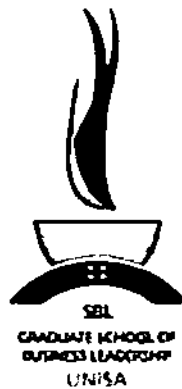


**OUTSOURCING IN THE FORESTRY INDUSTRY IN SOUTH AFRICA:
A STUDY OF THE INDICATORS FOR LONG-TERM SUSTAINABILITY.**

A Research Report

Presented to the

**Graduate School of Business Leadership
University of South Africa**



**In partial fulfillment of the
Requirements for the
MASTERS DEGREE IN BUSINESS LEADERSHIP
UNIVERSITY OF SOUTH AFRICA**

By

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2006

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2006**

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DECLARATION

I, Carl van Loggerenberg certify that, except as noted the report is my own work and all references used are accurately recorded.

ACKNOWLEDGEMENT

This report is dedicated to Sappi Forest Products (Pty) Limited who so kindly sponsored my studies. I would also like to thank my colleagues, friends and family who have supported me throughout this journey. Special thanks must go to my wife, Venecia, who more than anyone has felt and shared the pressures of my studies.

I would also like to thank my promoter, Dr. Sidney Shipham, who guided me on this journey.

Lastly, I would like to thank all the contractors and other people, too numerous to mention who assisted me in my research.

“If one contractor fails, we all fail.”

- Dinga Mncube - MD, Sappi Forest Products

EXECUTIVE SUMMARY

The business environment is changing globally more rapidly than most individuals and organisations are willing to accept or are prepared to anticipate. The forestry industry itself is faced with various changes in the political, economical and social environment. Change is marked by the globalisation of timber markets, new technology, reformed political regulations and changing values in rural societies.

Initially outsourcing was all about costs – finding someone who could do the same job, better, faster, cheaper or all three. Outsourcing then became strategic – the focus encompassing the even larger opportunity costs savings that come when an organisation reinvests the freed resources back into even higher value producing processing capabilities. Management is currently looking at their outsourcing partners to do all these things and to become sources of innovation – helping them to create new ways of doing business.

However, companies often do not choose outsourcing partners with any degree of science or structure and then they fail to appreciate that business is dynamic. The deal negotiated today will probably be obsolete before pen is put to paper. Outsourcing initiatives require governance and ongoing management to ensure success. Governance ensures that the partners understand the what, when and how of the outsourcing agreement, as well as the roles and responsibilities of each partner. Ongoing management ensures cost savings don't just come from labour arbitrage but from improved productivity as well. Outsourcing does not remove the principle companies need to manage the process. A comprehensive outsourcing arrangement requires monitoring and redefining as well as strategic management and other retained functions.

Every time an organisation outsources successfully, it lowers its costs, improves its balance sheet, reduces its business risks, and expands its capabilities. If outsourcing is to continue to grow over the next ten years and to be sustainable then organisations will have to produce better results with greater regularity and at lower costs. Doing this will take a collaborative effort from all the stakeholders.

This research document will explore the presence of indicators for sustainable outsourcing. The approach will be to deal with both the 'hard' management tools and processes which should be utilised and the 'softer' issues of what should be being communicated and the personal styles and attributes required to achieve outstanding sustainable results.

GLOSSARY

A **labour broker** is simply a person who supplies the client with workers whom they have sourced. The client pays the broker who then pays the workers and thus is also responsible for ensuring that all the legal requirements of employment are adhered to (Esselaar, 2000).

Contract Labour can either be a direct contractual arrangement between the contract worker and the user company, or a contract worker can be provided by an intermediary. In the first scenario, work is done under actual conditions of dependency and subordination to the user company, characterising a direct employment relationship. In the second scenario, an intermediary such as a labour broker or contractor provides the worker; even though the worker may work on the premises of the user company, theoretically these workers are not dependant on the user company and are not subject to the supervision and control of the user company (Esselaar, 2000).

Externalisation occurs when part of the work of a company is put out to external contactors or agents by outsourcing or subcontracting. It involves a decrease in the number of persons employed by the companies, and corresponding increase in the number of persons who are dependant on the sector other than through a direct employment relationship" (Theron & Godfrey, 2000; 7-9). Theron (2000) expands on this by stating that externalisation usually involves retrenching of workers and a change in the number of workers employed. Furthermore externalisation replaces the employment contract with a commercial contract thus the traditional psychological contract between employer and employee is negated.

The conclusion can therefore be made that outsourcing and subcontracting are forms of externalisation and that both involve indirect forms of employment of groups of workers by companies through the use of a third party such as a contractor or labour broker.

Extraction is a term used in steep terrain where there is an intermediate process involved in moving the harvested timber from inside the compartment to roadside.

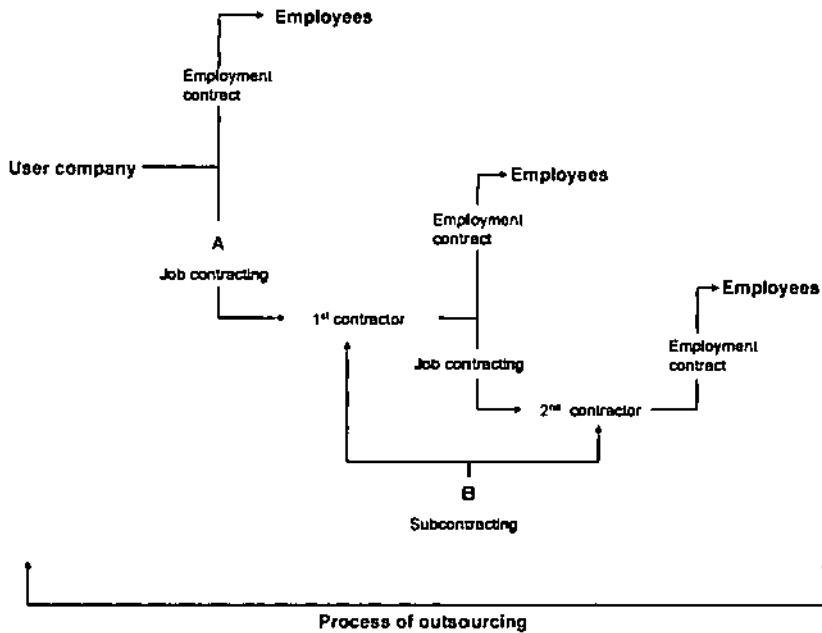
FSC stands for Forestry Stewardship Council. This is an international set of management principles aimed at sustainable forestry management.

Harvesting refers to the cutting down of mature trees and preparing them for transport to the processing plants.

Job contracting entails a user company contracting out the supply of goods or services to a contractor who undertakes to carry out the work at his own risk, with his own financial and human capital resources. The contractor hires, supervises and pays the workers (Kenny & Bezuidenhout, 1999; 40). In essence the company pays the contractor a fee to perform the work or render the service instead of paying salaries/wages.

Outsourcing is a generic concept which relates to the way in which activities are performed. Companies engage the services of a third party to perform some of the activities normally undertaken in-house. In terms of production, outsourcing is a process whereby the internal value chain is shortened and the external value chain is extended. Outsourcing is implemented through job contracting as opposed to direct employment contracting (Esselaar, 2000). The diagram below illustrates the process of outsourcing:

Figure 1: The process of outsourcing.



(Esselaar, 2000).

Rate is a term used to describe the method of payment a contractor receives. This is dependant on the service they provide and is normally expressed in rand per ton, hectares, cubic metres or mandays.

Silviculture is a forestry term describing the art of growing and nurturing trees to maturity. In South African terms this includes fire fighting and protection.

Short haul is the process whereby harvested timber is transported a "short" distance, normally 5 – 12 kilometres, to a depot or a railway siding. From the depot it is transported to the processors.

Tasking refers to the allocation of a predetermined daily work requirement. It is normally expressed in tons, trees or hectares. For example, a task for a chainsaw operator would be to produce 30 tons of timber per day, but this could also be given in trees, as 1200 trees per day.

Transport in forestry terms relates to the transporting of timber from a depot/railway siding to a processing plant. In the majority of instances this is done by truck/trailer combinations and for the purpose of this paper, transport will refer to this method of delivery.

1. Orientation

1.1 Introduction

This research will focus on the relationship between grower Companies and contractors in the South African Forestry Industry. The study will investigate the presence of indicators for long-term sustainability. By investigating this phenomenon the research intends to contribute to the South African Forestry Industry by indicating what factors should be considered in a principle/contractor relationship for long – term sustainability.

The aim of the research is to determine what the current relationship is between the grower companies and the contractors and to determine factors influencing the relationship as well as identifying mitigating interventions. It is also hoped to identify those factors that restrict/promote long-term sustainability and to find sustainable solutions.

1.2 Background and Context

South Africa has a relatively poor resource of indigenous forests; accordingly the demand for wood has largely been met from manmade forests. Originally afforestation initiatives in South Africa were, predominately conducted by the State. The private sector only became a significant role-player in the 1960's and they currently own 70% of the country's plantations and the majority of the processing plants.

At present, the forestry and wood industries sector is considered to be an important contributor to the economy, as well as to the implementation of the rural development strategy. The sector contributes to the social and economic development of the country in the following aspects:

- Employment
- Small business development
- Resource utilisation by affected local communities
- Community participation through projects
- Exports and trade balance; and
- Gross Domestic Product (GDP).

The primary forestry sector produces roundwood which is used to make a wide range of products, which includes mining timber, woodchips, sawlogs, poles charcoal, furniture, matches and pulp and paper, a sector that has shown significant growth over the last twenty years. The primary forestry and forest products industry has made a significant contribution to the Gross Domestic Product of the country. This contribution has increased in relation to both the agricultural and manufacturing GDP over the last twenty years. This increase can be quantified as follows, pulp production by 40%, 88% in the export of pulp and an increase of 65% in the export of paper and boards.

From an effective zero base in the 1940's, South Africa now produces 2.8 million tons of pulp or 1.63% of the global supply; 2 million tons of paper, which is 0.76% of global supply and 1.8 million cubic metres of sawn timber which is 0.3% of world supply. In terms of South Africa's GDP, the forestry and associated processing industry generate US\$ 1 billion annually, which is 1.5% of the total GDP (Smit & Pitcher, 2003).

The forest and forest products industries employ about 152 000 permanent staff, of which 46 000 work in the forests and 106 000 in the forest products sector. The forest industry claims that each job created within this sector results in four others in supporting industries. Arguably, forestry contributes about 600 000 jobs to the economy. Assuming a dependency factor of 5, this translates into about 3 million people, mainly rural, dependant on forestry for their livelihoods.

A trend in the industry is to outsource most of the forest operations. Outsourcing seems to be a key instrument of change for management enabling them to reduce internal costs and reduce the need to retain highly skilled resources (Evans, 1992). Conceivably management of change needs a formalised, structured approach and this was not adhered to.

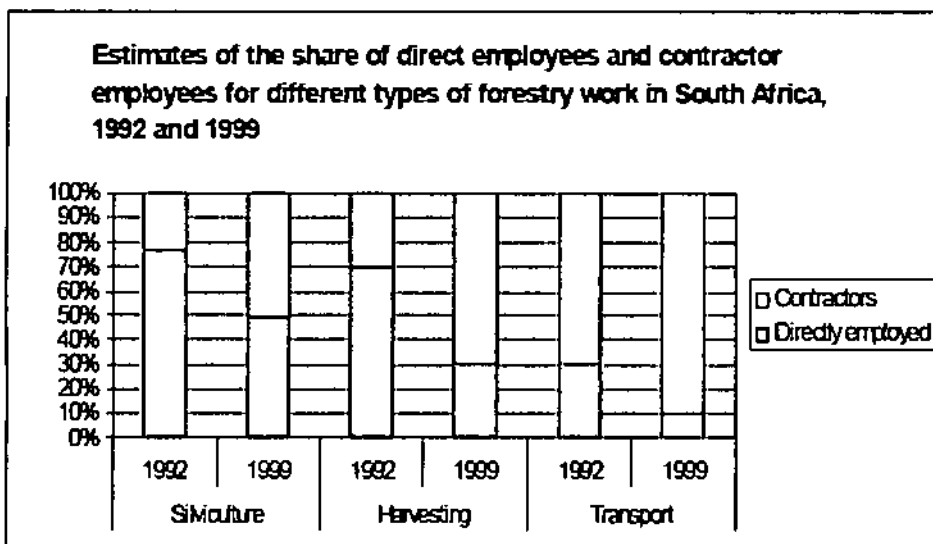
Outsourcing has a dual impact on the industry; firstly it impacts on the companies and employees in terms of retrenchment and subsequent loss of skills. In a sense, from a corporate view point it is also relinquishing control, as there is no longer a direct line of communication between the forester and labourer. Secondly

opportunities are created for retrenched employees to enter into contracts themselves, or to seek employment with a contractor. The outsourcing of forestry activities over the past two decades has created an industry with a turnover of R 600 million and 35 000 employees (Edwards, 2000).

Arguably the timber plantations and the wood generated from them can be considered as a critical resource and given their national importance, raises them to a national strategic level of importance. Given this level of importance the report will analyse the industry as a whole (with particular reference to the pulp and paper sector) as opposed to researching a single company.

The forestry and wood industries sector plays a significant role in the South African economy. The importance of this role is underscored by the fact that it creates employment in rural areas, which are the most economically depressed areas. Since the 1990's however there has been an increasing move towards contracting, making it the dominant work arrangement, as presented in Figure 2 below. The long-term ability of forestry contractors to continue providing employment to these rural communities will be discussed later in this report.

Figure 2: The extent of outsourcing in South African Forestry 1992 – 1999.



(Forworknet, 2002)

Forestry work at the labourer level is dirty, dangerous, low paid and it offers little in terms of social security. The perception is that contracting has further eroded

workers' wages and benefits. Prior to the Sectoral decision in April 2006, restricting the minimum wage for forestry workers to ZAR 836.00 per month (US\$ 128), the wages for manual workers employed by contractors ranged from ZAR 400-600 (US\$ 60-90) per month; compared to ZAR 600-800 (US\$ 90-119) for those employed by forestry companies. To exacerbate the situation the latter are entitled to medical benefits and pensions, the former may receive nothing (Forworknet, 2002).

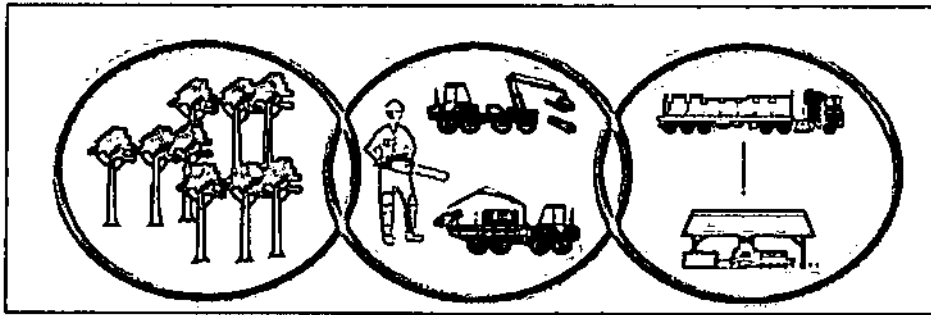
However the decision to outsource not only impacts on the employees who are retrenched and have to seek employment with the contractors. The foresters that remain as employees of the companies are also affected by this change in the traditional management of plantations. Managing your own labour force had always been an integral part of forestry. Here it is important to understand the psyche of the traditional forester and the relationship he had with his people. There was a unique trust relationship in that the people would do the physical work and deliver on task; whereas on the other hand the forester was like a father figure to the people. Most of the labour was housed in compounds away from their families and their traditional support base, so often the forester had to fulfill this role and more. The transformation from being 'own ops' or insourced to being outsourced was not systematically approached, both in terms of the foresters remaining as company employees and in terms of those employees opting to take a contract and the labour who had no choice in the matter. Firstly there was an 'us and them' situation; suddenly colleagues who had opted to take contracts were seen as outsiders and the labour as contractors, not one's responsibility anymore. Secondly the labour had no sense of belonging, the pride and sense of belonging to a company was no longer there, suddenly overnight one was just a contractor!

