household). The average family in Belfast, Rustplaas and New Homes is of small size (Ntuli, 2001, pers.com.).

Table 3.6 Family Sizes for the Piet Retief Communities

Family Size	New Homes	Rustplaas	Belfast	Average
Small (1-5)	29	102	69	66.7
Medium (6 –10)	19	29	33	27
Large (11 or more)	0	3	0	1

Table 3.7 shows the different sources of income and the unemployment levels according to gender dynamics for the Piet Retief communities. On average about 81% of women and 55% of men are unemployed from these three villages. This shows that women are most affected by the high level of unemployment in the area. Contract employment is the main source of income for women in these villages (nine percent) and pension as the second main source of income (six percent). Other sources of income e.g. employment in town, employment by the local mills and etc is the main source of income for men (23%), followed by contract employment by the local forestry

contractors. Table 3.7 also shows that forest contractor employ more men than women (Ntuli, 2001,pers.com.).

Table 3.7 Percentage Sources of Income in the Piet Retief Communities According to Gender Dynamics

Sources of Income	New Homes		Rustplaas		Belfast		Average	
	Female	Male	Female	Male	Female	Male	Female	Male
Contractor	10	7	6	3	11	40	9	17
Pension	0	0	10	8	7	7	6	5
Unemployed	90	64	74	60	78	42	81	55
Other	0	29	10	29	4	11	5	23

The above results shows that the unemployment levels are very high in these villages and that women are mostly affected. Most of the family sizes are small. According to Ntuli (2001, pers.com.), most of these people were employed by the local forest companies and saw mills in the past and were dependent entirely on forestry employment. The main source of employment now, for women, is working for forestry contractors. This reflect a great need for the establishment of income generating projects especially for women.

3.6.3.2.4 Problem and Solution Identification (emphasis on the effects of outsourcing)

The Venn diagram exercise was revisited to identify some perceived problem areas that contribute to the poor relationship between the forest-dependent communities and outside structures. A general problems and solutions exercise was also used to produce a summary of the key issues/problems and possible solutions. Table 3.8 covers problems and some solutions associated with local security personnel. Table 3.9 outlines specific community problems and some suggested solutions. Table 3.10 presents the communities' perceived current problems in relationships with forestry contractors, and offers some (community perceived) advice to resolve these issues.

Most of the problems relate to poor communication and the feeling by the community members that the forestry companies and the government institutions are not aware of the issues and problems they face. The communities strongly feel that the solutions to these problems lie partly in improving communication and engagement with government departments. Enough attention was not given in exploring the solutions that were provided during this exercise because of limited time during the workshops, and that is why most of the solutions were based mostly to forest companies and government departments.

Table 3.8 Problems and Solutions Relating to Local Security Personnel

Security Personnel	Solution
Local security personnel do not respect local communities.	These issues must be resolved through coordinated meetings. The security personnel must clarify their roles and their expectations (including what can and cannot be done).
They are bullying locals.	
They take the law into their hands.	
They arrest locals if found collecting firewood.	
They are taking away local communities' girlfriends.	
We feel that they are not well educated about their task.	
They are destroying houses.	

Table 3.9 Community Problems and Suggested Solutions

Problems	Solutions
Some of the communities do not have crèches.	The community need to contact the Government and forests companies, since they assisted them in the past.
The existing schools have no facilities.	The community will seek help from the Department of Education and the forestry companies.
High level of unemployment.	Forest companies should be giving the local communities the contracts since they know how to do the work
Electricity supply has been cut off and some other related services discontinued e.g. cleaning of villages, transport of school children.	The community must choose a few people to negotiate with forestry companies/Eskom to resolve this/these problem (s).
There are no (adequate) recreational facilities.	The community need help from the Government.
The forestry companies provide most communities with water, although there are some who do not have running water. Some used to have but the water supply was stopped after forestry contractors were employed.	The community needs to negotiate with the forestry companies.
In most villages there are no schools close to their communities (children have to travel for up to 20 kms to get to school).	The community need help from the Government.
In some communities there are no shopping facilities, although in some areas one forests company had assisted in setting a shop in one community (Mondi Forests).	The community must come together and take the initiative.
Land tenure issues are not being resolved. Most houses have no toilets.	The community need to push the Department of Land Affairs and the forest companies to hasten the process of land restitution.
Most households felt that the current houses cannot accommodate all the members of each family.	Forest companies need to give us permission to enlarge them because we have big families.
The mobile clinic system is not able to serve the entire community.	The community need help from the Government.
Some communities felt that they are being denied access to firewood, building poles and grazing land.	Ongoing interaction with local forest companies will help in solving the problem.

Table 3.10 Perceived Current Problems and Possible Solutions Relating to Community Relationships with Forestry Contractors

Contractors	Solutions
Contractors are not employing the local community members.	Communication and the involvement of the outsourcers in resolving these serious issues, since they pertain to safety hazards, etc.
Contractors do not give the local community members adequate working equipment (e.g. protective clothing, transport).	
People start working from about 04h00 in the morning because of lack of transport.	
Contractor employees work for three full days and are paid for only one day.	
The equipment that the contractor employees use is not in good working condition (e.g. tractor without proper brakes).	
Contractor employees are prone to injuries, and whenever they are injured, they are not compensated.	
Contractor employees are not allowed to raise their complaints or concerns – if anyone does, he or she is fired.	
Contractor employees do not have any benefits (e.g. annual leave, sick leave).	
Contractor employees do not get paid on time.	

3.6.3.2.5 Working Conditions in the Forestry Industry Before and During contracting

During the livelihoods systems exercise the facilitators felt that the community was concerned about their relationship with the forestry contractors. The following exercise was proposed in order to review the status of working conditions before (pre-1997) and during (post-1997) outsourcing. Table 3.11 summarises the results of this exercise and shows that the working conditions (as perceived by the communities involved in the study) in the selected areas of the forestry industry during outsourcing are deteriorating over time. When HL&H and Mondi Forests provided employment,

conditions were more favourable for the forest-dependent communities, as seen from the salaries packages that were provided.

Table 3.11 Working Conditions (Over Time) for Different Employers in the Forestry Industry

HL&H/Silvancel	Mondi Forests	Contractors
We were receiving protective clothing.	We were receiving protective clothing.	Some communities are not receiving any protective clothing.
We were receiving food rations.	We were not receiving any food rations.	There are no food rations.
Satisfactory payment and working hours (R450 to R500 per month, during 1997).	Satisfactory payment (increased to R700 to R800 per month) and working hours were the same as HL&H.	Unsatisfactory payments (reduced to R24 per day provided that you can complete the task in a day, which in most cases is impossible – instead one can finish after three to four days). Working hours are the same except that a day's task cannot be finished in time. Some people are paid as little as R150 per month. In some cases some communities complain of not being paid at all (Piet Retief and Jessievale).
Task for the day was reasonable and we were able to finish it over a day.	Task for the day was also reasonable and fair.	Task for the day is unreasonable and unfair.
	We were trained in sewing and many more other skills (sponsored by Mondi Forests).	Employees are not compensated for being injured during working hours.
		Employees are not given money to visit a doctor as used to happen with Mondi Forests.
		Employees are not given paid leave, and are being exploited.
		There is no maternity leave.
		No pension and no Bonus.
		If we have grievances employers promises to retrench them.

3.6.3.2.6 Skills and Resources Identification

A skills and resources assessment was conducted in order to identify the strengths of, and possible opportunities for, the forest-dependent communities. The communities were asked to identify the skills and resources that they have that can help to facilitate their development. Table 3.12 outlines their responses. The reported resources and skills form an intervention point that could be used as a basis for devising projects that can be self-sustaining. The next section gives an overview of the types of projects that could be implemented. Most of the resources that were identified were said to be in good working conditions, and the quantity varies as per household. These resources and skills could contribute to number reasonably small-scale projects.

Table 3.12 Skills and Resources in the Forest-Dependent Communities

Resources	Skills
<ol style="list-style-type: none"> 1. Chain saws 2. Cattle 3. Chickens 4. Blockmaking machines 5. Sewing machines 6. Tractors 7. Bakkies 	<ol style="list-style-type: none"> 1. Tree felling 2. Truck and tractor driving 3. Farming 4. Cooking and baking 5. Sewing, craftwork skills 6. Block making 7. House building, carpentry 8. Welding and panel-beating 8. Tree planting/maintenance, harvesting, and pruning

3.6.3.2.7 Project Identification and Feasibility

Table 3.13 shows a number of projects that the communities felt could be implemented to eradicate poverty and improve living standards.

Table 3.13 Possible Projects for Community Development

Projects	Constraints	Solutions
1. Farming: maize, potatoes, chickens and pigs.	1. Land shortage 2. No tractors 3. No money for inputs	Contact departments of Land Affairs and Agriculture, and the Land Bank.
2. Forest Contracting Tree felling and pruning, weeding and fire fighting.	1. We do not have registered close-cooperatives 2. No starting capital	Contact Land Bank and forestry companies for assistance.
3. Welding	1. Land 2. Money 3. Electricity 4. Equipment	Borrow money from Land Bank; Also contact Mondi Forests for a piece of land.
4. Baking	1. Electricity 2. Stove 3. Building 4. Equipment	Contact the Department of Agriculture or Albany Bakery
5. Salon	1. Inputs 2. Electricity 3. Building	Borrow money from Bank
6. Bricklaying and block making	1. Materials 2. Transport	Borrow money from Dept. of Agriculture
7. Sewing	1. Some of them do not have sewing machines 2. Materials	Borrow money from Land Bank
8. Infrastructure (community hall, crèches, running water).		Contact the local municipality and to some extent forest companies for assistance

3.6.3.2.8 Action Planning

During this exercise, which is area or community specific, the communities had to list all of the activities that were identified as action from the previous exercises and to

draw up an action plan. For each action or activity they needed to set a time for its completion and to assign an individual/s to be responsible and accountable to the whole community for those actions. Table 3.14 gives an example of an action plan for the Holmesdale Community in Greytown.

Table 3.14 Action Plan for Holmesdale Community

Action or Activity	By Who	By When
Set-up community committees	<ul style="list-style-type: none"> • Bomvini Musa Mthethwa Jabulile Ngubane Victor Mkhize	16 September 2001
	<ul style="list-style-type: none"> • Nkonka Philani Mazeka Khumbulane Buthelezi Ngane Mazeka	22 September 2001
	<ul style="list-style-type: none"> • Ko 5 Rooms Musa Zondi Petros Mbokazi Beetrece Gondo	16 September 2001
Meeting between Mondi Forests and the local community	Gwala and Lembethe to organize	25 September 2001 @ 10h00 (Holmesdale Mondi Office)
Write a letter to the local municipality about the problems of the local communities	Lembethe, Buthelezi and Jabulile	17 September 2001
Request assistance with community projects (to the local department office)	Lembethe and Eva	17 September 2001
Organize a meeting with local contractors and security personnel	Sakhile, Geoff, Lembethe and Eva	Mid October 2001

3.7 Conclusions

One day was allocated for each of these workshops, which placed a constraint in terms of being able to explore all the issues that were raised during each workshop.

Study results show that the forest-dependent communities have high levels of unemployment (especially women), and lack access to natural resources like grazing land and firewood, to technical support in starting up community projects, and to financial support. Although both communities seem to be aware of the existence and importance of some organizations that can assist in this regard, it is clear that they do not have a good relationship with many appropriate organizations. In most cases this is due to poor communication. These communities feel that they are being neglected – which together with high unemployment makes them vulnerable to poverty and other social problems.

Since most of the communities report that they have a poor relationship with neighbouring forestry companies, the challenge is how to improve the relationship. One solution would be to open communication channels between the forest companies and the communities in question. This can only be beneficial if discussions aim at addressing the pressing issues in the community.

Some exercises showed that the communities do not know about the existence of service providers, like the Department of Agriculture (DOA). Others reflect a poor relationship between the DOA and the communities. This is unsatisfactory, given that most of the projects proposed in Table 3.11 are agriculture based.

Most communities seemed to be more committed to start their own projects, as shown by their enthusiasm during open discussions at the workshops. Some communities, however, seemed to have lost any hope of getting support from any organization - including forest companies. For example, the proposed projects show that most of the groups would prefer to borrow money from the Land Bank instead of approaching local organizations for assistance.

All the communities stressed the importance of access to more land. Most proposed projects, in most communities, identify land as one of the constraints to project implementation. Some of the participants mentioned that if the community members had access to enough land for grazing and producing crops, they would have started their own agricultural business enterprises. The issue of land tenure and access to available land which in most cases is currently owned by the forest companies must be addressed or the communities might not succeed in implementing their projects.

It is clear that the forest-dependent communities themselves do not have functional community structures. The Holmesdale community action plan (Table 3.12) shows that the first action or activity was to set-up community structures. This poses a challenge – to make any progress with these communities requires that they set-up appropriate community structures. Another example is the Lochiel community where there is division among the community members about who can better represent their interests. For instance, the Venn Diagrams show that some community members claim to have good relationship with the Councilor and poor relationship with the Chief, while other groups say the opposite. Unless such issues are resolved, development organizations might not know whom to approach if they want to communicate with the community.

The Time Lines show that relationships between the forestry companies and the local forest-dependent communities have worsened since the contractors took over. The concern from some of the communities that they are not given an opportunity to do any contract work is an issue. This also contributes to the current poor status of the relationship, since communities feel that they are purposefully neglected. The communities feel that they have skills and, to some extent the means to do contract work, which further contributes to the poor relationship. Another still unanswered question is why the contractors are not employing many members of local communities.

The literature review highlighted the positive impact that forest can have on the livelihoods of forest-dependent communities, opportunities that are at their doorstep and some challenges. It also highlighted that the trend towards contracting has probably helped to maintain employment levels in the industry. Study results,

however, show that most of the services that used to be provided by the forestry companies have been discontinued because of outsourcing. The challenges are the issue of high unemployment, health hazards because of lower water quality and sanitation levels. Poor communication between the forestry companies, contractors and the forest-dependent communities, safety hazards as a result of the equipment that is used by the contractors which is unsafe for use and poor access to government services. The forest companies alone cannot tackle these issues without the help of government departments, private organizations such as commercial banks, Non Governmental Organisations (NGOs), Community Based Organisations (CBOs) and local government structures.

The major role players are the forestry companies and the forestry contractors since they have direct contact with them. A way forward is that forest companies and their contractors need to devise systematic approaches to engaging with these communities in discussing these issues, and to draw-up strategic plans for tackling these issues over the long-term. It is also recommended that they engage all other stakeholders who are less aware of these issues and the potential role they can play in resolving them.

CHAPTER FOUR

THE FINANCIAL EFFECTS OF OUTSOURCING ON MONDI FORESTS: NATAL REGION

4.1 Introduction

Transaction cost theory holds that the firm considering the outsourcing option will behave in a cost-economizing way while considering two costs: transaction costs (those costs associated with planning, adapting and monitoring task completion (Williamson, 1979)), and production costs (those costs directly associated with the handling of the task (Walker and Weber, 1987)). Relative to insourcing, outsourcing is often posited to have lower production costs, yet higher transaction costs (McCray and Clark, 1999). This is conceptually reasonable since the outsourcing vendor typically is capable of providing the required services at a lower cost. There may, however, be more likelihood of opportunistic behavior by the outside vendor than would be expected from internal sources. This raises the need (and associated costs) to monitor more closely and perhaps control the outside vendor.

This chapter analyses the financial effects of outsourcing on Mondi Forests: Natal Region. As shown in chapter two, Mondi Forests' personnel see outsourcing as a cost reduction exercise and as a strategy to help them focus on core business activities. This chapter first reviews some aspects of the financial and transaction cost implications of outsourcing. It then discusses the research methodology used to assess the financial effects of outsourcing on Mondi Forests, and presents study results. Finally, the management implications of these findings are discussed in a concluding section.