From the foresters' perspective the whole management style has changed and control has been relinquished. Whereas foresters had direct line control over the labour, they now had to work through a contractor. Their role changed from direct line supervision to contract managers and quality control. Arguably this transformation and new management style/requirement was not adequately addressed. Conceivably each of the major South African forestry companies has its own distinct company culture and accordingly strong convictions of how to manage its own business (Steenkamp, 2005). This impacts on the contractor who often works for more than

one company, which raises the question of where does the contractor position him/herself?

The outsourcing decision has positioned the contractors as a critical link in the forest to mill value chain as shown in Figure 3 below.

Figure 3: Forestry Contractors – the link in the forest to mill value chain



(Brogt & Kastenholz, 2005)

Arguably, if the contractors fail, the industry will fail albeit in the short-term until alternate measures can be implemented by the forestry companies.

The Sectoral decision in April 2006 that the minimum wage for forestry workers will be R836 per month is destined to have grave impacts on the industry. What is of greater concern is the ruling that negative task work cannot be applied. Traditionally task work has been the basis where production objectives were set, managed and controlled. In many cases this determination of tasks and achieving them was the barrier between being profitable and making a loss. Now, if a person is at work regardless of what he/she produces in terms of tons, hectares or square metres, that person must be paid the minimum wage. The tendency before was to pay negatively, pro rata on a predetermined task. A point in example is a person stripping bark from Eucalyptus poles; the task would be three tons per day for which the payment is R 36.75/day i.e. R 12.24/ton. Taking the new scenario, the person must be paid R36.75 regardless of the tons produced; if for example the person only produced 1.5 tons the cost per ton doubles to R 24.50/ton. The problem is that contractors get paid a fixed rate per ton for harvesting, e.g. R 45/ton. From this simple example we can see the impact of not coupling task to pro rata payments. As mentioned earlier this will have

an enormous impact on the forestry business, both in terms of accurately determining a cost per ton or hectare and staying competitive in terms of production costs measured in the international arena. Steenkamp 2005, argues that contractors are already under financial pressure and that they have to reduce costs where they can. If this argument holds true then the combination of the minimum wage and non-tasking policy combined with increasing fuel costs does not leave the contractors with many choices. Conceivably contractors cannot cut back on their fixed costs, this leaves them with two choices; one to erode their profit base and two is to cut costs on indirect activities such as safety and training. Both of these choices are not conducive to long-term sustainability.

The problem is that contractors are leaving the industry, either forced by liquidation or by pursuing more lucrative business propositions elsewhere. The reader may be prompted to ask 'so what'? Replacing and establishing contractors is not simple. The capital intensive nature of forestry operations and the cost of capital are barriers to entry. This means that there are not many new entrants to the industry. Arguably this situation is advantageous for the remaining contractors who now become eligible for a bigger slice of the proverbial cake. The downside of this is that it increases the risk exposure of the grower companies, because of the 'all your eggs in one basket' principle'. The alternative is for the grower companies to revert to own operations. This would tie up capital that was available for other projects, e.g. processing infrastructure or plantation expansion. This has a long-term effect on the economy and job creation. Further contributing to the problem is that due to the capital intensive nature of the industry, many contractors are 'locked in' to remaining in the industry despite the erosion of their profit base. This effectively means that all indirect cost items are eliminated; no money is spent on safety, training, equipment, feeding, education, etc. Facing these obstacles, the challenge is, to ensure that the contractor operations are sustainable.

Although South Africa is competitive and in some cases far better in terms of forest production, that is the tons a hectare of forest produces over a certain time; South Africa has the disadvantage that our product is exported and this additional cost must be factored into the equation when comparing with international competitors. For this

reason it is imperative that South African production costs, either growing a ton of timber or to deliver a ton of timber to mill must be at least equal to, or less than international benchmarks.

Arguably, the dynamic of the erosion of the resource base of traditional foresters who had the experience to manage both plantations and contractors is adding to the woes of the industry. Historically, foresters went through a lengthy and comprehensive internship requiring the understanding of the natural cycle of forests as well as the complex interaction of human dynamics. Through natural attrition and with fewer people making forestry their career this wisdom and knowledge base is conceivably being lost. Current reality is that the contractors' have the knowledge base and the foresters in general terms do not have the wider forestry knowledge and subsequently neither the skills to manage contractors who perceive their new position as one of power.

The combination of these factors is impacting on an industry which plays a significant role in the South African economy.

The purpose of this report is to gain insight into the dynamics that exist between the forestry companies, the contractors and their employees and to extract from these dynamics the factors that influence the long-term sustainability of the partnership. The report will perforce be of a reflective and exploratory nature and should therefore not be seen as an exhaustive analysis. The intended outcome is to formulate a model for strategic partnerships and the way forward for the industry.

1.3 Aims and Objectives

Business research is a systematic inquiry, the objective of which is to provide information to solve managerial problems. Literature provides three factors that stimulate an interest in a scientific approach to decision making namely;

- The manager's increased need for more and better information.
- The availability of improved techniques and tools to meet this demand.

- The resulting overload of information if discipline is not applied to the process.

The business organisation has emerged from a historically economic role, but has evolved as a result of and in response to the social and political mandates of national public policy, explosive technology growth and continued innovations in global communications. These external factors have created new knowledge needs for the manager and new stakeholders to consider when evaluating decisions (Cooper & Schindler, 2003).

It is conceivable that the current outsourcing model is not conducive to long-term sustainability and competitive cost advantage in the international arena. The problem is complex in the variety of managerial issues it covers such as strategy, organisational culture, strategic partnerships, change management, forward and backward integration and negotiating effectively. The forestry industry is already recognised as being fragmented, capital intensive, cyclical and subject to price-based competition. Global competition has emerged as a critical issue that has profoundly affected the performance of the industry and will continue to do so. In view of this intense competition currently characterising the industry, outsourcing appears to be a strategy used by companies as a means to stay competitive.

Although many studies have argued the advantages, particularly for large companies, of using contractors to carry out certain activities, very few studies have sought to examine the factors that must be present for long-term sustainability. **The primary purpose of this research is to provide an overview of the issues and impacts of outsourced operations in the forestry sector and to develop options for improving the economic sustainability of forestry operations.**

The aim of this report is to provide management with the indicators and factors that have to be present to ensure the long-term sustainability of the forestry outsourcing partnership. Given these aims the research problem statement is **what are the factors that determine long-term sustainability in the relationship between grower companies and contractors in the forestry industry?** The objectives of the study are to determine what the factors were that influenced the outsourcing

initiative, what the extent of outsourcing is and what the state of the relationship is between the grower companies and contractors. Secondly, the study will determine if there are indicators for sustainability. If there are any, to highlight them and factor them in to a model for sustainable partnering. Thirdly, due to its controversial status HIV/Aids will be discussed in terms of impacting on labour turnover. The last objective is to discuss the current outsourcing model; to determine if it still applies or needs modification.

The study is based on some assumptions; firstly the assumption is that there are problems with the current outsourcing model. Secondly the assumption is that in forestry, core competencies were outsourced. Thirdly, that the problem is not only one of rate. The fourth assumption is that HIV/Aids is having a marked effect on labour turnover and accordingly affecting the outsourcing strategy. The last assumption is that there are indicators present, which, if applied to a model for sustainable partnering, would ensure long-term, sustainable contractors.

There are a number of limitations with this study. The research will be limited to the forestry sector of the timber industry, and more specifically will focus on the pulp and paper producers. The scope of the study will be restricted to the South African geographical region. The research will only be conducted on the contractors and companies doing forestry work. This will exclude building contractors, security contractors and garden services as well as any *ad hoc* contractors that may be used occasionally.

The problem management has to address is, having made the decision and transition to outsource and in the process establishing the contractors as a vital link in the supply chain, how to manage costs downwards and to keep the contractors operational?

1.4 Importance of the Research

Over the last ten years 104 forestry contracting firms have gone bankrupt and many others are currently in serious financial difficulties (Steenkamp, 2005). According to Crickmay and Associates (2005), the situation has never been as bad as it is

currently and concern has been expressed about the contracting sector's current problems and their effect on the industry as a whole.

Khosa, (2000) concludes his research by stating that there is an emergence of evidence that the current outsourcing model is not the panacea it is prescribed to be. Manyuchi, (2002) established that forestry employees are more stable with forestry companies than with contractors. The median duration of employment is 7 and 2 years respectively. This high turnover in many contractor enterprises provides a poor base for skill development, which is a precondition for an effective and viable business. As discussed earlier contractors will tend to cut cost on indirect cost items such as training and safety, this combined with the phenomenon of high labour turnover arguably perpetuates the problem of a poorly trained, low paid workforce.

Given the national importance of the forestry industry it is imperative to find solutions to these management questions. This report will be important to the forestry industry by building on the research conducted by Khosa, (2000) and Manyuchi, (2002). It will provide alternative models to navigate the way forward and contribute to the long – term sustainability of outsourcing in the forestry industry.

1.5 Summary

South Africa is poorly endowed with indigenous forests. To satisfy the demand for wood products from the emerging nation, exotic tree plantations were planted. Due to the growth of the industry it is now a significant player in the South African economy. This importance is underscored by the fact that it creates employment in the rural areas. However since the 1990's there has been an increasing tendency towards contracting or outsourcing of work.

With this move to contracting the perception has been created that workers' wages and benefits are eroded. However some of these issues have been addressed through the sectoral implementation of a minimum wage. The minimum wage policy is linked to non-tasking of work. Arguable this will have major implications to the industry in terms of production costs.

Contracting has positioned the contractors as a vital link in the forest to mill supply chain. Of concern however is the phenomenon that over the last decade 104 contractor businesses in forestry have had to close their doors. This trend, should it continue does not bode well for the industry which is competitive on price.

With the decision to contract out the work, there have also been changes in the forestry companies. The changes include the relinquishing of control and change in the management requirements of foresters. The major forestry companies have their own organisational culture and accordingly strong convictions of how to manage its business. This poses a question of does the contractor culture match that of the company and has this matching of cultures ever been considered?

Through natural attrition and due to some foresters taking up contracts, the human resource of traditional "old school" foresters who understood the forest dynamics as well as the human dynamics is being eroded. This is shifting the knowledge power base to the contractors and the phenomenon is emerging where foresters who do not have the in depth knowledge have to manage contractors who do!

Amidst the complexity of all these inputs, the management dilemma is how to manage costs at equilibrium or downwards, at the same time keeping the contractors operational.

1.6 Route Map of this Report

The ultimate objective of this report is to find solutions to the research question of how to manage contractors for long-term sustainability. Various processes, originating from the discipline of business research will be used in the quest for answers.

In Chapter 2 the problem will be discussed and analysed. This will guide the literature review which will be undertaken.

In Chapter 3 recent and significant research data will be examined. The findings from this review will act as the base of the proposed study.

Chapter 4 covers the aspects of research design and methodology. In this section the theory of research is discussed with reference to paradigms, data types, data collection techniques, limitations and delimitations of the research, as well as the ethical and confidentiality issues.

The next logical step is to analyse and discuss the results of the research; this will be conducted in Chapter 5.

The conclusions drawn from the research will be discussed in Chapter 6. Recommendations important to the research and possible subsequent research will also be discussed.

2. Theoretical Foundation of the Study

2.1 Introduction

The forestry industry is a significant role player in the South African economy, both in terms of its contribution to the GDP and as a significant provider of employment in the rural areas. A strategic decision was made by forestry companies to outsource activities. This decision to outsource activities has positioned the service providers (contractors) as vital links in the supply chain. However the phenomenon of 104 contractor businesses having to close their doors during the last decade does not bode well for an industry that is price competitive.

The major forestry companies all have strong, individual organisational cultures. This poses questions of does the contractor culture fit with the organisation's culture? Furthermore is the organisation's culture aligned with the strategy? Contemporary theories on strategy tell us that most strategies fail in their execution – one of the reasons for this failure is that there is no strategic fit between strategy and the company's culture. This relationship warrants further investigation.

The outsourcing decision necessitated a change in managements' approach to managing. Arguably the importance of change management was not recognised or adequately addressed in this process of transition from managing fully in house operations, to fully outsourced operations.

2.2 Changes at Global level

Six years into the new millennium we can safely say that the world is in the process of multifaceted and revolutionary change. A shift is taking place from a largely bipolar world order towards a multipolar order.

For many years the USA and the Soviet Union dominated world politics as the two superpowers. In stead of this bipolar order we now have the situation where different power blocs are developing. This has resulted in the formation of the European Economic Community (EEC) and there is also a gradual shift of economic power to the East Asian bloc. There has thus been a gradual shift away from power dynamics in the military sense towards economic – driven power relations.

In conjunction with these trends in international relations and the world politico-economic order, a revolution has been taking place in the field of technology. The move from the industrial age into the information age has resulted in an almost boundary less world with individuals, businesses, governments, etc becoming more and more interconnected through computers and on-line systems such as the Internet. A more open and global world order has thus come into existence.

All of these and a host of other complex, multifaceted developments, such as the trend towards the formation of regional and sub regional trade blocs, are shaping a whole new global village where the internationalisation of markets is common. South African organisations now not only have to compete with products and service providers from other countries on our local markets but they can also compete within other markets in other countries. It is therefore essential in this competitive world economy environment that management is constantly seeking ways of improving performance (Swanepoel, 2003).

This is particularly true to the pulp and paper industry (commodity industry) where there is little competition on price, as price is largely determined by international demand. Therefore competitiveness is driven by input and production costs. Conceivably this is part of the management problem, to manage costs but simultaneously to keep the contractors profitable and sustainable.

Apart from these rather generic factors that are experienced world-wide, other variables and forces are unique and peculiar to the South African situation.

2.3 South Africa's Sociopolitical Economy

As discussed above, the challenges and complexities facing South Africa cannot be separated from broader international developments. A major challenge in this regard is the need to balance the inherent intricacies and tensions which have resulted from a history of unfair discrimination and inequality, with the need to stimulate and develop the economy.

The pressures facing South Africa in a global economy, driven by competitiveness must be seen against the background of the major threat to the country; the problem of inequality. Arguably South Africa's single major objective must be to stimulate the economy, in order to improve the quality of life for all the inhabitants. However the real problem is the gross socioeconomic inequality in our society. The reconciliation of these two dynamic realities embraces one of the greatest challenges facing South Africa. As discussed in Chapter 1, forestry, as a primary industry has been instrumental in providing much needed jobs in the rural areas. Sustainable contractors in the forestry sector will continue with this by providing jobs or entrepreneurial opportunities in the rural areas. In so doing contracting contributes to the greater South African economy by addressing some of the inequalities of our society.

Some parties, such as organised labour are fighting to redistribute wealth in an effort to address the problem. However, the leaders of business and industry maintain that in order to enrich the historically deprived, wealth first has to be created. To them creating wealth means one thing, business organisations have to be competitive in the international arena. This can translate into cutting costs and improving labour productivity (Swanepoel, 2003).

These are the same problems facing the forestry industry.

2.4 Barriers to Sustainability and Growth

If a company or contractor is to achieve sustainability or long-term growth, it must satisfy a number of requirements: it must increase sales, it must have access to additional resources, it must expand its management team, and it must extend its knowledge base. Each set of requirements establishes a different set of obstacles. Barber, Metcalfe & Porteous (1989) suggest that some of these barriers are external to the organisation, a feature of the operating environment that is impracticable to alter. Many of the barriers will however be internal, generated by the growth of the organisation. The principle barriers described by Barber *et al* were management attributes, lack of finance, and the external labour market and market structure.