4.2 Literature Review

CHL
The Outsourcing Institute (1998) reported cases of companies making, on average, 9% cost savings and 15% increases in capacity and quality through outsourcing. In the

past, the ability to lower cost was the most significant factor in choosing to outsource. Now, cost savings have fallen to the bottom of the list of why companies outsource (Anonymous, 2001d). This new attitude is causing companies to look at outsourcing vendors in a new way. "Companies are not only looking at what they are paying in but also what they are getting out of the relationship. To complete an effective cost analysis, according to Everest Software Corporation (2001), one need to determine what one is paying for services, and at what level those services are being provided to your customers. Then in an "apple to apple" type comparison, look at the costs to go outside the company for these services. It is important that one look at the costs and services in the same time horizon.

Activity Based Costing (ABC) can identify hidden costs, since it gives a better idea of the money that firms can save by fixing problems themselves rather than outsourcing. The steps in ABC are as follows (Roztocki, 2001):

1. Identify activities,
2. Determine the costs for each activity,
3. Determine which activities are the cost drivers,
4. Collect activity data, and
5. Calculate product cost.

According to Corbett *et al.* (2001h), the basic steps in any financial analysis are to collect internal and external costs, total them, compare and project them along their life cycle. In the initial collection stage, it is important to collate the costs that are associated with a specific work activity or service. There are many hidden and unassociated costs that are impacted by facility operations and these may also need to be included. To decide on the time period to review data, follow the criteria below:

- A substantially stable operation over the entire period,
- Complete financial data,
- Accurately data over the entire period, and
- Consistent work operations through out the period (e.g. no work stoppages).

Once the time period is selected, add together the following costs:

Internal: labour costs, material and equipment costs (purchases, leases, rentals), stores inventory (carrying costs), travel (fleet costs if applicable), warranty costs, training, administrative and insurance.

External: Supplier labour costs, material and equipment, mark-ups and profit margins, subcontractor costs, bonding, insurance.

Support: Occupancy costs, purchasing, procurement.

Financial analysis can play an important role in helping decide what best balance of "in-house" (work done within Mondi Forests) and external suppliers should be. The firm must also consider the transactions costs associated with contracting.

Transaction costs are the costs associated with the transfer, capture, and protection of right (Barzel, 1997). There are three characteristics of transactions that affect transaction costs: Firstly, The specificity of physical and human assets dictates governance choices of contractual relations; Secondly, an activity's frequency of occurrence is a crucial aspect determining how transactions are arranged; and thirdly, uncertainty underlies the different capacities of alternative governance structures to respond effectively to disturbances in the institutional and physical environment. Firms are thought to behave in a transaction cost-economizing manner so that the choice of governance modes regarding specific activities conforms to transaction characteristics. For instance, there is greater reliance on market contracting when investment has been made in assets of a general nature. As asset specificity increases, market contracting (with many parties) tends to give way to bilateral modes that involve two contractual parties. When assets are sufficiently specialized and activities to be performed occur at frequent intervals, reliance on contracts may give way to unified governance or "in-house" delivery (Williamson, 1985).

Wang and van Kooten (1999) used a transactions cost approach to analyse silvicultural contracting in British Columbia, Canada. Their approach assumes that firms make decisions about whether to contract out or perform an activity in-house on the basis of the activity's transaction costs, with the aim of minimizing these costs. Empirical results show that transaction cost economizing behavior is evident from the choice of contractual forms made by the forest companies surveyed. Companies chose to contract out straightforward and labor-intensive activities, while performing in-house those operations that require a high level of technical skill and the use of specialized equipment. When predicting what activities will be contracted out or undertaken in-house, analysts hence need to examine the transaction costs attributes of the activities in question and the characteristics of the firms involved. One policy implication is that if policymakers wish to encourage forest companies to expand their hiring of workers to do more in-house silvicultural work, they could consider extending the work period and reducing seasonality of work, and raising technical specifications and quality standards. Conversely, standardization of technical requirements and reduction of uncertainty surrounding management and quality control will provide more opportunities for independent silvicultural contractors.

The next section describes the research methodology used to try and estimate the financial impact of outsourcing on Mondi Forests: Natal Region.

4.3 Research Methodology

The financial statements of Mondi Forests: Natal Region were analyzed in order to identify the changes in cost drivers over the period prior to, and during outsourcing. Mondi Forests' personnel indicated that outsourcing started in the early 1990s, but that 1998 is a good base period representing the time when most activities were conducted in-house as compared to 2001 when almost all activities have been outsourced (Gerber, 2001, pers.com.; Wood, 2001, pers.com.). Financial income statements are reviewed from 1998 to 2001, to monitor changes in the cost structure of Mondi Forests: Natal Region as the proportion of outsourcing has increased. This Region is a potentially good candidate for such an activity cost analysis as it has been a stable operation over the entire period, comprehensive and accurate financial data are available, and it has run a relatively consistent operation throughout the period.

4.4 Results and Discussion

4.4.1 Outsourcing Trends from 1997 to 2001

Regional Managers, Area Managers, Estate Managers and support staff from the Mondi Forests: Natal Region were asked to estimate the degree of annual contractors' participation in their activities from 1997 to 2001. Figures 4.1 to 4.7 show the extent of contractor participation in the Region's harvesting, fire protection, transportation, silviculture, security service, mechanical service and training service activities during this period. Trends in these participation rates from 1997 to 2001 show Mondi Forests: Natal Region's overall increased reliance on outsourcing. The proportion of outsourcing has increased to over 90% for all of these activities by 2001.

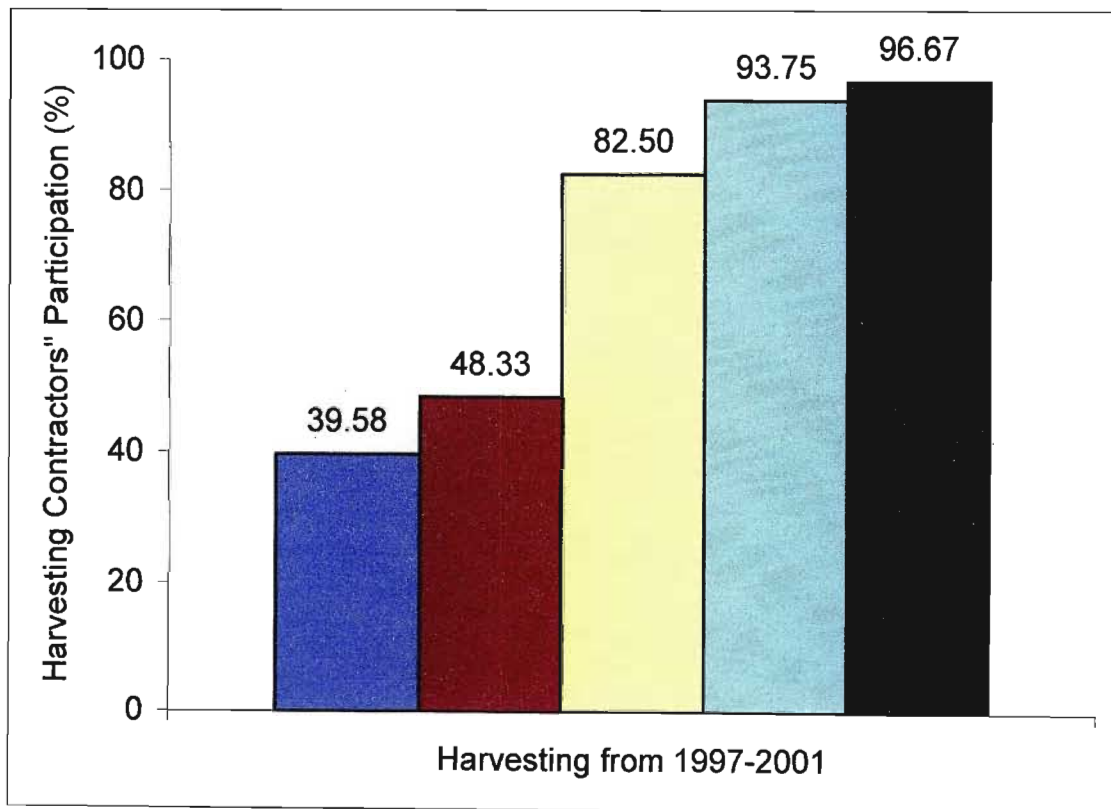


Figure 4.1 Percentage of Harvesting Contractors' Participation, Mondi Forests: Natal Region, 1997-2001