Berney (1994) had a broadly similar list. He postulated that barriers to growth might include the product (poor quality, wrong costs), funding (inappropriate funding/equity), psychological/motivational factors (low level of ambition, risk aversion, fear of loss of control), managerial deficiencies (finance, organisational, production, marketing), and government policy (taxation, incentives). Much of the empirical work on barriers to sustainability and growth has focused on the external factors.

Burns' (1994) analysis of a survey of five European countries identifies the greatest barrier as the depressed state of European economies. Second was competition from within the country and abroad, next was the availability of capital and the cost thereof and lastly, government bureaucracy. Grant Thornton International (1995) conducted a survey of 17 European countries and they identified short and long-term barriers. The principal short-term barriers were cost of finance, shortage of orders, and domestic legislation. The primary long-term obstacles were limited market demand, accessing new markets, and the cost and availability of finance.

Tepstra and Olson (1993) identified the key barriers to sustainability as being internal, with sales and marketing the most dominant, followed by internal financial management, human resource management, general management, and lastly the regulatory environment. Peterson, Dyer, Farr & Christensen (1995) suggested that eliminating the growth defeating management practices might be more important than adopting growth promoting strategies.

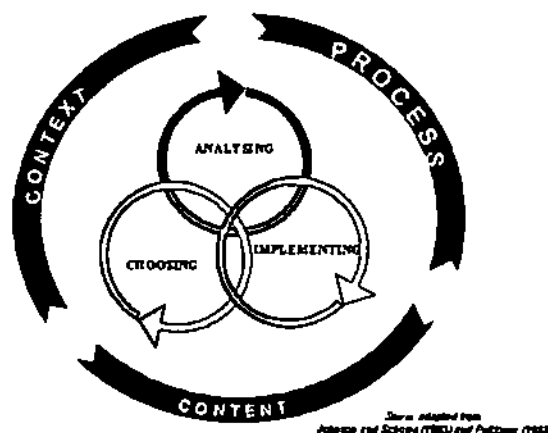
These barriers influence the structures and strategies adopted by managers and negatively impact upon the ambitions of the organisation. Some of the barriers to sustainability are perceived rather than real, but once they exist in the mind of the entrepreneur they will act as a deterrent to sustainable aspirations and practices.

2.5 Strategy

A company's strategy is the game plan management uses to determine market position, conduct its operations, attract and please customers, compete successfully, and achieve organisational objectives. By crafting a strategy management is effectively saying, "Amongst all the paths and actions we could have chosen, we have decided to move in this direction, focus on these markets and customer needs, compete in this fashion, allocate our resources and energies in these ways, and rely on these particular approaches to doing business." Strategy however does not function in isolation but needs to be closely synchronized with corporate culture. In the forestry/outsourcing context, the emphasis has been on, 'we have decided to move in this direction, customer needs and the allocation of resources and energies.' Figure 4 below is a schematic representation of the strategy process.

Figure 4: Schematic representation of the Strategy Process.

The Strategy Process



Shipham, 2005

The theory on strategy also tells us that most strategies fail in the execution phase and that strategies have to be reviewed and adapted in relation to the changing business environment. This dependence on success in the implementation phase is shown in the model, whereby organisational structure, culture and systems all impact on the implementation. Relating this to the forestry industry it is conceivable that the execution phase of the outsourcing strategy was not formalised, for example along the lines of project management. Secondly, it can be argued that the strategy has not been adjusted to changes in the environment, namely Employment Equity, Broad Based Black Economic Empowerment (BBBEE) and minimum wages.

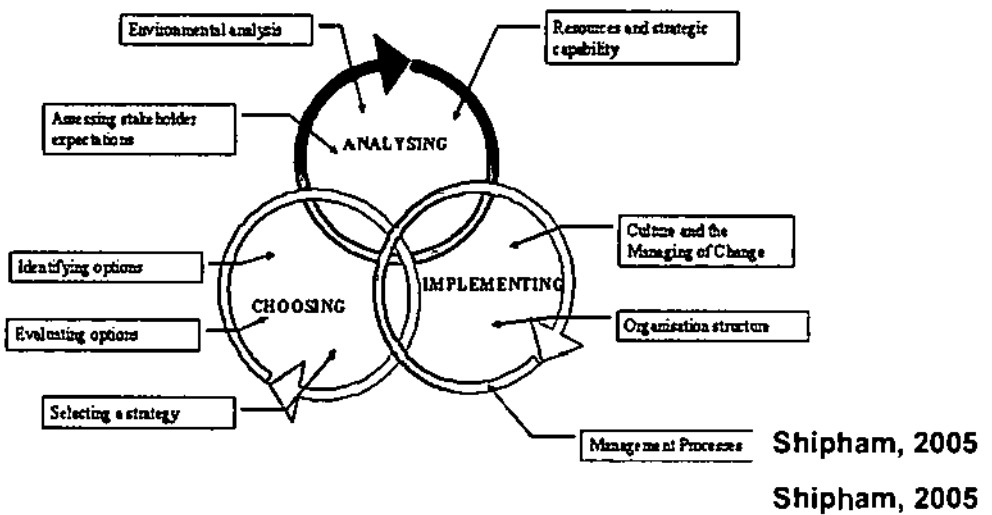
Closely related to the concept of strategy is the concept of a company's business model. This is a generic term for management's plan for making money in a particular business. The business model translates the strategy into revenue-cost-profit economics. The fundamental issue surrounding a company's business model is whether a given strategy makes sense from a money - making perspective. Consequently a company's business model is more narrowly focused than the business strategy. Strategy relates to a company's competitive initiatives and business approaches, while the term business model deals with whether the revenues and costs flowing from the strategy demonstrate business viability. Initially the outsourcing decision was a strategy in terms of competitiveness, however the question must be asked, does it fit the business model in terms of supporting the strategy of business viability? The complexity of the problem is that there are two dynamic strategies and business models interacting, namely the strategy and business model of the forestry companies and the strategies and business models of the contractors. By the nature of the business, the two are not necessarily compatible. The analytical constructs of the strategy process are shown in the model below.

Understandably, crafting a strategy is only part of the process, executing the strategy successfully is the true measure of excellence. One of the key elements of successful execution is for the organisational culture to be supportive of the strategy. Strong cultures promote good strategy execution when they interlink and hurt execution when there is little fit. In the analysis of this scenario there is the added complexity of

not only internal culture but also the culture of the company in relation to that of the contractor organisation as well as the culture within the contractor organisation.

It is the strategy's maker's responsibility to craft a strategy that is compatible with the "sacred" or unchangeable part of the contemporary company culture. It is the strategy implementer's task, once the strategy is selected, to change whatever facets of the company's culture hinder effective execution (Thompson & Strickland, 2003). This complexity of formulating and implementing successful strategies is reflected in Figure 5.

Figure 5: The analytical constructs of the strategy process



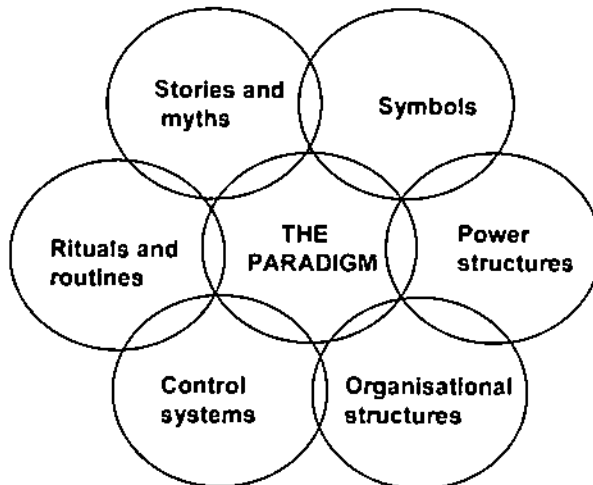
Ultimately strategy is about building and sustaining success. Ghemawat (1999) isolates two conditions as being fundamental to the success of strategy. Firstly he postulates that strategy must fit together internally in a way that generates added value for the organisation as a whole, in the environment in which it operates. Secondly it must be synonymous with the external environment in such a way that it is somewhat immune to threats of sustainability.

There is an ongoing tension between the irreversibility of companies' choices in reaction to the change in the environment in which they operate (Ghemawat, 1999). This is true of the situation in the forestry industry where outsourcing was introduced as a mitigating intervention in reaction to external changes. The cost of changing this decision to insourced operations is in many instances, prohibitive.

2.6 Organisational Culture

Little is understood about the science of culture but the research undertaken so far suggests that culture has an important influence over many aspects of organisational activities, as depicted in the model below. Common sense and experience however demonstrate that that culture can be easily identified, that it influences relationships, the execution of work and productivity, amongst others (Lewis, 1996). Arguably the culture will play a major role in transformation and change management. In the context of this study and analysis of the problem the importance and dynamic nature of corporate culture cannot be underestimated. The complexity and influence of culture in the organisation is reflected in Figure 6.

Figure 6: The cultural web



Shipham, 2006

2.7 Change Management

Culture is at the core of how an organisation functions, we also know from section 2.4 that strategy and culture must be linked for the successful execution of that strategy.

Due to the complex nature of organisational culture and the key role it plays in the functioning of an organisation, it is vital to give due consideration when changing the strategy within an organisation. As such a formal approach to embrace, communicate and manage the change needs to be implemented.

2.8 Mentoring

There seems to be some strongly based natural human functions that have existed across periods of history and across cultures. These functions have deep roots in our inherited behaviour. Such behaviours are so prevalent, they must have some sociological benefit or survival pay-off. The mentor – protégé relationship is one of those functions (Lewis 1996). Conceivably, mentoring is a powerful management tool that can be used to leverage the company/contractor outsourcing relationship, as well as the relationship between old and new foresters within the company. Steenkamp, 2005 has sensitised the reader to the scenario where contractors, being under financial pressure need to cut cost on indirect activities such as safety and training in an effort to survive. Mentoring could be a means of mitigating this situation.

2.9 The Economics of outsourcing

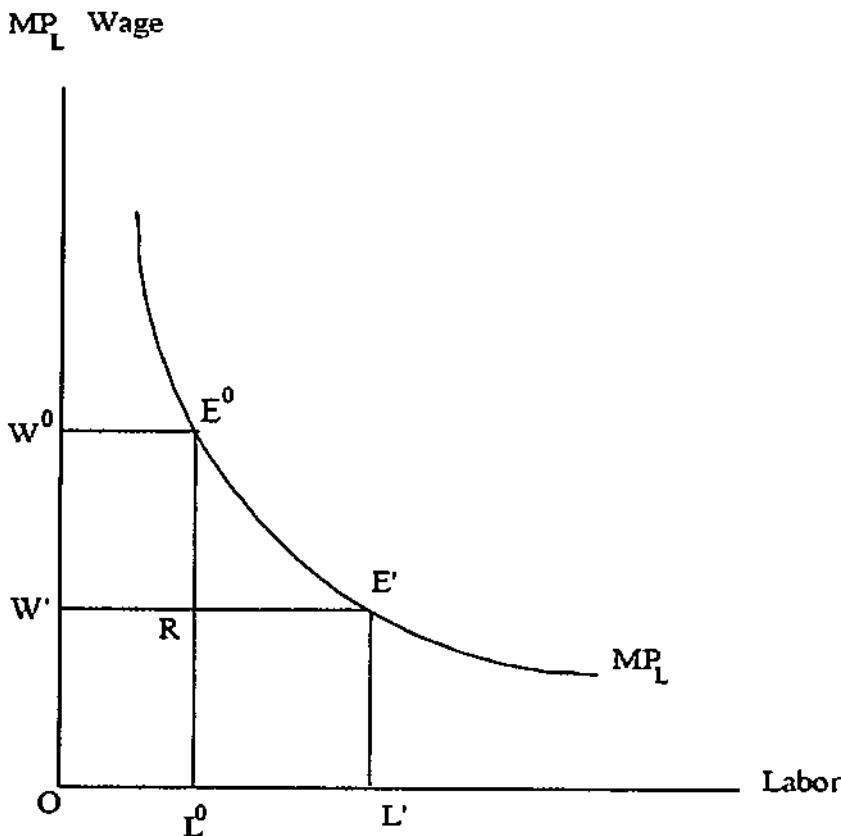
Bhagwati, Panagariya & Srinivasan, (2004) take a global look at the phenomenon of outsourcing and analyse it in economic terms. They postulate that some economists are expressing concern that outsourcing may be less likely than other forms of international trade to be beneficial to overall prosperity and more likely to harm the workforce. Conventional analysis of trade policy distinguishes three issues: how does trade affect aggregate economic welfare; what is its effect on the level of employment; and how does it affect income distribution, especially the real wages of workers?

The popular textbook models of trade, like the two-country, two-factor and two-country model, used extensively by the international trade theorists and associated with Paul Samuelson's classic stripped-down version of the Heckscher-Ohlin model, typically answer these questions along the following lines. Free trade in this model raises the overall income of each nation over what it will have under autarky; it enlarges the size of the pie available to each country in the process. Secondly the model focuses on long-run analysis and therefore assumes full employment, which

means it assumes that trade has no effect on the aggregate number of jobs. Thirdly, the model allows factor price to adjust to maintain full employment and therefore trade can cause changes in income distribution.

To substantiate their hypothesis they use a model that has only one good, produced with two factors of production, labour and capital. The model assumes diminishing returns to the factors and lets the MP_L curve in Figure 7 represent the marginal product of labour, given the fixed endowment of capital in the economy. Letting L^0 be the endowment of labour, the wage in terms of the final good is represented by W^0 . The wage bill is the area formed by the rectangle $OW^0E^0L^0$. The return on capital is the area under the MP_L curve and above the horizontal line W^0E^0 .

Figure 7: Economics of outsourcing.



(Bhagwati *et al*, 2004)

Given only one good, this model offers no scope for conventional international trade. Suppose, however that an intervention allows the economy to buy the services of labour abroad, electronically at the fixed wage rate of W' . The economy continues to hire the same endowment of domestic labour, but now paying the lower wage. In this case, the economy buys L^0L' labour abroad paying the rectangle $L^0L'E'R$ for it. Domestic labour receives OL^0RW' and capital the area under the MP_L curve and above the horizontal line WE' .

The following economic effects obtain. The country's total income rises by the triangular area E^0RE' , which is the net gain from outsourcing. The income of labour, the "import-competing" factor, declines by area $W^0E^0E'W'$ and is redistributed to capital. Thus, owners of capital make a gain of $W^0E^0E'W'$.

This model captures much of the popular rhetoric that expresses the doubts about outsourcing. That is the model shows that outsourcing may benefit society as a whole. However in the absence of a method to redistribute some of the social benefits received by capital to be transferred to the workers, firms or owners of capital receive more than 100% of the social benefits from outsourcing, while workers experience losses (Bhagwati *et al*, 2004)

Arguably the principles applied in this hypothesis can be applied to the situation of the forestry companies and the contractors. If substituting the country with the company and labour with the contractor, conceivably then we get a similar scenario whereby the company benefits from outsourcing and the contract labour experience losses. However the impact of the minimum wage decision might alter this situation and warrants further study.

2.10 Strategic partnerships

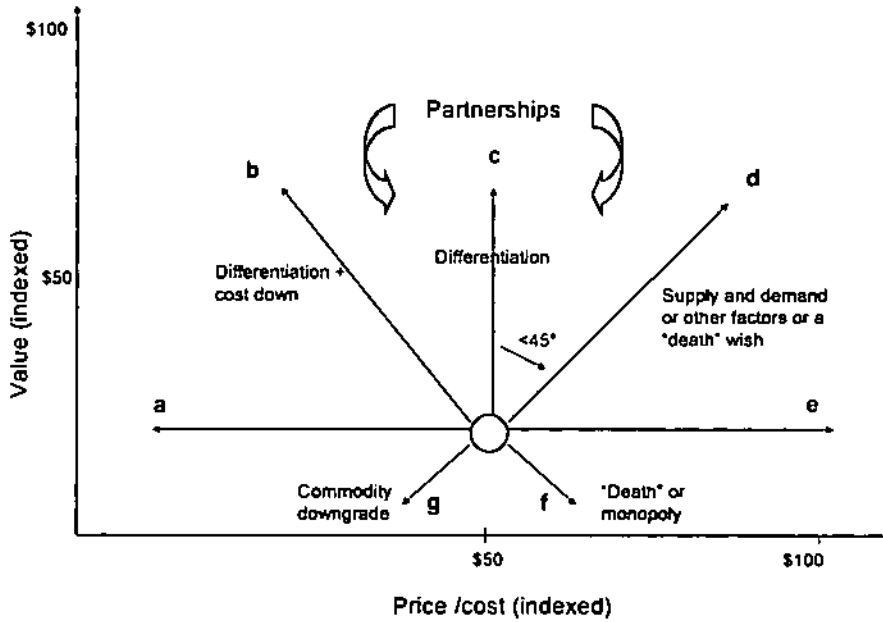
Customer/supplier relationships are all about trust, commitment and leadership at every level, shared vision, common goals, respect and long-term views. This sounds simple enough and like total quality management (TQM), strategic partnering is fundamentally about applied commonsense. However, in reality common sense is not always common practice.

A common misconception is that partnerships are mainly about sales and marketing, or supply and distribution, or are the latest flavour-of-the-month project from corporate head office. In fact, a true partnership has little to do with sales and marketing or supply management in the traditional sense. Strategic partnering requires the involvement, from all parts of the business, of highly skilled, committed and empowered people developing multilevel, cross-functional relationships focused on continuous improvement for mutual benefit and based on competence and trust.

With the global economy now a reality, the objectives of becoming internationally competitive and world class are imperatives for all successful businesses. Critical to this success, and to the development of sustainable competitive advantage, will be the quality of the relationships developed between customers and suppliers, both internal and external to the organisation. Strategic partnerships and alliances are now regarded as a legitimate, fourth, growth option for business alongside organic growth, acquisitions/mergers and divestments. They are the way in which business will be conducted between world-class organisations in the future and will form a fundamental part of business strategy. A true partnership positively influences and permeates the whole organisation, giving employees a greater sense of purpose, providing an improved return on investment, and generally acting as the benchmark for customer satisfaction and competitive advantage (Lendrum, 1998).

Sustained competitive advantage in partnerships is about managing the relationship between value, price and cost: that is the price to the buyer and the cost to the seller. Depending on the environment and the forces and variables operating within it there may be a number of options available relating to value, price and cost. These are shown in Figure 8 below.

Figure 8: The relationship between price/cost and value.



(Lendrum, 1998).

In partnering and alliances, total cost will most certainly include the collaborative efforts of suppliers working and benchmarking together, exploring synergies to lower costs and add value. The difference between total value and total cost is the margin i.e. the difference between the value the market will pay and the cost of producing a unit. The principle or learning opportunity is that a focus on total value and total cost will yield a far better and more lasting result than an obsession with lowering supplier prices. As the old saying goes, being “penny wise and pound foolish” by focusing on the unit price will not only ensure lost opportunity in the marketplace but increase the *angst*, frustration and miscommunication and decrease the performance and quality of the external and internal, customer/supplier relationships. Ultimately, it will have a negative impact on the margin (Lendrum, 1998).

Customers can demand smaller price decreases across all suppliers to gain equivalent savings initially, however the suppliers will see this as a blatant act of aggression to gain a one-sided, short-term advantage. This is a situation that suppliers will correct, with interest at their earliest convenience. The result is a spiraling lose/lose situation and a degenerating relationship. Tragically, most good suppliers are able to provide ideas that will add value. Generally in most partnerships

they are not asked or ignored. Others are hesitant in offering ideas for fear of being played off against other suppliers or having the unproven benefits taken as given and therefore justification or trade-off for immediate price cuts (Lendrum, 1998).

How then is a 'good' partner selected and once selected how is that relationship maintained? Appendix 3 is a generic process of selecting a partner.

If developing successful partnerships is critical to the future success of business in general then it is going to take special qualities and special people, first to unravel and then to manage such complexity. These managers are rare indeed partly due to the depth, breadth of skills and experience required and partly because partnerships, especially in terms of outsourcing are a relatively new phenomenon in business.

If we look at the analogy between business partnerships and marriage, we can perhaps conclude that society as a whole has difficulty in understanding the general concept of partnerships. Conceivably marriage can be seen as the barometer of society's ability to form social partnerships. If this is true, the fact that at least two in five marriages end in divorce indicates that our track record in managing these relationships effectively is not only poor but getting worse. Would it be wrong then to assume that there should be a different trend in the world of business partnerships? The way we relate to each other at a social level does not make the task of developing strong, long-term strategic relationships at a business level any easier (Lendrum, 1998).

Contract/Partnership managers: who are they and where do they come from? What competencies and skills are required? How are these competencies and skills coached and developed? In attempting to answer these questions it is important to remember that the strategic partnering process is not only about managing partnerships; it also involves the effective management of the balance of the customer and/or supplier portfolios.

Kobayashi, (1995) gives the following reflection on suppliers. In Japan there is a saying that the supplier is a reflection of the purchaser – looking at the supplier will reveal much about the company being supplied. Cooperation between a

manufacturer and its suppliers has an important impact on the manufacturer's quality, cost and delivery.

Factories (organisations) need to abandon the idea that their supplier relationships are simply sales transactions and must recognise the wisdom of providing technical assistance to help suppliers improve their technology and manufacturing quality (Kobayashi, 1995).

There is no doubting the significance of successful partnerships for individuals, teams, organisations and supply chains. Strategic partnering will generate value for customer and suppliers organisations, as well as value for employees, community and environmental stakeholders. Business has entered a new era of globalisation and economic recovery where the strength and quality of relationships between customers and suppliers will be the key to sustained growth and prosperity. Arguably, strategic partnering will provide the paradigm shift required to sustain this competitive advantage.

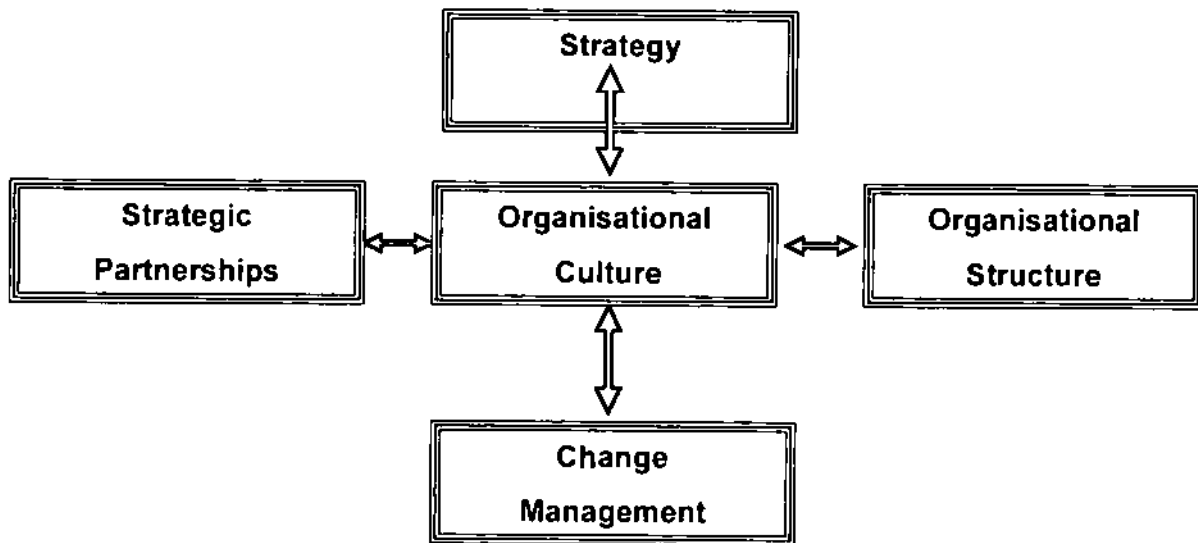
2.11 Summary

It has been established that the forestry industry is of strategic importance to the South African economy and that the contractors are positioned as a vital link in the timber supply chain. On the surface the management problem of managing contractors for long-term sustainability appears to be simplistic in nature and solution. Conceivably the problem is complex and it is intricately woven into the fabric of corporate strategy, organisational culture and change management. Figure 9 below shows the interaction of the processes that drive contemporary organisations.

Considering the strategic importance of the industry and the complex nature of the problem around sustainable outsourcing it is evident that research needs to be conducted from a broader scope than was initially anticipated.

In an endeavour to address the problem from as wide a scope as possible, the literature review will be diverse as opposed to focusing specifically on forestry and outsourcing.

Figure 9: The interaction of processes



3. LITERATURE REVIEW

3.1 Introduction

In this section I will examine recent or significant research data, and industry reports that will act as a basis for my proposed study. The Literature Review will focus on the important results and conclusions of other studies, as well as the applicable data and trends. A Literature Review might reveal that the management question can be answered by doing a secondary data search as opposed to collecting primary data (Cooper & Schindler, 2003).

3.2 Change Management

Swanepoel, (2003) distinguishes between two broad categories of change situation, namely "hard" and "soft" change situations. Hard change situations are probably easier to identify, specify, describe, demarcate, diagnose and manage. Normally the

role players are likely to share a great deal of common understanding of what the problems and accompanying solutions are. The time scales and resources needed for the change to be effected are also normally clearly defined.

In the case of soft change issues time scales are often “fuzzy”, resource implications are very uncertain and objectives and priorities are normally uncertain, subjective and vague. There are usually very few clear-cut hard and objective facts and it is normally very difficult to disentangle the web of symptoms, causes and effects. Although often ambiguous in terms of detail, the implications are usually very serious and worrying, whereas in the case of “hard” change situations the implications are typically less serious and more limited in terms of scope.

The literature describes four different scales of change, namely:

- *Fine tuning* – an ongoing process of adapting and refining aspects of such as processes, policies, procedures and methods.
- *Incremental adjustments* – distinct changes to strategies, structures or business processes in response to changes in the external environment.
- *Modular transformation* – major realignment and/or radical change of large or significant parts of an organisation.
- *Corporate transformation* – revolutionary change that cuts across organisations. Examples include a total change of business direction with a brand new mission and the formulation and adoption of a whole new set of core values (Swanepoel, 2003).

Two approaches to change management are highlighted, namely an *incremental/emergent* approach and a *planned* (N-step) approach. In the N-step approach change is seen as a process that has to be pre-planned and managed through a series of sub processes to the point of implementation; the process thus having been completed. The *incremental* approach puts the emphasis on the highly dynamic, evolving, unpredictable nature of organisational change, being open ended and continuous with no real point of starting or completing it.

Kurt Lewin's (1951) three step model of "unfreezing" the status quo, actively changing the organisation or parts thereof, and "refreezing" the new organisational state to create a new status quo was one of the earliest models of planned change. Lippitt, Watson and Westley refined Lewin's three phases into the planned change model.

From these models there is an emerging framework for planned change. This framework provides a basic linear process perspective of change; entry, diagnosis, planning and implementation of change, evaluation and institutionalisation of change. The question is was this structured approach used to manage the change in management between in sourced operations and outsourcing?

Swanepoel (2003) describes two common forms of achieving organisational change. Firstly there is organisational development, which is defined by Waddell, Cummings and Worley in Swanepoel (2003) as "a system wide application of behavioural science knowledge to the planned development and reinforcement of organisational strategies, structures and processes for improving an organisation's effectiveness". Organisation development efforts then are planned, systematic approaches to change. They involve changes to the whole organisation or to large segments of it; a series of planned behavioural science interventions activities are carried out in collaboration with organisation members to help find improved ways of working together toward individual and organisational goals.

Various techniques are employed to transform and change behaviour. Some of these techniques are survey feedback methods that systematically report results as a basis for change. Team – building is another initiative aimed at improving group effectiveness.

The other method for implementing planned organisational change is Kotter's 7 – step process. Kotter analysed the multiple approaches to change and transformation that were adopted by more than a 100 organisations going through a transformation process and concluded that (a) the change process goes through a series of phases that, in total, require a considerable length of time; and (b) critical effects in any of these phases can have a devastating impact, slowing momentum and negating hard-

won gains. As a result of his research, Kotter identified eight errors common to organisational change.

Further to identifying common errors Kotter also proposed remedies. He postulates that methods applied in successful transformation are based on the fundamental understanding that major change will not happen easily. Maybe this was a shortcoming of the outsourcing process; because a lot of contracts were awarded to foresters it can be argued that the assumption was it would be an easy, quick process because they had the necessary technical skills. Johnson (2003) reflects that in communicating an outsourcing initiative, patience is as vital as consistency. The reason for this is that the real benefits of outsourcing take time and before the effects are felt, things will get painful, ugly and chaotic. Management need to understand that it is easy to generate a "big bang" early in the execution of the outsourcing initiative, but enduring change is more difficult to accomplish and takes longer.

The value of change and transformation often lies in the process and not so much in the actual changes or the end result, because the end result is ever – changing in response to internal and external factors facing the organisation (Swanepoel,2003).

3.3 Mentoring

The fact that organisations are growing, contracting out work and changing rapidly has implications for people as employees. Most people are aware that jobs for life are a thing of the past. We are entering the era of the psychological contract and employment is likely to deliver a range of benefits both ways, but increasingly it will be temporary.

Conceivably, one of the major implications of these factors is that employment becomes more demanding and less stable. In order to keep abreast of the changes, it is necessary to keep moving and developing.

A key theme that comes out of this is that learning is going to be fundamental for all managers. This learning will be continuous and never ending. From this we can deduct that we cannot be trained with a particular set of skills and hope that these will last for a life time, or even for a number of years. Another change that is synonymous

with this and is implicit in the underlying theme of what has been said is that managers will have to take responsibility for their own learning (Lewis, 1996).

Organisational culture helps shape an organisation's design and social processes. Culture is used to describe how people group and identify themselves, that is, their social bonds, underlying assumptions, belief systems and espoused values as well as the tangible and observable characteristics of an organisation, such as norms, language, behavioral rituals and myths. Culture is neither natural nor fixed; rather it is created through socialisation and learning (Bratton *et al*, 2005).

3.4 Organisational Culture

Organisational culture is important because it has pervasive influence over all relationships within an organisation. External factors, such as new legislation union dynamics, the government's social and economic initiatives such as GEAR, social responsibility pressures, an irregular economy, international competition, deregulation, the importance of informal businesses, mergers and acquisitions, crime, etc – all combine to create unusual pressures that require radical shifts in management thinking and practice in South African organisations.

One of the major challenges facing South African organisations is therefore how to create structures, policies, systems and practices that are consistent with the cultural profiles of their workers. After years of isolation in a siege economy, new human resource strategies and practices mean that South African managers will have to grasp the fundamentals of change and transformation management issues (Swanepoel, 2003).

To add to the complexity of the problem is that these changes and transformation are taking place within the context of the forestry companies and contractors. The forestry companies do not have direct interaction with labour anymore because of outsourced operations. This means that they have to work through the contract owner in order to influence labour. Most contracting businesses work for more than one of the forestry companies, this puts additional pressure on the relationship because the companies have different cultures and the contractor business has its own culture.

3.5 Outsourcing

A definitive look at what outsourcing (contracting out) is can be derived from what can now be referred to as Coase's Law, which states that a company will purchase goods and services from suppliers, (outsourcing) if the supplier's costs, plus the cost of completing such transactions are less than the costs of getting identical work produced by the company's own employees, (Strassmann, 2005).

This law is not new, as early as 1937 Coase concluded in his research on company structure that a firm's structure is related to the trade – off between cost of accessing the market and the problem of diseconomies of scale. It was only in the 1970's, when the concept of transaction cost of economics emerged that focus was placed on Coase's ideas (Piennaar, 2005). Williamson (1985), further developing this concept, proposed the idea of asset specificity and he built a theory of a company, based on the need to economise transaction costs.