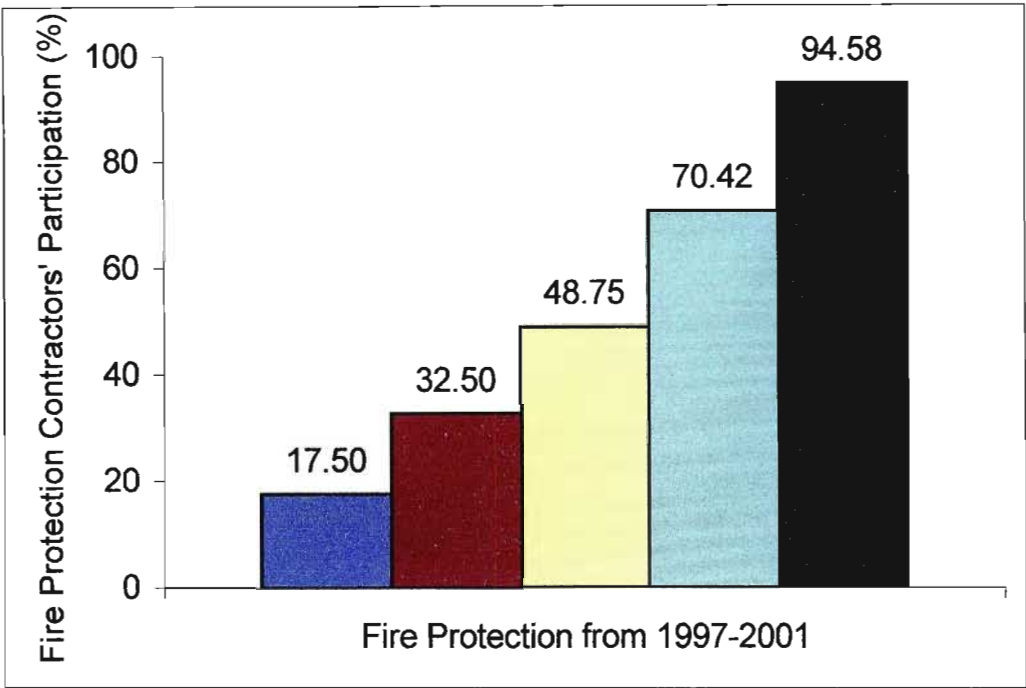


Figure 4.2 Percentage of Fire Protection Contractors' Participation, Mondi Forests: Natal Region, 1997-2001

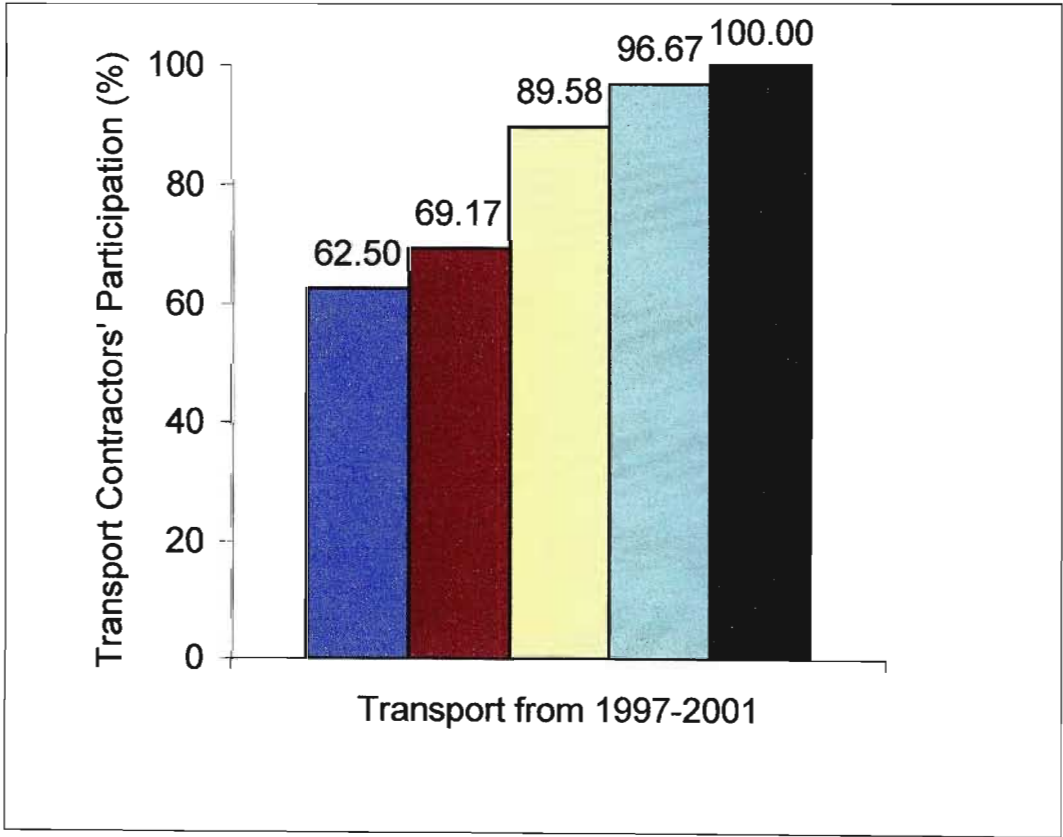


Figure 4.3 Percentage of Transport Contractors' Participation, Mondi Forests: Natal Region, 1997-2001

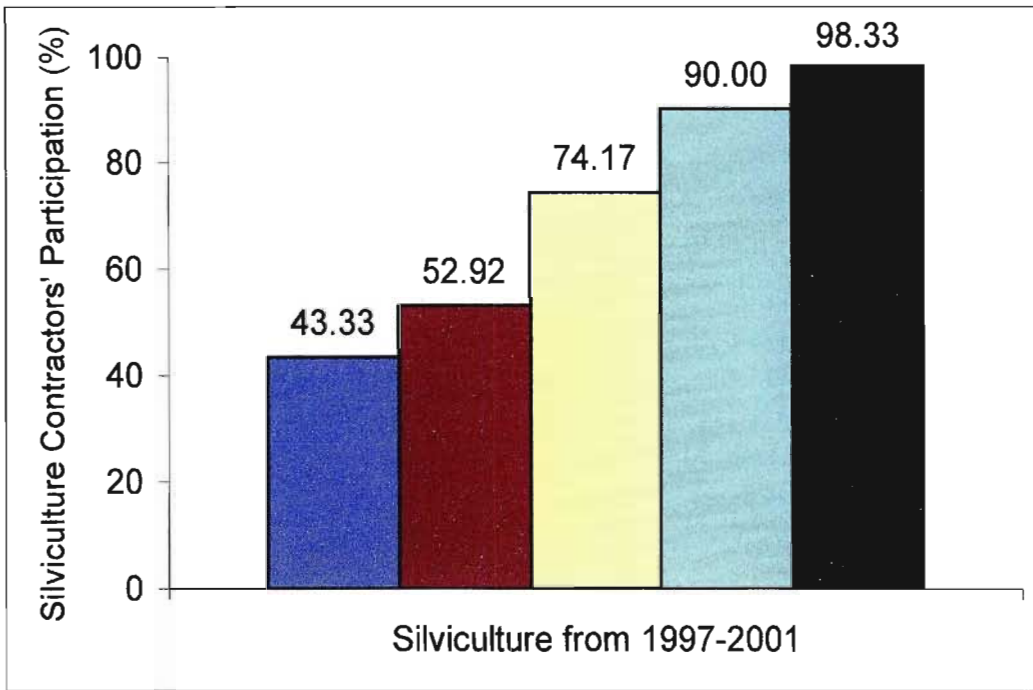


Figure 4.4 Percentage of Silviculture Contractors' Participation, Mondi Forests: Natal Region, 1997-2001