Esselaar (2000) substantiates Coase's Law by stating that firms claim that by outsourcing they can reduce costs and increase efficiency. It is further expected that outsourced firms will directly reduce labour costs, increase flexibility and productivity and specialise on core activities.

Lonsdale & Cox (2000) adopt a different perspective on outsourcing. They argue that a firm's very existence is the result of a managerial decision that certain activities should be undertaken internally, rather than sourced from the market. They introduce the concept of multi-dimensional boundaries within which the firm operates. The dimensions cited by them include conglomeration, horizontal and vertical integration and the internal integration of support functions. These are important dimensions when considering outsourcing because of the recent trend towards a more holistic approach to corporate strategies.

Some generic principles that underlie the outsourcing decision can be extracted, namely;

- Reduction of costs.
- Market accessibility and diseconomies of scale.

- Increased efficiency – flexibility and productivity.
- Focus on core business.

Over recent decades, contracting has developed as the standard mode of forest operations in many countries. In some countries, this is traditional. In others, particularly in Central and Eastern Europe, it is a new development. In Poland the share of contract labour rose from zero to around 75% during the last decade. Also, in developing countries such as Brazil and South Africa, there was a pronounced push towards contracting during the 1990s, making it the dominant work arrangement.

The swift change to outsourcing has often meant that measures to ensure acceptable working conditions and safety standards have lagged behind. Contractors and their employees often experience disadvantages such as short-term contracts, discontinuous employment, greater safety and health hazards, low profitability, long working hours and lack of qualification (in terms of both management and technical skills). Surveys in Finland, Chile, and South Africa show that most have lost out in pay and benefits (Blombeck & Poschen, 2003).

According to Piennaar (2005), the main reason for outsourcing in any value chain is to achieve focus on core business. Manyuchi (2002) summarises other reasons for outsourcing, these are split into strategic and tactical reasons. Under strategic reasons he cites issues such as improved business focus, sharing of risk and accessing world-class expertise. Tactical reasons are to reduce or control operating costs, to secure resources not available internally and to manage problematic operations. This is not different from what the other authors are postulating, except it is compartementalising the decision to outsource as either being strategic or tactical. The secret behind outsourcing seems to be to apply it as a tool to drive strategic value, transform businesses and even fundamentally change industry dynamics, as is the case with the forestry industry in South Africa. Craumer (2002) is of the opinion that companies should not be blinded by the perceived benefit of cost reduction. She postulates that more and more companies are realising that their best partner is the one that offers them the greatest value, and not necessarily the lowest cost. The approach in the forestry industry has mainly focused on cost.

Esselaar (2002), provides a more detailed approach as to why firms outsource, these are discussed below.

Two theories are postulated, the first looks at the traditional argument of companies that outsource being in a better position to focus on core competencies. The second looks at outsourcing as allowing the company access to specialised skills and inputs that the company cannot afford itself. This is especially true of the IT industry where the majority of services are outsourced. Quin and Hilmer, in Esselaar (2002) define core competencies as a company's activities that offer long-term competitive advantage and must therefore be rigidly controlled and protected. These activities create unique value for the firm and cannot be more effective if sourced externally. In terms of this rationale it is extremely difficult to explain the externalisation of operations in the South African Forestry industry and warrants further explanation. Traditionally the industry is structured around a holding company which is normally categorised as operating in the processing sector, not forestry *per se*. Forestry will only be a division of such a company. The difficulty then lies with where are the core competencies of the business defined, for the terms of reference of this paper the core competencies must be defined at the forestry level. By applying the rationale of Quin and Hilmer's definition of outsourcing, it is conceivable that outsourcing of forestry related operations in South Africa was not aligned to focusing on core competencies. This will be revealed through further discussion in this paper.

Since 1996 business has become increasingly vocal about the inflexibility of the South African labour market. In an effort to contain or reduce costs firms have either opted to reduce labour costs or increase productivity or both. By outsourcing firms are able to reduce direct labour costs by saving on wages and associated benefit payments, decrease union power and mitigate the risk of strike action and having to allocate management time to resolving labour issues.

Economically speaking, productivity per unit is equal to output divided by inputs. Logically then increasing productivity, requires increasing output and keeping inputs constant, or keeping output constant and decreasing inputs. Stated simply, productivity is getting more for less. In a report published by the National Productivity

Institute (NPI), there is evidence that productivity in South Africa is increasing; however it is the view of the NPI (2001) that this is being achieved by a reduction in inputs such as reducing real wages and the number of people employed. The NPI believes this is not a long-term method of increasing productivity.

de Groot (1998) is of the opinion that the trend in South Africa is to outsource those activities associated with slow productivity growth. The rationale behind this trend is that contracted workers will be more productive because their employment is subject to “contingent renewal”, whereas they would be eager to secure long-term employment. Furthermore he believes that ex-employees, who are transformed into independent contractors, will be more productive because they “own” the right to their own output. This argument is substantiated by Morkel (2000), where he argues that there is only one reason for outsourcing and that is – ownership. Morkel expands on this argument by suggesting that ownership cultivates a very real and unique focus on business success because the contractor is no longer an employee reporting to a boss. It is this dynamic of ownership that companies leverage when they outsource, and it is this phenomenon that will always allow a contractor to perform operations more cost effectively than in-house operations. This theory however is not reflected in the success rate of forestry contractors over the last decade.

3.6 Labour’s Reaction to Outsourcing

Many of the advantages of outsourcing as identified by business are precisely the disadvantages identified by labour. There is conflict between an economic rationale calling for greater business flexibility, and a social rationale demanding living wages and a certain degree of job security. Outsourcing results in a decrease in employment due to retrenchments, and those that remain employed usually receive lower wages and fewer benefits than permanent workers.

Besides receiving lower wages, outsourced workers often do not qualify for any of the benefits associated with permanent employees. Contract workers often do not receive medical schemes, pension or death benefits and although all employees are legally entitled to receive severance packages, many do not (Esselaar, 2002).

Contract workers have also been found to work under dangerous and dirty conditions, without adequate safety equipment. Employees suggest that there are more injuries with subcontractors than are actually reported. This exposure of contract workers to health and safety risks is aggravated by working long hours, lack of medical benefits, inadequate or non-existent compensation and exploitative practices such as dismissal in the event of injury or sickness. Allegedly some contractors ignore aspects of the Occupational Health and Safety Act, 1993; even so workers are prepared to do the work because the lack of the employment opportunities and fear of being dismissed if apprehensions over safety exposure are expressed (Esselaar, 2002).

The main criticisms of outsourcing concern the above-mentioned distributional effects, but outsourcing has also been criticised on economic grounds for undermining long-term efficiency. A significant problem with outsourcing in South Africa is that it is unlikely that contract workers will receive any training. With outsourcing the new employer's main concern will be generating profit as opposed to skills development (Ray, 1997). Even if contractors did wish to train their workers it is unlikely that these comparatively small businesses will be able to afford to invest in human capital development.

Within the principal companies, the demand for workers is evolving away from unskilled labour towards a more specialized core of workers, resulting in a deskilling of workers (Ray, 1997). South Africa already suffers from high structural unemployment due to lack of skills. This trend towards outsourcing and subcontracting will only further exacerbate the problem unless there is intervention by government and business.

3.7 Outsourcing in the South African Forestry Industry

Brink & Kellogg (2001), researched the forecasting of global timber harvesting requirements using the Delphi technique.

Their research amongst others highlights the future requirements of both harvesting foresters and contractors. Their study included two questions regarding the future requirements of harvesting foresters and contractors. Panel members were asked to

rank (separately) the two most important requirements of a harvesting forester and harvesting contractor in 2010

Inter-personal skills rated as the most important requirement for a harvesting forester and ranked 4th with regard to a harvesting contractor. Twelve of the 15 respondents showed consensus in their ranking, with the highest ranking by any respondent being 3rd for a harvesting forester. This supports the high level of consensus amongst respondents as being the number one requirement (Brink & Kellogg, 2001). Interestingly, as with management skills, this is typically not a forestry related subject.

Business skills were the only requirement where there is a significant deviation from the ranking of the panel members for a harvesting forester 5th and a harvesting contractor, 1st. Business skills are seen as being of relative importance to a harvesting forester, but as the most important attribute for a harvesting contractor to possess (Brink & Kellogg, 2001). My postulation is that these findings can be applied to foresters and contractors in general.

Brink & Kellogg (2001) also looked at the future trend in outsourcing harvesting operations. The question asked focused on the percentage volume (m³) outsourced and the size of future contracts. Their findings show that 84% of harvesting operations included in the study are outsourced and this is expected to rise to 90% by the year 2010. My postulation is that in South African forestry we are already at this level.

The data indicates that contract size will increase by 2010. Only 33% of annual contracts are expected to be less than 50 000m³ per year as opposed to the current 44%. This trend is also reflected in the 100-200 000m³ and the 200-500 000m³ contract sizes. Although Brink & Kellogg specifically researched harvesting, my expectation is that there will be a similar trend in silviculture operations.

Khosa, (2000) found that the majority of contracting organisations have been in business for over 5 years, conceivably these findings suggest that contracting has been established as an important factor in the South African forestry sector. In

measuring the capitilisation of the contracting organisations Khosa found that it ranges from R 10 000-over R 10 million. The data indicates that 62% of contractors have capitilisation of between R 2 million and R 10 million, with only a minority (3%) exceeding the R 10 million.

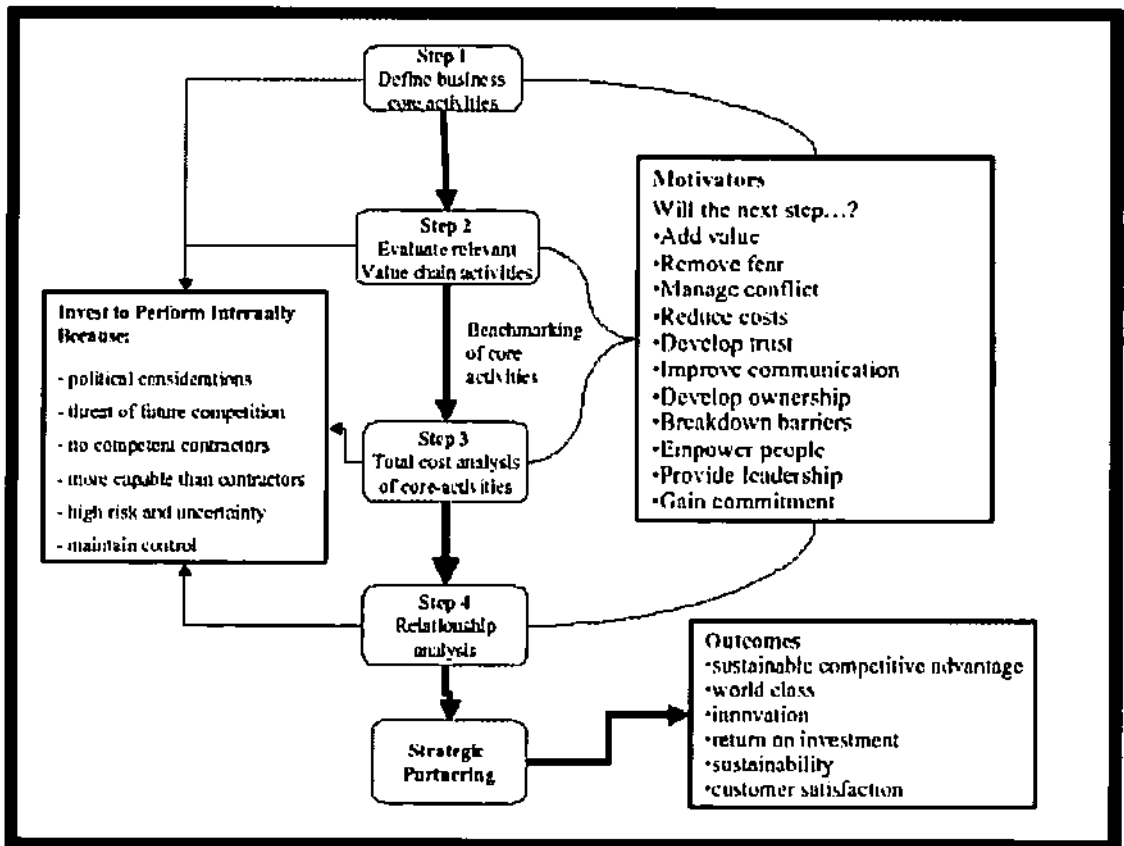
Arguably contractors appear to have invested reasonably well in their enterprises with the hope of making some significant returns. These findings suggest that capital is probably a barrier to exiting the contracting business, i.e. having invested heavily in the business, locks contractors in and to a degree they have to be content with the terms and conditions stipulated by the principle company.

Khosa's research shows that the duration of the contract can range from seasonal to being time specific. The most popular duration of the contract appears to be less than 3 years (38%) followed by contracts of more than 5 years (30%) and lastly seasonal (27%). My postulation is that there is a correlation between term of contract and sustainability. Although Khosas' research shows that the majority (62%) of contractors have invested between R 2 million and R 10 million, I am of the opinion that the duration of the contract might also be a barrier to long-term commitment on the part of the contractor.

Manyuchi (2002) also focused his research on the dynamics of outsourcing in the harvesting environment, again some of his findings can be applied to outsourcing in the forestry industry in general.

In his research Manyuchi identifies a model derived from Lendrum (1998) and McIvor (2000) that depicts a framework for strategic partnering that consist of steps, motivators, and outcomes that form the basis on which relationships are managed and the sourcing decision is taken. This is shown in Figure 10 below.

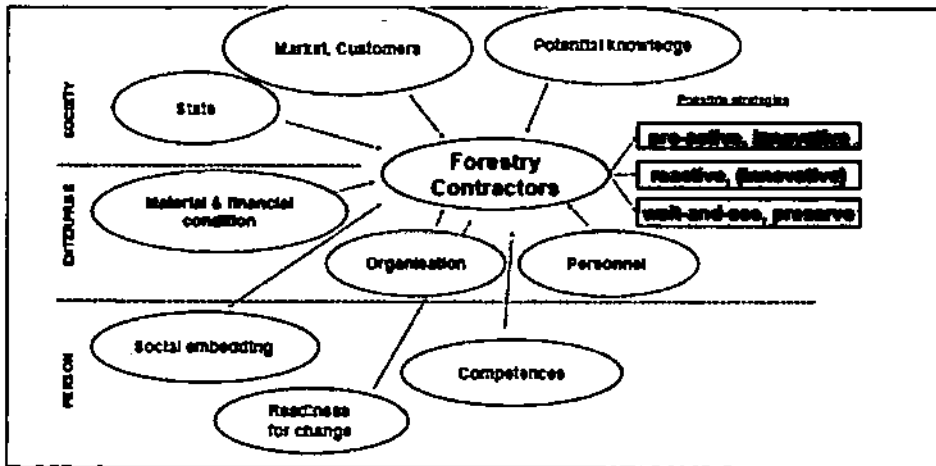
Figure 10: Strategic partnering framework.



(Manyuchi, 2002).

Manyuchi (2002) further argues that the principle companies did not adopt a systematic approach to some key issues, which now threaten the sustainability of the outsourcing decision, namely the availability and development of skills, technology acquisition and utilisation and contractor selection and development. Manyuchi (2002), suggests that organisations are not achieving the desired results from outsourcing because outsourcing decisions are rarely taken within a strategic perspective. He feels that most organisations adopt a short-term perspective; the motivating factor is the allure of short-term cost reductions. Most outsourcing decisions are made by default, with little or no consideration given to the strategic competitiveness of the organisation. Little or no research has been conducted on understanding the strategies of forestry contractors. Brogt and Kastenholtz (2005) have done tentative studies on contractors in Germany, their findings are shown in Figure 11 below.

Figure 11: Factors influencing contractors' business strategies



(Brogt & Kastenholtz, 2005).