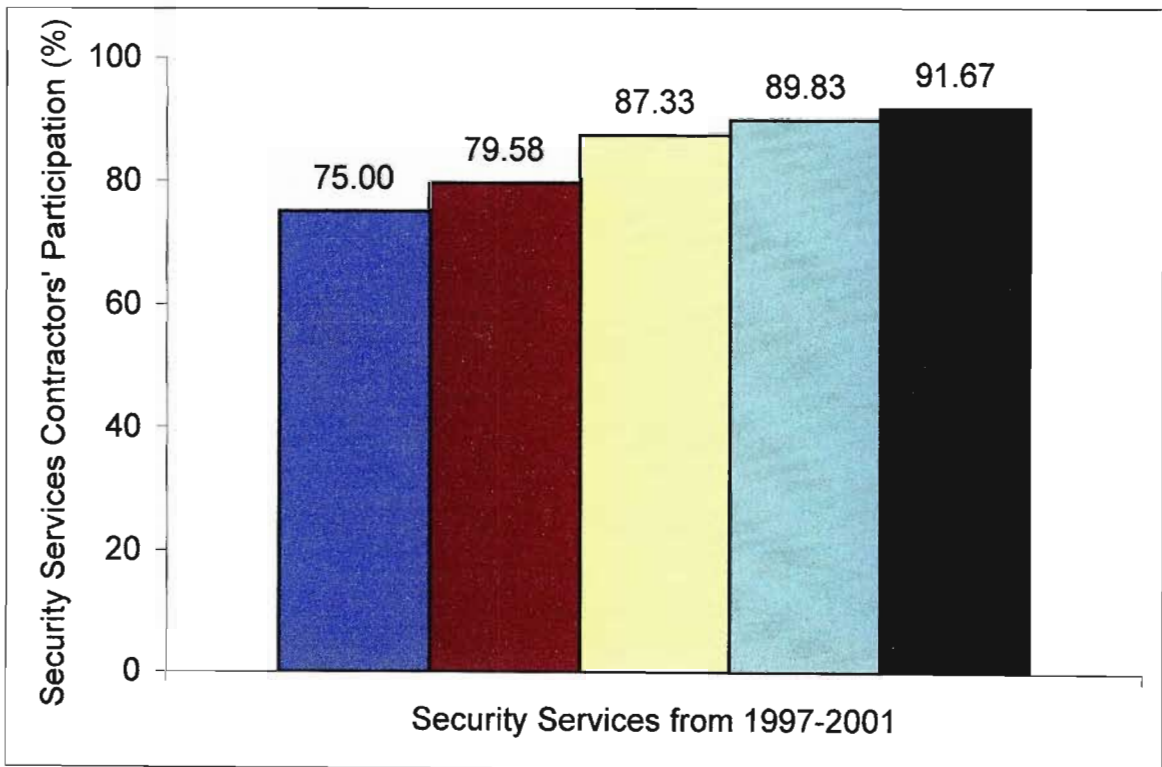


Figure 4.5 Percentage of Security Services Contractors' Participation, Mondi Forests: Natal Region, 1997-2001

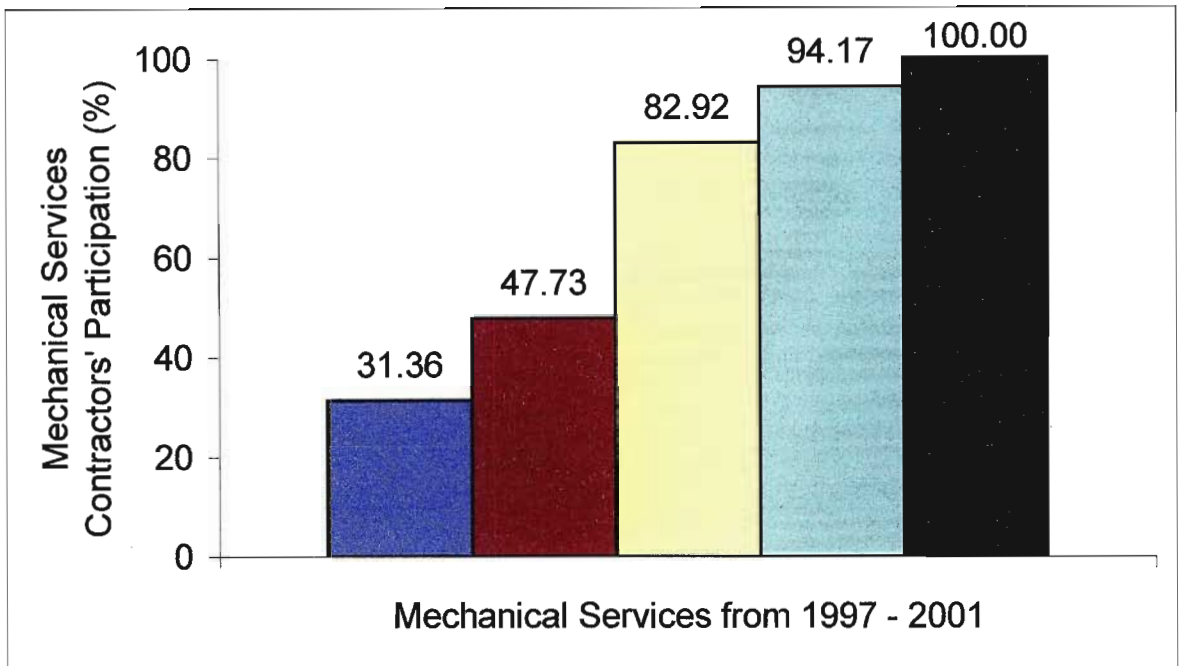


Figure 4.6 Percentage of Mechanical Service Contractors' Participation, Mondi Forests: Natal Region, 1997-2001