Their research further shows that most contractors have reactive strategies and that such strategy will vary according to their personal work environment. An important contribution of their research is that contractors, with few exceptions, only act strategic under severe pressure. This adds substance to the argument postulated earlier that the strategies of the companies and those of the contractors are not aligned.

Evidence from Steenkamp (2005) shows that the outsourcing process does not always guarantee success. Pienaar (2005) cites Lacity as having found that in the majority of cases the strategic-versus-commodity approach to outsourcing led to problems and disappointments. Pienaar (2005) found that the relationship with the outsource partner must be aligned to the strategic intent underlying the outsourcing initiative, and that there is a link between the manner of contractual arrangement, implementation and subsequent dividend of benefits.

Khosa (2000) states that there is evidence of a strong chorus of voices that are arguing the contracting model is not the solution it is often made out to be. He cites the reasons for this as being the limited capacity in skilled regulators, legal frameworks and effective monitoring systems. From his research there is further evidence that the industry and companies need short, medium and long-term

strategies in terms of outsourcing. Khosa (2000) cites the following as objectives for the short, medium and long-term strategies; a short-term objective for contractors is to increase wage levels, medium-term objectives for the grower companies are to provide loans or capital and relevant educational programmes for the contractors, long-term objectives for both parties is to focus on creating sustainable partnerships.

Manyuchi (2002) suggests that outsourcing in South African Forestry was not a clearly thought-out process, which is substantiated by Morkel (2000). He adds that it is possible to run competitive, sustainable operations in South Africa, provided that there are some preconditions, namely; 1) a reduction in wage disparities; 2) a change in the nature and length of contracts; 3) an increase in contractor and employee knowledge and skill levels; 4) improvement in conditions of employment; 5) increased job security; 6) equity in the allocation of contracts; and 7) better management of human capital and technology.

3.8 Summary

The reasons behind outsourcing are numerous, but the most important is the perceived fact that it saves money. The firms undertaking such jobs provide the services for a sum which is considerably less than what is normally incurred. The reason they are able to do so is that they don't have to provide perks and privileges to their workers and have fewer incidental or overhead expenses to take care of.

This process helps the outsourcing business to concentrate on other important issues while the nitty gritty is taken care of by outsider specialists. It also helps in diverting a considerable amount of resources and managerial focus on more strategic issues. The firm undertaking the outsourced work is usually streamlined and dedicated to the particular field and often has leading technology and equipment which wouldn't be otherwise feasible to procure and maintain. It is also beneficial in case the firm is looking to expand its business

Ideal ways to go about outsourcing is that a decision should be taken on the core competencies of the organisation and outsource everything else to others. It is important to understand the business, its achievements and aspirations and let others do the rest. However, before outsourcing, it should be ensured that issues

which are crucial to the business should not normally be outsourced, like cash-flow management and in some cases customer interaction.

It makes sound business sense to outsource some tasks in the initial stages and bring them in-house at later stages. A firm just starting off would do better to hire a recruiting firm for their employee needs initially. Of course the recruiting firm would charge for their services, but it would eliminate the hassles of going through the complete process which could also lead to hiring employees who are not exactly meeting the requirements. Whereas a firm specialising in hiring would do the job more efficiently, due to its experience in the field, which is its primary job. The process could be brought in-house later on with the help of regular employees.

Even though there are advantages to outsourcing, there are some disadvantages as well. Outsourcing usually eliminates direct interaction between a firm and its customers. The firm loses the opportunity of building a solid relationship with its customers and may lead to dissatisfaction to one or both sides. There is the inherent risk of putting a part of the operations in someone else's hand. Another great disadvantage is the probability of leaking of sensitive data to unauthorized and unscrupulous elements in the real sense. The firm also becomes dependent upon its providers, leading to problems in cases of the contractor failing to honour its commitment. It is therefore imperative that firms interested in outsourcing assess their needs and determine if outsourcing is a viable option for them. Outsourcing simply for the sake of it may not prove beneficial in the long run.

4 RESEARCH METHODOLOGY

4.1 Introduction

The definitions around research methodology abound but no one definition does justice to the full range of important aspects. Several examples from leading authors can be summarised:

“The research design constitutes the blueprint for the collection, measurement and analysis of data. It aids the scientist in the allocation of his limited resources by posing crucial choices. Is the blueprint to include experiments, interviews, observations, the analysis of records, simulation, or some combination of these? Are the methods of data collection and the research situation to be highly structured? Is an intensive study of a small example more effective than less intensive study of a large sample? Should the analysis be primarily quantitative or qualitative?” (Cooper & Schindler, 2003: 146).

Research is the glue that ties the contemporary understanding regarding the complexity of business and business processes into a meaningful way of understanding a particular aspect of the process better. It is a way of thinking that has been tried and tested over the millennium. Research has a value beyond the academic requirements. The integral philosophy behind research is that it provides the individual with methods and analytical skills that serve them for the rest of their lives. The real world is alive with problems and conceivably with research activity. The individuals who have learnt how to analyse problems systematically and dispassionately will live with more self-assurance and less panic than those who shortsightedly dismissed research as nothing more than a necessary hurdle on the way to obtaining a degree (Shipham, 2006).

4.2 Paradigms

Theory looks at the way in which we all view data and postulates two extremes in a continuum, namely the Positivistic and the Phenomenological paradigms. Fundamentally the two paradigms are on the opposite ends of a continuum, accordingly representing very different views of the world and information about the world. The positivistic paradigm seeks to portray the world as a place of facts.

Whereas, the phenomenological paradigm, seeks to understand the world as evolving perceptions (Shipham, 2006).

The intrinsic nature of this research demands an interpretation of the results within the context of the industry. Moreover, given this, the variables will not be directly controllable or fully established. A report, phenomenological in thought is postulated. However the data will be both quantitative and qualitative.

4.3 Methodology

The research will be qualitative and exploratory in nature and will be conducted in three phases which can run concurrently. This method of research is deemed appropriate as it deals with individual's perceptions, attitudes and feelings. Explorative research is particularly useful when researchers lack a clear idea of the problems they will meet during the study. Through exploration, researchers may develop concepts more clearly, establish priorities, develop operational definitions and improve the final research design.

The proposed research will not produce precise definitions or concrete quantitative measurements but will endeavour to identify those factors that influence long-term sustainability in the forestry outsourcing partnership. The explanatory nature of the research is supported by Calder as described in Pienaar, (2005) who describes exploratory research as "research that suggests, leads and opens avenues for observation." Firstly qualitative interviews will be conducted with contractors. Secondly a literature review of published and unpublished studies will be undertaken. Thirdly an electronic or postal questionnaire will be sent to forestry companies and forestry contractors who are members of the South African Forestry Contractors Association as well as non-members.

For the interviews six contractors will be targeted. Personal interviews will be conducted with potential participants. The interviews will be structured and a standard set of questions will be used for all participants.

The objective of the interviews is to:

- Determine what the relationship is between the principals and the contractors and to isolate those factors that promote or restrain this relationship.
- Gain an understanding of the extent of contracting operations and to establish if there is a relationship between volume in terms of tons or hectares and long-term sustainability.
- Determine what the criteria are for sustainable outsourcing.

The questionnaire will be posted or e-mailed to 160 contractors. The primary purpose of the questionnaire will be to obtain relevant information regarding the sustainability of contracting operations. To achieve this objective a questionnaire will be developed and interviews scheduled with major timber growers and contractors. In this way a better understanding of the factors impacting on long-term sustainability of outsourcing in the forestry industry will be identified.

4.4 Data Types

Theory presents us with four data types namely;

- Nominal data
- Ordinal data
- Interval data, and
- Ratio data.

Nominal data is probably the most widely collected data in terms of business and social science research. Nominal data collects information on a variable that naturally or by design can be grouped into two or more categories that are mutually exclusive and collectively exhaustive (Cooper & Schindler, 2003).

Nominal scales are the least powerful of the four data types. While nominal data are weak, they are still useful. Nominal measures are especially useful in exploratory work where the objective is to uncover relationships rather than secure precise measurements. This data type can also be used in survey and other ex post facto research when data are classified by major subgroups of the population (Cooper &

Schindler, 2003). For the purposes of my research, being exploratory, most of the data will be nominal.

Ordinal data includes the characteristics of nominal data but includes an indicator of order. Ordinal data are possible if the transitivity postulate is fulfilled. This postulate states: If a is greater than b and b is greater than c , then a is greater than c . The use of an ordinal data scale implies a statement of greater than or less than, without stating how much greater or less. Arguably some of the data for my research will be of the ordinal type.

Interval data have the power of nominal and ordinal data plus one additional strength. Interval data incorporates the concept of equality of interval; the distance between 1 and 2 equals the distance between 2 and 3.

Ratio data incorporates all the powers of the previous data types plus the provision for absolute zero or origin. Ratio data represent the actual amounts of a variable. Measures of physical dimensions such as weight, height, distance and area are examples (Cooper & Schindler, 2003).

For the purposes of this research, nominal, ordinal and ratio data will be collected.

4.5 Data Collection

Data gathering may range from a single observation at one location to a grand survey of multinational companies sites around the world. But what are data? Data are facts presented to the researcher from the environment of the study. Data can further be characterized by their abstractness, verifiability, elusiveness and closeness to the phenomenon. Data are processed by our senses, often limited in comparison to the sense of other living organisms. If and when sensory experiences consistently produce the same result, our data are said to be trustworthy because they are verified.

Data reflect their truthfulness by closeness to the phenomena. Secondary data have at least one level of interpretation inserted between the event and its recording. Primary data are sought for their proximity to the truth and control over error. Data

are edited to ensure consistency across respondents and to locate omissions. Edited data are then put into a form that makes analysis possible (Cooper & Schindler, 2003).

Both secondary data, in terms of the literature review and primary data in terms of the questionnaires and interviews will be used for this research.

4.6 Data Collection Techniques

Qualitative data collection is dependant on the personal involvement of the researcher and qualitative researchers tend to select a few participants who can best shed light on the phenomenon under investigation. Data will be collected by means of interviews and questionnaires.

For the interviews potential participants will be contacted by the researcher and briefed regarding the study and its purpose. Appointments will be set up and interviews will be conducted at a mutually agreed venue. Responses will be recorded directly onto the interview schedule.

Questionnaires will also be sent electronically or by post to respondents.

4.7 Data Analysis Techniques

In order to make decisions managers need information not raw data. Data analysis usually involves reducing accumulated data to a manageable size, developing summaries, looking for trends and applying statistical techniques. Researchers must also interpret the findings in light of the research question, or determine if the results are consistent with their hypotheses and theories.

The responses to open-ended questions will be analysed through a technique known as content analysis. According to Cooper & Schindler, 2003, content analysis measure the semantic content or the *what* aspect of a message; it may also be performed on open-ended questions in order to report in a quantitative way in addition to making qualitative analysis of the essence of the content. Content analysis follows a systematic process, starting with the selection of a unitization

scheme. The units may be syntactical, referential, prepositional or thematic. For the purposes of this research both referential and thematic units will be used.

Content analysis guards against selective perception of the content, provides for the rigorous application of reliability and validity criteria and is amenable to computerisation (Cooper & Schindler, 2003).

Exploratory data analysis (EDA) is both a data analysis perspective and a set of techniques. In exploratory data analysis the data guide the choice of analysis, rather than the analysis presuming to overlay its structure on the data without the benefit of the analyst's scrutiny. By comparison, confirmatory data analysis occupies a position closer to classical statistical inference in its use of significance and confidence. One authority has compared exploratory data analysis to the role of police detectives and other investigators and confirmatory analysis to that of judges and the judicial system. The former are involved with the search for clues and evidence; the latter are preoccupied with evaluating the strength of what is found. Exploratory data analysis is the first step in the search for evidence, without which confirmatory analysis has nothing to evaluate (Cooper & Schindler, 2003).

The analysis of data for this research study will be inline with the theory as it will search for evidence to guide and warrant further specific research.

4.8 Limitations and Delimitations

There are a number of potential limitations with this research. The research will be limited to the forestry sector of the timber industry and will more specifically focus on the interaction between forestry companies and their contracting partners within this sector. The study will not seek to give root causes to the problems surrounding the relationship between companies and contractors, but rather a reflective analysis of the forces impacting on this relationship. It will also be instrumental in determining and guiding subject matter for future studies. Even the forces impacting on the relationship cannot be seen as definitive because they will be based on people's perceptions. The researcher's own biases and values to some degree will also influence the interpretation of data.

The scope of the study will be restricted to the South African geographical region. The research will only be conducted on the relationship between the companies and the contractors doing forestry work. This excludes building contractors, security contractors and garden services as well as any ad hoc contractors that may be used occasionally.

4.9 Ethical Issues and Confidentiality

As in all aspects of business, all parties in research should exhibit ethical behaviour. Ethics are norms and standards of behaviour that guide moral choices about our behaviour and our relationship with others. The goal of ethics in research is to ensure that no one is harmed by the by the research activities. Whether data are gathered in an experiment, interview, observation, or survey, the respondent has many rights to be safeguarded. In general, research must be designed so a respondent does not suffer physical harm, discomfort, pain, embarrassment, or loss of privacy. To safeguard against these the researcher should follow three guidelines, namely:

- Explain study benefits.
- Explain respondent rights and protections.
- Obtain informed consent.

There are also ethical considerations to keep in mind when dealing with the research client or sponsor. Whether undertaking product, market, personnel, financial or other research, a sponsor has the right to receive ethically conducted research (Cooper & Schindler, 2003).

4.10 Validity, Reliability and Generalisation

Validity and reliability have to do with the characteristics of a good measurement tool. Validity refers to the extent to which a test measures what we actually wish to measure and reliability has to do with the accuracy and precision of a measurement procedure.

Many forms of validity are referred to in research literature, and the number is expanding as the concern for more scientific measurement grows. Most texts refer to two major forms of validity namely, external and internal validity (Cooper & Schindler,

2003). External validity of research findings refers to data's ability to be generalised across persons, settings and times. Internal validity looks at the ability of a research instrument to measure what it is purported to measure (Cooper & Schindler, 2003). Validity testing for exploratory research is difficult because of its phenomenological and reflective nature, for the purposes of this paper validity testing will be done by cross referencing work done by Khosa, (2000), Manyuchi, (2002) and Brink & Kellogg,(2001).

Reliability means various things to many people, but in most cases the notion of consistency emerges. A measure is reliable to the degree that it supplies consistent results. Although it can be said that reliability is a contributor to validity, it is not a sufficient condition for validity.

Cooper & Schindler, (2003) use the analogy of a bathroom scale to explain the difference and relationship between validity and reliability. If the scale measures your weight correctly, as verified by a source know to be accurate, then it is both reliable and valid. If the scale consistently over weighs you by three kilograms then its reliable but not valid. If the scale measures erratically from time to time then it is not reliable and therefore cannot be valid.

4.11 Summary

Research is a systematic approach to finding answers to management problems. Formal research is conducted within the constraints of certain disciplines and guidelines, as such it structures the approach and way of thinking of the researcher. The philosophy behind this approach to research is that it provides the individual with analytical skills that can serve them for the rest of their lives.

The rules and principles of business research will be applied to the research conducted for this paper. In the next chapter the results of the data will be analysed and discussed.

5 RESULTS

5.1 Introduction

Exploratory data analysis (EDA) is a process of data analysis as well as a set of techniques. In EDA the data guide the choice of analysis, or a revision of the planned analysis, as opposed to the analysis presuming to overlay its structure on the data without the benefit of the analyst's scrutiny. EDA shares a commonality with exploratory designs, not formalised ones. As EDA does not follow a rigid structure, it is free to take many paths in unraveling the mysteries in the data, it can sift the unpredictable from the predictable (Cooper & Schindler, 2003).

This discussion will primarily be descriptive, attempting to isolate the indicators for sustainability in outsourcing in the South African Forestry Industry. It forms the basis for analysis, research and debate.