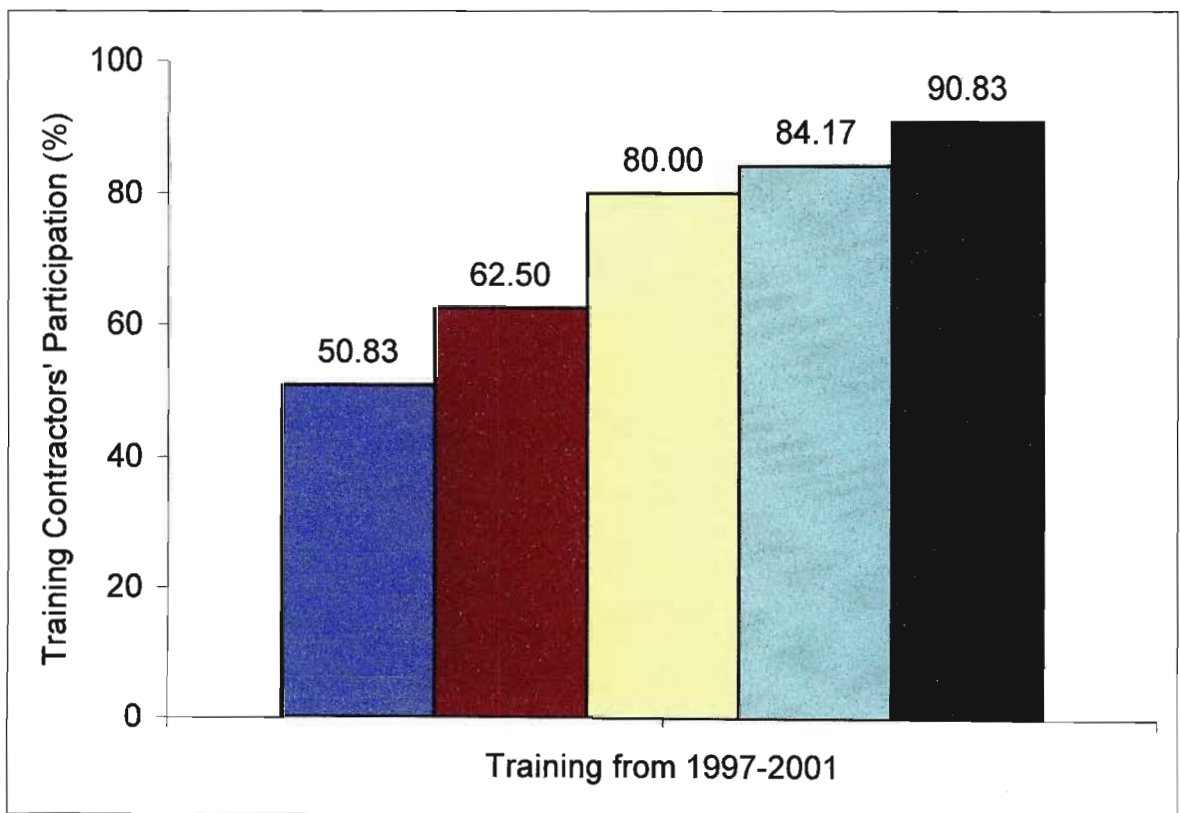


Figure 4.7 Percentage of Training Provision Contractors' Participation, Mondi Forests: Natal Region, 1997-2001

4.4.2 Cost Savings Between 1998 and 2001

The cash flow trends in Table 4.1 show that since 1998, the higher the proportion of outsourcing, the higher the savings in overheads costs by Mondi Forests: Natal Region. These savings were derived mainly from:

(1) Lower Silvicultural Costs per Hectare

Nominal establishment costs fell by about R2.5 million and nominal maintenance costs were lower by about R7.5 million by 2001. The total cost savings for this category is about R10 million. It was very difficult to ascertain the contribution of outsourcing to these savings since a number of other management decisions were implemented during 1998-2001. Those management decisions include cutting-back on pruning, weeding, fertilization and pest control (Gerber, 2001 pers.com.).

(2) Lower Direct Estate Costs

Nominal fixed plantation cost savings were some R6.5 million by 2001 due to reductions mainly in fire protection (lookouts/ standby/ firebreaks), road costs (new and maintenance of existing), and conservation costs, technical group office fee, foremen and labour transport (transportation of labour from office to the plantations). According to Gerber (2001, pers. com.), there were no costs savings of security services activities over the study period.

Labour overheads fell by about R12.4 million due to cost savings on medical aid and pension fund contributions, labour transport (transportation of labour from home to work) and housing, annual leave allowance, and bonuses. Supervisory costs also fell markedly by about R7.8 million as savings were experienced on salaries, vehicle costs, housing and offices. The foremen and labour overhead savings are directly attributed to outsourcing, while the others are mainly due to management decisions. This shows that outsourcing in Mondi Forests: Natal Region coincided to other management decisions that also cut costs. The total cost savings for this category is about R26.7 million.

Variable selling costs rise to reflect the outsourcing costs charged by the contractors. Silvicultural costs and direct estate costs fall, showing that savings as a result of outsourcing are mainly due to lower labour overhead costs – since these costs are now being borne by the contractors. The improvements in operating cash flow of R69.5 million (from –R31.2 million in 1998 to R38.3 million in 2001) is attributable to:

Increases in turnover	R54.9 million and
Operating Cost Savings	R14.4 million.

The turnover improvements resulted from both price and volume increases, while the operating cost reductions resulted from the abovementioned savings initiatives. These initiatives resulted in a nominal 7% saving in total operating costs, or 6% savings in real terms (1995 = 100) (Directorate of Statistical Information, 2000).

Table 4.1 Aggregate Cash Flow Trends for Mondi Forests: Natal Region, 1998-2001

Mondi Forests: Natal Region Aggregate Cash Flow Trends (1998 – 2001)				
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	1998	1999	2000	2001
	R'000	R'000	R'000	R'000
1. TURNOVER	171 971	161 099	190 621	226 913
2. VARIABLE SELLING COSTS	82 641	76 894	88 412	102 850
3. SILVICULTURAL COSTS	36 298	25 996	21 612	26 320
4. DIRECT ESTATE COSTS	72 260	57 209	47 286	45 532
5. OTHER INDIRECT OVERHEADS	15 990	14 688	16 727	16 854
6. UNDR /ABNORMAL INCOME	4 058	1 210	9 135	2 952
OPERATING CASH FLOW (1 – 2 – 3 – 4 – 5 + 6)	-31 160	-12 478	25 719	38 306

4.5 Conclusions

The rationalization (rightsizing) objective set by Mondi Forests: Natal Region, led them to use outsourcing as a major tool to implement this objective. The financial results reflect cost savings, which correspond with the increase in the proportion of outsourcing of activities like harvesting operations, fire protection, silvicultural operations, transport, mechanical services and training. This outsourcing strategy, coupled with other management cost savings strategies has reduced total operating costs by R14.5 million (6% savings in real terms) over the period 1998 to 2001. The study has shown that outsourcing has helped to reduce costs of the overall rationalization strategy.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Outsourcing in the SA forestry industry is a relatively recent approach to doing business. Mondi Forests' personnel surveyed in the study indicated that the main reasons for outsourcing go beyond cost savings to include redirecting scarce resources toward core business activities, and less stress in the hiring, staffing and training of new employees. From the stratification of the sample surveyed, it appeared that senior managers are more strategic in their thinking about outsourcing than are middle managers. For example, senior managers have a stronger preference for performance-based pricing, which is a useful tool for aligning the organization's long-term strategic direction and the contractors' interest. Pitfalls of outsourcing identified by survey respondents include reduced staff morale, loss of access to technical innovation, negative perceptions of Mondi Forests amongst unions, local communities and government departments, and a lack of resources for long-term contractor upliftment programmes. Mondi Forests is, however, taking steps to provide "start-up" capital and skills training for emerging black contractors, giving preference to former-Mondi Forests employees when offering contracts and starting community development projects to improve the relationship with local communities. The survey also identified an urgent need for Mondi Forests to develop a system of assessing the effectiveness of its current outsourcing system in relations to socio-economic issues in rural communities and engagement of contractors in social responsibility programmes.

Mondi Forests' personnel identified that security services, road maintenance, conservation, cleaning of valleys, garden services, harvesting, silviculture and fire protection could be outsourced to local communities as some of these activities do not require "high-tech" skills and equipment. In some villages some of these activities have been outsourced to former Mondi Forests' employees. Study results has shown that Mondi Forests currently spends about R3 million annually on security contracting and this form of contracting has created conflict between the security services and

local communities. This, in turn, increases the poor relationship between the local communities and Mondi Forests. One solution could be to train and use people from local communities as security contractors.

Mondi Forests' personnel suggested that forest management, accounting, conservation management, and human resources are the best candidates for future outsourcing, since most other organizations are already outsourcing them successfully. Most of these activities are still kept "in-house" in Mondi Forests. Some technical services (e.g. wood technology and marketing) were identified as being core functions in Mondi Forests.

Results have shown that Mondi Forests has started to put a relationship management infrastructure in place, but could give more attention to: (a) further establishing a structure that will look at standardizing the tendering process, (b) involving contractors in Mondi Forest's strategic planning, (c) helping to find ways to improve contractor-local community working relations, (d) considering contractor development programmes in order to assist the smaller contractors, and (e) empowering contractor employees in reporting safety and health issues. This shows that Mondi Forests management acknowledges the negative impact of outsourcing as well as the challenges created by this fraternity.

Participatory Rural Appraisal (PRA) showed that outsourcing and the way in which it was implemented in the SA forestry industry has impacted negatively on the livelihoods of the forest dependent communities living in and around the commercial forestry plantations. Most of the services that the forest companies use to provide to these communities have been discontinued because of outsourcing. Those services include: transportation of school children from a number of the villages to nearby schools, water supply to some villages, the supply of health care services, the cleaning of the villages and the provision of electricity. This has led to socio-economic problems like inadequate water sanitation, increased unemployment, health problems as the forest companies used to be the sole providers of these services.

The PRA show further that outsourcing has been accompanied by downsizing of SA forest companies. Retrenchments have increased unemployment rates in most of the forest-dependent communities surveyed. This is of major concern, given that forestry companies have been one of the main creators of rural employment in SA. This has severely affected the confidence of dismissed employees (especially the unskilled) and has created a widespread lack of trust in forest companies. A key challenge is how to harness community resources to find appropriate projects that can improve the livelihoods of these communities.

PRA exercises has shown that current outsourcing practices in selected parts of the SA forestry industry have also resulted in poor working relationships between the rural communities and forest companies and the contractors. This is mainly due to poor communication about community concerns, questionable labour practices, poverty, poor access to energy sources, lack of access to land resources, lack of services and increased unemployment in rural areas. The most affected groups are the youth and the women. The South African Forestry Contractors Association (SAFCA) needs to assess what it can do regarding issues that concern contractor employee, such as wage levels, working conditions, and safety and health issues in the contracting fraternity.

Survey respondents are positive about the future role of outsourcing in the SA forestry industry. Forestry companies must be aware of the social, environmental and economic implications of this business management tool. The last part of the study shows that outsourcing can complement other management methods of cutting costs such as reduced pesticides and fertilizer use. Results shows that a combination of outsourcing and other management decisions resulted in costs savings for Mondi Forests: Natal Region since 1998 of an R14.5 million. The benefits of these savings were reflected in part, by the annual operating cash-flow improving from negative R31.2 million in 1998 to a forecast positive R38.3 million in 2001. Cost savings that are directly related to outsourcing are mainly derived from overhead costs e.g. labour costs, electricity costs, supervisory costs, and mechanization costs.

5.2 Recommendations

Three critical recommendations are drawn from the study:

- a) Outsourcing to contractors in the SA forestry industry needs to be given more attention as a business strategy in order to ensure that socio-economic issues are taken into account. This will ensure that both contractors (black and white), rural communities and plantation forestry companies benefit of relatively equal basis.

- b) Plantation forestry companies must view their relationship with the contractors as a true partnership in which they are advisors. They must establish a Service Level Agreement (SLA).
- c) Plantation forestry companies must pay special attention to the human dimension when deciding to outsource to contractors. Inevitably, any shift to an outsourcer produces employee concern.

Reputation, references, involvement in social responsibility programmes and the state of existing relationships are key factors when selecting potential contractors. Re-evaluation of company/contractor agreements, therefore, based on progress, satisfaction and compliance with minimum standards (including performance, rates of remuneration, employee development, use of equipment, roles in social responsibility programmes, technology application, etc.) is critical to improve outsourcing management system. Outsourcing arrangements also need to define clearly what is to be done, at specified performance levels. Management must define what service levels they will use and exactly how they will measure these levels before setting performance expectations. A good service agreement will align the contractors' incentives with Mondi Forests' objectives through the service level credits and termination rights.

In addition, consideration must be given to the following issues:

Development of strategies to monitor and evaluate the success of the outsourcing system in financial, socio-economic and environmental terms (with emphasis on the impact of outsourcing on local communities).

Selection of fewer large "best" contractors (both white and black) as future business partners of the business, and consider using both performance based pricing, and shared risks and rewards pricing.

Setting of conditions for the employment of people from local communities - this may be a costly, but worthwhile exercise.

Setting of conditions for the contractors' role in corporate social responsibility programmes.

Establishment of partnerships with government agencies, private NGOs and Community Based Organizations (CBOs) in starting development projects to uplift the living standards of the rural communities.

Specialized training programme for the forest managers on managing contractors.

Establishment of Community Liaison Forums to improve communication with the local communities, and encourage access to resources in the plantations on a sustainable basis e.g. thatch grass, firewood as an energy source, wetland grasses for making mats and baskets, mushrooms and medicinal plants.

Allocating funds to develop a contractor upliftment programme in order to grow the black emerging contractors through a dedicated mentorship programme or sub-contracting system (in which a black emerging contractor subcontracts to an experienced contractor for a period of time at specific conditions).

Development of Community Development Programme that will assist the local forest dependent communities to set-up small enterprises using non-wood forest products e.g. charcoal production, medicinal plants projects, agroforestry projects, thatch grass networks, mushroom enterprises, etc. It is important to engage experts in this process. This programme can also be outsourced after a period of time.

5.3 Limitations of the Study

One limitation is the predominantly qualitative nature of the PRA research. It is difficult to make more substantive recommendations about appropriate community projects if data on the quality and quantity of community assets is not available. Secondly, the

sample survey used to evaluate Mondi Forests' outsourcing management system is based on a relatively small sample size of 40 respondents. The third limitation is that only forest dependent communities and Mondi Forest's employees were surveyed in the study. The views of government officials, NGO personnel, members of labour unions, and of the contractors were not canvassed. The confidential nature of Mondi Forests: Natal Region financial information was limiting.

5.4 Areas for Further Research

Future research should attempt to estimate the effects of outsourcing on business performance in terms of its impact on transaction costs and overhead cost reductions (including administration and management time) in a bigger sample of forestry companies including those that piloted outsourcing in the forestry industry in South Africa (Sappi Forests). Further quantitative research should attempt to ascertain how outsourcing affects forest dependent communities in terms of the numbers of retrenched people and the numbers of contractor employees, emerging contractors, relationships between contractors and forest companies.

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APPENDIX 1

Evaluation of Mondi Forests' Outsourcing Management System

University of Natal

Centre for Rural Development Systems

Forests Manager Questionnaire

My name is Sakhile Ngcobo, a student (sponsored by Mondi Forests) at the Centre for Rural Development Systems at the University of Natal. The objective of this questionnaire is to evaluate the outsourcing management system used by Mondi Forests, and to gauge your response to questions about outsourcing.

Please answer each component of every question as much as possible and tick or cross (X) a value for each response. All answers must reflect the current state of contracting (outsourcing) in Mondi Forests. If a particular question is not relevant to your situation then please leave it blank.

OUR SURVEY RESPONSES WILL BE KEPT STRICTLY CONFIDENTIAL

PLEASE RETURN THE COMPLETED QUESTIONNAIRE BY TUESDAY

23 OCTOBER 2001 TO SAKHILE NGCOBO AT:

Fax: 033 – 394 6313

E-mail: Sakhile_Ngcobo@Mondi.co.za

By hand to: Mondi Forests, Head Office, Pietermaritzburg

Cc Bongwiwe

Please telephone any enquiries about the questions to Sakhile Ngcobo at Cell number: 082 806 1394

1. Code:[for office use]
2. Personal Information
 - 2.1 Name:

- 2.2 Current Position:
- 2.3 Contact Details:

Why Outsourcing

3. On a scale 1 to 5, which of the following definitions best defines what outsourcing for the forestry industry is, where 1 Strongly disagree; 2 Disagree; 3 Neutral; 4 Agree; and 5 Strongly agree?

Outsourcing Definition	1	2	3	4	5
1. Fundamental decision to stop performing an activity in-house and to transfer that activity to an external contractor who is an expert in that field.					
2. The use of contractors for routine production operations (silviculture, transport, harvesting, etc).					
3. A way of promoting small business development in the forestry industry.					
4. A strategy to effect downsizing of private companies.					
Other (please give own definition)					

4. On a scale of 1 to 5 (1 Strongly disagree; 2 Disagree; 3 Neutral; 4 Agree; and 5 Strongly agree), which of the following best define Mondi Forests' reasons for outsourcing?