5.2 Results

The respondents were all male aged between 28 and 53 and from the White and Black ethnic groups. There were no Asians included in the survey because they have not yet entered into this business. No females were included in the survey as they have only recently, within the last two years entered into the contracting business. A limit of the research was that no foresters were included in the survey; it was only aimed at contractors and senior management members of the grower companies.

The first objective of the research was to determine the factors that pre-empted the outsourcing decision in the industry. Synonymous with this objective was to determine the extent of outsourcing in the forestry industry and what the current dynamic tension is between the stakeholders and to what extent, if any this has changed over recent years.

Outsourcing is in line with world trends, which are showing a steady decrease in the numbers of direct employees and an increase in the use of private sector self-employed contractors or entrepreneurs. Large companies are also, by nature, unproductive whereas companies lead by entrepreneurs are more productive,

innovative and profitable. Outsourcing also reduces the risk from a single source (company) to a multiple source base (contractors).

Outsourcing has the financial advantage of moving assets in the form of plant and equipment off the company balance sheet and freeing up capital for investment in the core business, by means of investment in secondary processing capacity (pulp and paper making equipment). Outsourcing has the added ability to convert fixed costs into variable cost and to reduce total cost through higher productivity and reduced overhead costs. This is supported by the fact that during the 1980's, the two larger forestry companies, namely Sappi and Mondi were expanding their land base and buying farms for this expansion. The main reason was then an economic one because there was less capital available for infrastructure and equipment. The second reason for outsourcing was that labour unions and labour laws were starting to emerge.

These findings are contrary to my assumption that contracting in the South African Forestry Industry was mainly driven by a desire to mitigate unionization and subsequent labour issues. The extent to which outsourcing has taken place in the industry has increased steadily since the 1980's and currently the two big pulp producers, Sappi and Mondi are 100% outsourced.

Contracting has had a positive impact on the forestry industry. It has created numerous small and very effective companies run by entrepreneurs. For the successful ones it created wealth for the owners and shareholders, whilst benefiting the grower companies.

The relationship between the forestry companies and the contractors ranges from paternalistic to total abandonment with all the permutations in between. After almost a decade of contracting, the relationship has reached a level of maturity between the industry and the core base of contractors. The principle company remains the customer and has certain needs in terms of supply and quality that needs to be met. It is the contractor that understands this the best and adjusts to it in time that is successful.

Rate has always played an important role and is probably the main driver of perceived tension. The South African Forestry Industry and specifically the pulp and paper producers compete on the international markets, selling their products in US dollar denominations. Since 2003, the changes in the macro economy (low interest rates, strong SA currency, and low inflation) favoured local producers and worked against commodity exporters. To stay competitive, low rate increases were passed on to the contractors in an already high volume, low margin environment. This has probably been the single biggest reason for tension in the relationship between contractors and their respective principle companies.

Of the contractors interviewed 16.7% indicated that there is an antagonistic relationship at the moment (arrogance from the grower company). They felt that a strong, healthy relationship is needed and that contractors should be seen as 'assets' of the grower company. This sentiment was supported by the other interviewees who felt that the internal values of the grower companies, namely, integrity, trust, openness and transparency, should be applied when there is interaction between contractors and companies.

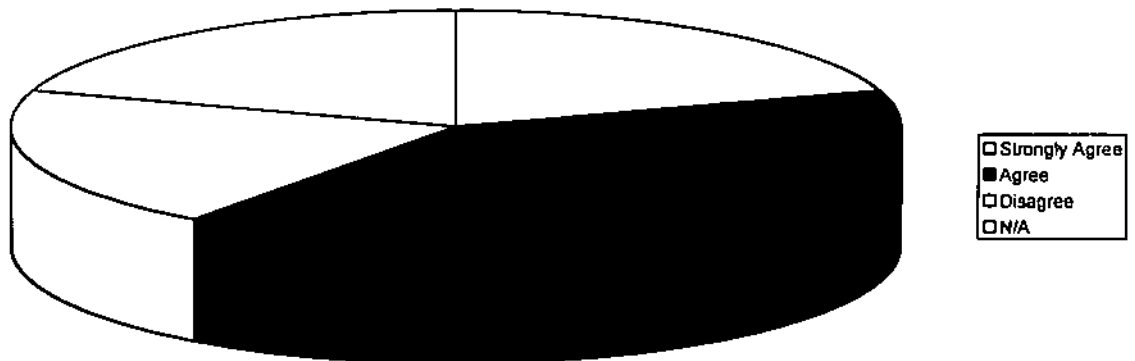
All the interviewees strongly indicated that the contractors should be part of the strategic planning process. There should be a culture of information sharing; the respondents felt that common goals should be identified and joint strategic sessions must be held. This is supported by the respondents to the questionnaire; 60% strongly agreed that current and future requirements were not known to the contractor.

Having determined what the reason was for the outsourcing decision the next objective was to determine what the factors are that determine sustainability. The criteria used in determining this were both operational (hard issues) and managerial and human relations/social issues (soft issues).

The first test was to determine if there is a correlation between the size of the contract, in terms of tons harvested or hectares managed and sustainability. The question was asked in both the questionnaire and the individual interviews. The response seems somewhat contradictory. The responses to the questionnaire, as

shown in Figure 12, indicated that 20% of the respondents strongly agreed that size is a determining factor in sustainability. A further 40% agreed, 20% disagreed and 20% indicated that it was not applicable. Whereas with the interviews, 50% of the interviewees indicated that they felt size was a contributing factor and 50% indicated that size of the contract did not factor much in determining sustainability, it was more an issue of rate. This issue warrants further discussion and will be dealt with in Chapter 6. Consensus amongst the interviewees is that there is a minimum entry point. For harvesting contracts this figure was pegged at 80 000 tons per annum. A figure for Silviculture could not be determined.

Figure 12: Contract Size Determines Sustainability

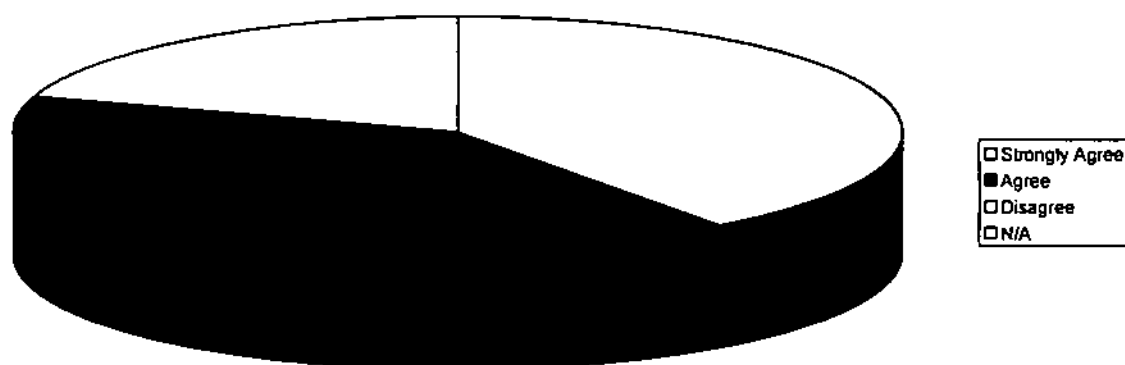


Forestry is labour intensive, so the next logical step was to look at factors affecting the labour. Of the respondents, 65% strongly agreed that turnover impacted negatively on sustainability and 35% agreed. The next question was if there had been a marked increase in labour turnover over the last three years: 80% of the respondents strongly agreed and 20% agreed that there was an increase in labour turnover. Arguably then labour turnover is a factor influencing sustainability, and it is increasing!

The next series of questions addressed issue that could be contributing to the labour turnover. The impact that HIV/Aids is having, was isolated as a separate objective, due to its current importance and status.

Although the majority of respondents, as indicated in Figure 13, agreed that rations, pension and health insurance should be part of the remuneration package; 100% of the respondents strongly agreed that at the current rates paid to contractors it was not possible to allow for this.

Figure 13: Contractors should provide comprehensive remuneration

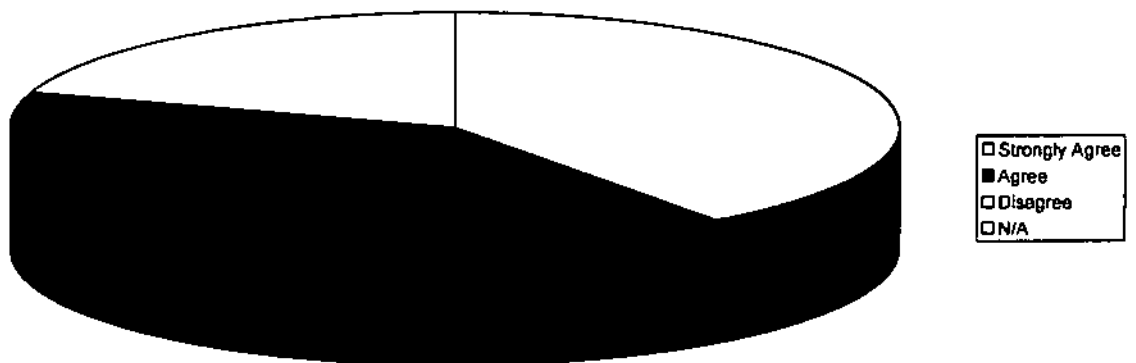


The next factor I saw as perhaps contributing to labour turnover was the opportunity that labour had to education or learning of new skills. The question asked if contractors should provide education programmes for their workers and families; 15% of the respondents strongly agreed, 60% agreed and 25% disagreed. This was again coupled to rate. The general feeling being that if the 'correct' rate is paid contractors would be able to provide education programmes.

Of the respondents 20% strongly agreed that forestry companies should provide safety and technical training, 40% agreed and 40% disagreed.

The third objective was to determine if HIV/Aids has had an affect on labour turnover. Of the respondents, 80% strongly agreed that HIV/Aids has increased turnover, and 20% agreed. The next question looked at mitigating the risk and asked if the companies should be including contractors and their staff in company sponsored Aids programmes; 40% strongly agreed, 40% agreed and 20% disagreed, as shown in Figure 14. Conceivably then HIV/Aids is impacting on contractor's business.

Figure 14: Companies should include contracors in their HIV/Aids programmes.



The fourth objective was to determine if the current outsourcing model is still applicable or does it need modification. In determining this, my approach was to look at operational as well as managerial factors.

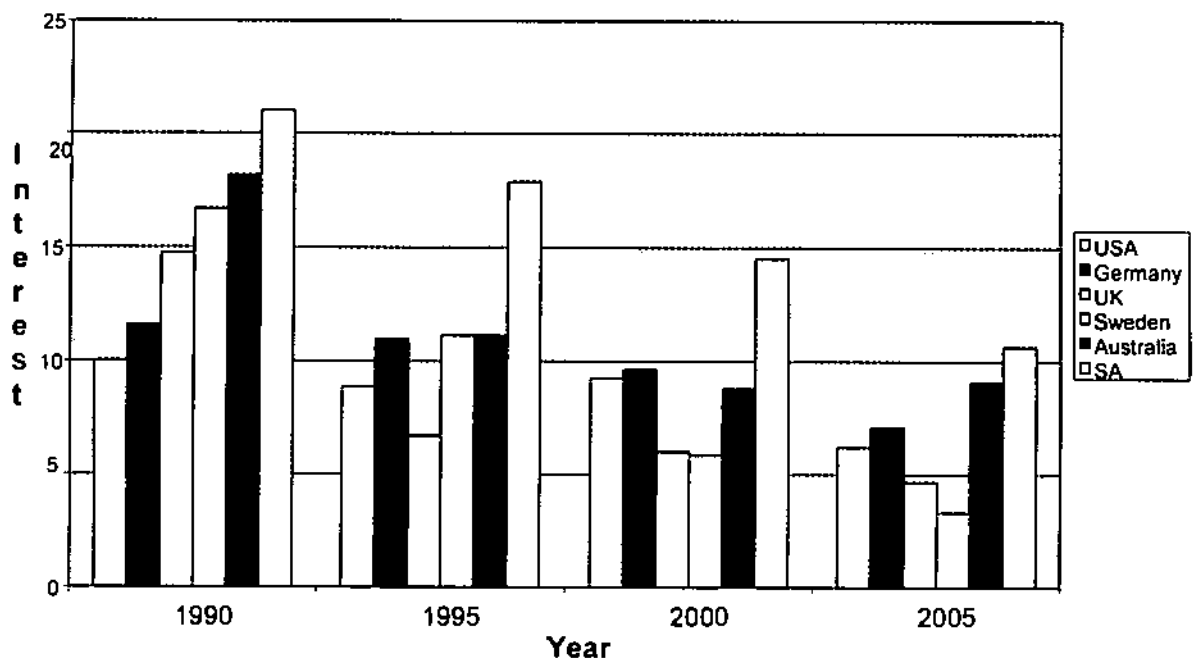
A major, external influencing factor on the contractors' business has been the Sectoral decision that tasking and the negative, pro-rata payment, coupled to the percentage of the task completed could no longer be practiced. A straight minimum daily rate is now enforced by law. The question asked if non-tasking had increased the cost of production. The answer was a unanimous yes, 80% strongly agreed and 20% agreed. This will be factor to consider in future negotiations.

As indicated earlier South Africa is now an international player. Bearing this in mind, I questioned if lower interest rates would reduce the cost of production, 42% of the respondents strongly agreed, 40% agreed and 18% disagreed. Arguably, this indicates that with low interest rates the cost of production can be lower; ultimately the contractor could lower the charge to the principal company. The next series of questions looked at the affect of interest rates has on replacing equipment, using old equipment and the resultant downtime. Figure 15 is a comparison of interest rates in 6 countries, it shows that over a decade, interest rates in South Africa have consistently been higher than most of its international forestry competitors.

The respondents felt that high interest rates negatively influence the replacement of equipment; 80% strongly agreed and 20% agreed. This results in equipment being used beyond replacement life; 60% strongly agreed and 40% agreed to this statement.

The fact that using old equipment causes unnecessary downtime and loss of production was met with a varied response; 60% of respondents strongly agreed, 20% agreed and 20% disagreed. Arguably the responses to the questions pertaining to interest rates, indicates that it might be a factor in sustainable contracting.

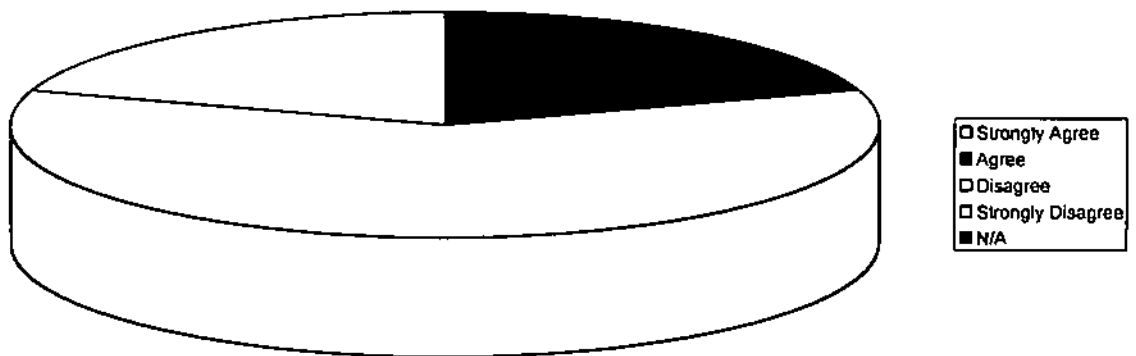
Figure 15: Interest Rates



Adapted from Invest in Taiwan, 2006.

In an attempt to address management issues, my hypothesis was, that due to increased administrative work, as a result of FSC certification and safety programmes, a centralised administration center that could provide this service to several contractors would be advantageous. The response from the contractors however proved the opposite; 20% agreed, 60% disagreed and 20% strongly disagreed as shown in Figure 16.

Figure 16: A centralised administrative centre would be advantageous



However when the question was asked slightly differently a varied response was given. The statement "Contractors need a support base in terms of administration and business skills" was included in the questionnaire; 40% strongly agreed, 40% agreed and 20% strongly disagreed. This indicates that although the contractors do not see any advantage of a centralised administration center, they feel that a support base in terms of administration and business skills would be beneficial.

There is a strong feeling that communication on technical and safety aspects is important between contractors and companies; 80% strongly agreed and 20% agreed to this. Communication in general was highlighted as a problem during the interviews.

Two questions were asked as to how contractors should be managed. The first statement was that contractors should **not** be micro-managed; 60% of the respondents strongly agreed, 20% agreed and 20% strongly disagreed. As a test the same statement was made differently, namely, "contractors should be allowed more freedom in managing their business"; 45% strongly agreed and 55% agreed. Conceivably this indicates that contractors perceive that they are managed too intensely by the grower companies.

The next questions looked at the skills required by foresters and contractors. This is looked at from the contractors' perspective; 80% of the respondents strongly agreed that foresters need business skills and inter-personal skills, over and above their technical skills. The respondents (80% strongly agreed) felt that contractors should have business and technical skills. The figures below show what the perceived skill levels are for foresters and contractors. Figure 17 indicates that foresters need relationship building skills, business skills and human resource skills. What is interesting is that the contractors perceive their skill levels to be higher on the softer issues such as relationship building, business skills and human resource management.

Figure 17: Perceived skill levels of foresters.

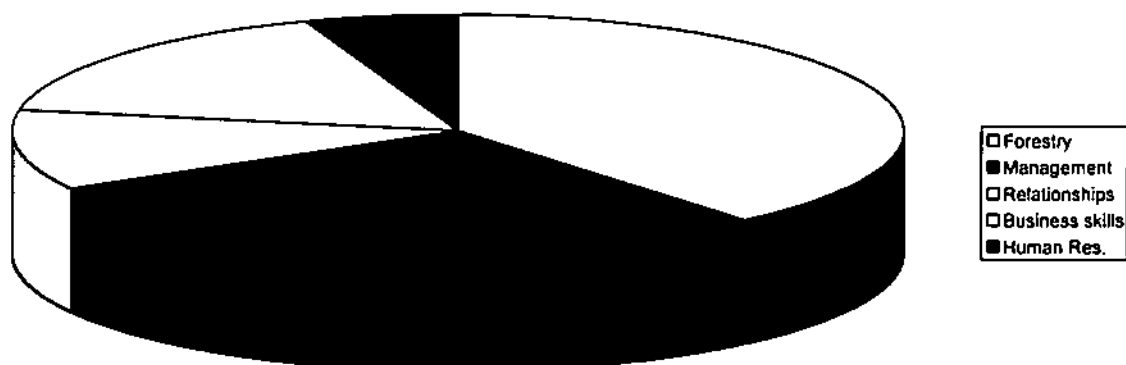
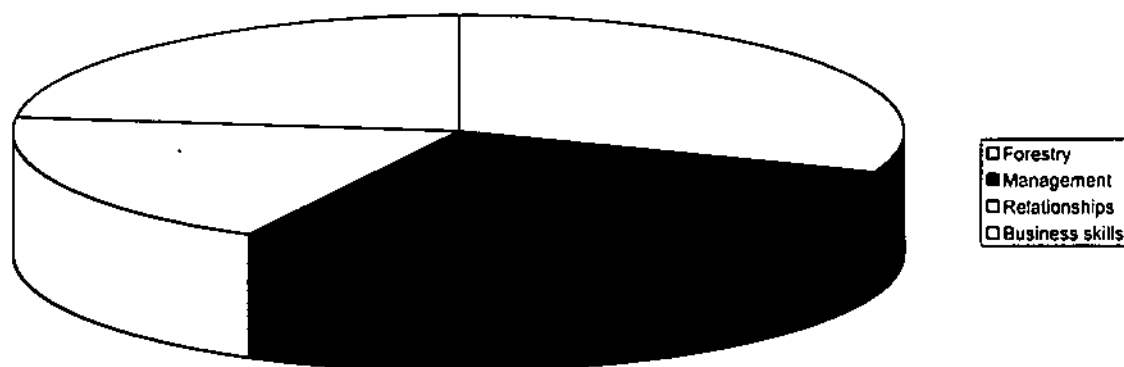


Figure 18: Perceived skill levels of contractors.



Supervisors are the first level of management and are often caught between the proverbial 'rock and a hard place', they need empathy for the plight of the worker, yet they must also be sensitive to the demands of management, in terms of production and cost saving. The supervisor is often the first connecting point for interaction between the grower company and the contractor. In this regard 100% of the respondents strongly agreed that supervisors must be well trained. The next question/statement was that supervisors need technical and business skills training; 40% of the respondents strongly agreed, 40% agree and 20% disagree.

As a last look at the current model, I questioned if the next step in the contracting evolution process is to award management contracts, i.e. to contract out plantations as a unit. My hypothesis is that this is the next logical step in the process. The response to the question showed a tendency towards this as well; 40% of the respondents strongly agreed, 40% agreed and 20% disagreed.

5.3 Conclusion

There is evidence from the research that the reason for outsourcing in the Forestry industry was due to economic reasons and not as assumed by the author, for

industrial relations issues. The current extent of outsourcing in the pulp and paper sector of forestry operations is 100%.

The second research objective was to determine if there are indicators for sustainable outsourcing. I believe through the research, that it is possible to isolate some indicators. These can be summarised as follows; firstly there is a strong indication that the relationship between the parties is not what it should be and needs attention. Secondly, rates must be reviewed or discussed with more transparency and openness. Thirdly labour turnover and HIV/Aids as a contributing factor are impacting negatively on sustainable contractor performance. The last objective looked at the current model and if it is still appropriate; three factors stood out, these are interest rates, communication and the skill levels of the foresters. As the questionnaire was only aimed at the contractors it would seem obvious that they perceive their skill levels to be adequate, the reader needs to take cognisance of this. The results in Figure 18 show that the relationship building skills and business skills of the contractors might not be at the required levels.

These issues will be discussed in the next Chapter.

6. DISCUSSION, RECOMMENDATION AND CONCLUSION

6.1 Introduction

Some conclusions can be deduced from the research and the research has also indicated that there is evidence that there are indicators for sustainability, although they might warrant further research. This chapter will discuss the research findings and make recommendations on those findings.

6.2 Discussion and recommendations

The reasons for outsourcing in the forestry industry are due to economic reasons which are supported by the research done by Esselaar (2000), Khosa (2000) and Strassmann, (2005). Further support is provided by the generic principles of outsourcing taken from the literature as discussed in paragraph 3.5, page 31.

All the respondents indicated that rate (per ton or manday) paid to contractors is a bigger determining factor of sustainability than size of contract. Size of contract (economies of scale) does however affect rate. The explanation for this is that the bigger volume is able to dissipate overhead costs.

Thus volume/size reduces the percentage of the rate allocated to overheads. If this theory is correct, then smaller contractors should be paid a higher rate to compensate for the loss in profit. Most forestry contractors are paid on a similar rate according to the service they provide, regardless of size. Although I agree with the argument that size does reduce the overhead portion of the rate, I cannot argue favourably that size does not factor in sustainability. To support my theory that size does contribute to sustainability, the following should be considered. As eluded to earlier, most contractors, depending on the service they provide, are paid similar rates. Therefore a small contractor will be paying a bigger portion of the rate to overheads and accordingly will be less profitable. Furthermore, a bigger contractor will be more flexible in absorbing the effects of absenteeism, lost production and reduced demand. More research should be conducted to determine what a viable economic contract size is in terms of tons harvested or hectares tended.

My research specifically did not address the issue of rate directly because I was aware that rate is possibly the single biggest factor of discontent amongst contractors. I wanted to determine if there were other factors influencing sustainability and what their degree of influence was. Rate, arguably is a factor in determining sustainability. This is supported by the strategy of the grower companies, who due to macro-economic reasons (low interest rates, strong S.A. currency and low inflation) since 2003, have had to keep costs low to stay competitive.

The solution is relatively simplistic and is already implemented by some grower companies; this is to determine a 'shadow rate'. All this entails is doing a theoretical costing exercise of what the actual cost of contracting will be at current price levels, and comparing this rate to those proposed by the contractor. The criteria and standards can be mutually agreed upon by the stakeholders; the only other points of contention will be productivity levels and the percentage profit allowed. Both of these issues can also be solved fairly easily; there are various studies conducted on

production levels required for the various forestry operations, should these be outdated, a new study can be commissioned. Profit levels, should as a minimum level, be better than the prime interest rates offered by the banks; it now only remains to compensate the contractors for their risk exposure. I am sure that through the normal process of negotiation this can be determined amicably. I must add though that this process must be conducted with more openness and transparency from both parties. There will always be under performing contractors and this creates the perception that contracting is unsustainable. The industry should aim at retaining and developing only the best of the contractors. Tolerance of under performers means that the industry must absorb the inefficiencies, which in turn make the industry less competitive on the world markets. Contractors have lost trust in the grower companies, this trust must be regained.

The relationship between grower companies and contractors varies between paternalistic and total abandonment. It is also perceived that this relationship is somewhat antagonistic. Perhaps the starting point is for grower companies to review their strategy regarding outsourcing. Specific focus should be given to the organisational culture, how to align this with the strategy and how to align the outsourced partners with the strategy and culture. Unfortunately in the forestry industry, in most cases, it is now a case of rectifying the situation post-implementation. Although most of the grower companies have outsourced partners in place and there are relatively few new entrants to the industry, it is worthwhile to consider the selection criteria as described by Lendrum (1998), in Appendix 3 and Manyuchi (2002) as shown in Figure 10.

It can be argued that trust is a major factor in a relationship. The contractors feel that they cannot trust the grower companies anymore and that the first step in building the relationship is to regain that trust. Contractors also feel that they are managed too intensely. I feel the intensity of management intervention should be dependant on the maturity level of the contractor, in terms of the time period that he/she has been involved in contracting. Certainly well established contractors can be managed with less intervention; however new entrants into the contracting business should be subjected to a mentoring phase of 12 – 18 months. This need has been identified by the industry and some grower companies have introduced training schedules aimed

at addressing the skill levels of contractors. Some grower companies also offer limited assistance with business skills.

The next indicator that was isolated as having an effect on sustainability is labour turnover. Although Forestry provides much needed employment in the rural areas, it remains a dirty and dangerous job at the worker level. HIV/Aids is identified as the single most important factor influencing turnover. Although the presence of HIV/Aids was recorded in this country in the early 1980's, I feel it is only a recent (over the last three years) contributor to turnover. By this I am not saying it is unimportant, I merely wish to make the reader aware that there are other factors contributing to labour turnover. As shown in Figure 14 there is a positive response from the contractors that companies should include contractors and their workers in company driven Aids programmes. I support this motion, if companies want to secure a future workforce, their urgent intervention is needed. Further research is needed to quantify the percentage of labour turnover that can be attributed to HIV/Aids, this will indicate how big the problem is and what strategies need to be implemented to mitigate the risk. Coupled to HIV/Aids as a factor of labour turnover is absenteeism; more and more people are absent from work either to attend to sick relatives or to attend funerals. This is supported by the research conducted by Khosa (2000), which revealed that 82% of forestry contractors indicated that training should be provided to them. This is further supported by 76% of contractors who felt that the provision of information was critical for their growth and competitiveness.

Other contributing factors to turnover are the provision of a more comprehensive remuneration package. Although the prospect of paying a 'clean' wage is attractive in the sense that it reduces the hassle factor, the disadvantages must also be considered. Paying a 'clean wage' is no guarantee that the extra money paid in wages will be spent on food. It is necessary to reflect on the situation of the worker prior to outsourcing. Most of the companies either issued rations or provided meals. This has the added bonus that workers were fed and could be expected to perform the strenuous tasks demanded from physical labour. Furthermore on completing the days work, there was an opportunity to rest, now the scenario, especially for the women is that they still have to prepare the evening meal for their families; this results in compounded fatigue and quicker burnout. Although not discussed in this

paper, my theory is that this is also a contributing factor to workplace accidents. As shown in Figure 13, most of the contractors agreed that a more comprehensive remuneration package should be provided but they were unanimous in saying that at the current rates it was not possible to consider this. The research also indicated that contract labour was not supported by the contractor in education programmes, this is again a rate driven issue.

Another important factor, not discussed in my research, is the phenomenon of government grants. Depending on the situation a person qualifying for a grant can earn the equivalent, or more than the minimum wage. The only way to combat this is to make it financially more rewarding to work, or to add in extras to the basic wage that makes the package more attractive, and this comes back to rate.

The contracting model was considered as a barrier to sustainable contracting. Three aspects from the current model are highlighted as influencing sustainability, namely interest rates, communication and the skill levels of foresters.

Interest rates were included as a possible indicator for sustainability because international interest rates in America and Europe are relatively lower than in South Africa as shown in Figure 15. At the time of writing this report, interest rates in America were 8.25% and Sweden was 3.61%; whereas the interest rate in South Africa was 10.50%. What this means is that for a machine costing 1 million US\$, a contractor in America will be paying US\$ 2495.33/month; in Sweden a contractor will pay US\$ 2231.65/month and in South Africa a contractor will pay US\$ 2629.62. Compared to a contractor in Sweden, his South African counterpart will pay US\$ 23 917 more over the hire purchase period. The comparison is based on a 10% deposit and the balance financed over 60 months. This means that international contractors can finance equipment relatively cheaper than their South African counterparts. As already discussed, forestry is a capital intensive industry and the barriers to entry are high, this also holds true for contracting in forestry. This is supported by Khosa (2000) who found that 62% of the contractors he surveyed had a capitalisation value of R 2 million-R 10 million.

As indicated by the questionnaire, 80% of the respondents strongly agreed that high interest rates negatively influenced the replacement of equipment. This has a snowball effect of causing unnecessary downtime and loss of production. Inefficiencies which are ultimately paid for by the grower company. This negative affect of the high interest rate is compounded by the short term nature of forestry contracts, which fall mainly into the period of less than three years (Khosa, 2000). Another compounding factor is the perceived high levels of failure amongst forestry contractors. Contracting is seen as a high risk business by the banks and they are reluctant to finance equipment for such ventures. If finance is approved it is often at unfavourable rates. A shortfall of the research is that it did not specifically seek to quantify what the current average rate of interest awarded to contractors is. The rate of interest and the affect it has on forestry contracting should be a subject for further research.

There are however some mitigating interventions that can be applied. Firstly, given the strategic nature of the Forestry Industry, the Industry, as a united front can lobby government; either for reduced interest rates for the purchase of forestry equipment or for tax relief on the purchase of equipment. Arguably, the grower companies, because of size, should be able to negotiate better prices and interest rates. An alternative arrangement could be that the grower company purchases equipment on behalf of the contractor. This, I believe is an important point that is overlooked by management. At the advent of contracting the grower companies had equipment. This equipment was sold to the contractors at book value on 'soft loans' carried by the grower companies. Alternately the equipment was sold on auction. Yes, this was perhaps paternalistic, but it was done for a reason, namely, to get the emerging contracting business going. The contractors were often foresters, ex-employees so the relationship was a lot stronger and intimate. What has changed? Of those pioneering contractors (foresters), very few are left in the business, and the equipment pool, ex-grower Company, has become obsolete and redundant. This means that equipment needs to be replaced and the original contractor has been replaced with someone who is not so 'close' in terms of relationship, with the grower company. In all probability the management of the grower company has also changed. Arguably, the core base of contractors has been operational for more than five years, and as such should be financially secure to finance new equipment.

However, the cost of the equipment is prohibitive and the banks do not favour forestry contracting businesses.

Advances in technology have also greatly improved the efficiency and capacities of contemporary machines. What has not changed is the demand for timber and the fact that grower companies and contractors need to find a solution that supports sustainability. A possibility is for the grower company to float a subsidiary leasing company. Simplistically, the leasing company purchases the equipment and leases it to the contractors. The advantage of