Outsourcing Reasons	1	2	3	4	5
• Allocate more resources to improve planning and control of harvesting, silviculture, etc and operations.					
• Accelerate business expansion by tapping into contractor's developed capacity, processes and systems.					
• Reduce costs through superior contractor performance and the contractor's lower cost structure.					
• Increase Mondi Forests' focus on core activities (clonal breeding, wood technology, etc).					
Other (please specify)					

5. What are the advantages of outsourcing for Mondi Forests, on a scale of 1 (Strongly disagree) to 5 (Strongly agree)?

Advantages of Outsourcing	1	2	3	4	5
1. Improve short-term financial performance through costs savings					
2. Gives more time to focus on and foster its core competencies.*					
3. Eliminates some investments in ever-changing technology.					
4. Relieves the stress of hiring, training, and staffing new employees.					
5. Quality improvement.					
6. Other (please specify)					

Note*: Core competencies are those activities that a company does well as compared with other internal activities.

6. What are the disadvantages of outsourcing for Mondi Forests, on a scale of 1 (Strongly disagree) to 5 (Strongly agree)?

Disadvantages of Outsourcing	1	2	3	4	5
1. Poor relationship with rural communities living near Mondi Forests' plantations.					
2. Lower morale and insecurity within Mondi Forests' staff.					
3. Lose touch with new technological breakthroughs that may offer opportunities for product and process innovation.					
4. The need for monitoring and evaluation of contractor's performance increases costs of doing business (more transactions).					
5. The company is perceived negatively by the unions, government departments, and NGOs.					
6. No resources for long-term contractor upliftment programmes.					
7. The reliability of contractors in terms of quality, delivery and long-term sustainability.					
8. Other (please specify)					

7. What are the risks that outsourcing creates for Mondi Forests, on a scale of 1 (Strongly disagree) to 5 (Strongly agree)?

Outsourcing Risks		1	2	3	4	5
Performance risks	High absenteeism rates among contractor staff.					
	Uncertainty with regards to employment continuity.					
	Other (please specify)					
Business risks	Poor quality timber.					
	Market delivery failure.					
	Poor quality contractor machinery causes staff injuries.					
	Other (please specify)					
Other risks	Social problems (land tenure, increased forest fires).					
	Other (please specify)					

8. How would you categorize Mondi Forests' awareness of outsourcing risks?
Please tick or cross(X):

Strongly aware	
Aware	
Neutral	
Not aware	

Please justify your choice?

.....

.....

.....

9. Has Mondi Forests implemented any strategies in order to minimize the negative effects of outsourcing? Please tick or cross (X):

Yes	No
-----	----

If es, on a scale of 1 to 3 (where 1 not implemented; 2 partly implemented; and 3 fully implemented), which of the following strategies have been implemented?

Strategies to minimize negative impacts of Outsourcing	1	2	3
<ul style="list-style-type: none"> Giving preference to ex-Mondi Forests employees when offering contracts. 			
<ul style="list-style-type: none"> Provision of start-up capital to emerging black contractors. 			
<ul style="list-style-type: none"> Provision of start-up capital to small contractors. 			
<ul style="list-style-type: none"> Starting-up community development projects to improve the relationship with local communities. 			
<ul style="list-style-type: none"> Contractor monitoring and evaluation system. 			
Other (please specify)			

Activities that are being outsourced

10. Estimate contractors' participation in Mondi Forests' operations over time in the activities below:

Activity	Time				
	1997	1998	1999	2000	2001
e.g. Silviculture	10%	40%	60%	80%	100%
1. Harvesting					
2. Silviculture					
3. Transport					
4. Fire protection					
5. Information technology (IT)					
6. Building and construction of new buildings					
7. Security services					
8. Mechanical services					
9. Payroll system					
10. Training					

11. Which activities that are not currently outsourced by Mondi Forests do you feel can be outsourced? Why?

Activity	Why
12.e.g. Telecommunication	Other companies have successfully implemented
12.	
13.	
14.	

12. Which of the activities in questions 10 & 11 above do you feel can be successfully outsourced to rural communities as part of Mondi Forests' commitment to rural development? Why?

Activity	Why
e.g. 7. Security services	Does not require high-tech skills and equipment

13. Classify the following activities as either Core-activities or Non-core activities for Mondi Forests. Please tick or cross (X). Core-activities are those activities that are vital to Mondi Forests' gaining an edge over its rivals (e.g. wood biotechnology). Non-core activities are those that can easily and profitably be executed by external sources (e.g. payroll system):

Activities	Core Activities	Non-core activities
1. Harvesting		
2. Marketing		
3. Security services		
4. Procurement		
5. Wood Technology		
6. Tree improvement		
7. Human Resources role		
8. Staff development & Training		
9. Community development		
10. Mechanical services		
11. Technical services		
12. Research & Development other than 5. and 6. Above		
13. Information Technology (IT)		
14. Silviculture		
15. Transportation		
16. Other (please specify)		

Criteria for Selecting Contractors

14. On a scale of 1 (Strongly disagree) to 5 (Strongly agree), indicate whether the following criteria for selecting contractors are used in Mondi Forests:

Criteria for selecting Contractors	1	2	3	4	5
<ul style="list-style-type: none"> Look at the contractor's potential for producing required results. 					
<ul style="list-style-type: none"> Look at whether the contractor's values are similar to Mondi Forests' business principles. 					
<ul style="list-style-type: none"> Look at the contractor's experience and history. 					
<ul style="list-style-type: none"> Look at contractors in terms of meeting affirmative action goals. 					
<ul style="list-style-type: none"> Look at contractors in terms of giving preference to retrenched employees. 					
<ul style="list-style-type: none"> Look at contractor's fee charges (where the lowest fee charge per unit output is selected). 					
Other (please specify)					

Negotiating Terms

15. On a scale of 1 (Strongly disagree) to 5 (Strongly agree), are the following issues discussed during the negotiation process before Mondi Forests offer the contract to the contractor?

Issues discussed during contract negotiations	1	2	3	4	5
• What activities the contractor will perform.					
• What responsibilities Mondi Forests will retain.					
• Terms on which the contractor will employ Mondi Forests' former employees and members of local communities.					
• Who has the right to make operational decisions, e.g. equipment to be used, transport mode, etc.					
• Which performance standard will be used for each service.					
• Terms for terminating the contract.					
Other (please specify)					

Pricing Structure

16. On a scale of 1 to 3, where 1 not preferred; 2 least preferred; and 3 most preferred, indicate Mondi Forests' preferred contractor pricing structure:

Contractor Pricing Structure	1	2	3
• Paying on per unit basis.			
• Paying by volume, as per contractor input costs, or the going market price for contractor services.			
• Performance-based pricing: includes conformance to requirements (quality and standard, etc), reliability, timeliness, and continuous improvement.			
• Shared risks and rewards pricing: includes sharing productivity gains and/or cost savings			
• Other (please specify)			

17. Are there any criteria for evaluating Mondi Forests' outsourcing management system? Please tick or cross(X):

Yes	No
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If yes, please list these criteria and give your opinion on how effective they are?

Criteria	Comments

Managing Outsourcing Relationships

18. What proportion (%) of the current working relationships between Mondi Forests and the following contractors can be classified as 1 very poor; 2 poor; 3 neutral; 4 good; and 5 excellent?

Types of Contracts	1	2	3	4	5
• e.g. Harvesting	10%			90%	
• Transportation					
• Silviculture					
• Security services					
• Mechanical services					
• Harvesting					
Other (please specify)					

Please give reasons for your answers above?

.....

.....

What can be done to improve very poor/poor/neutral working relationships identified above?

.....
.....

19. Is there any structure within Mondi Forests that is specifically dedicated to managing contractor outsourcing relationships? Please tick (X)

Yes	No
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If es, please explain?

.....
.....

What are your personal views about Outsourcing in the forestry industry as practiced now, and what future do you see for outsourcing in the industry?

.....
.....

THANK OU for your effort in taking time to complete this questionnaire; your input is greatly appreciated.

Would you like an Executive Summary of the Questionnaire Results? Please tick or cross (X)

Yes	No
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If yes, Please give your postal address, e-mail address, or a fax number on the next page: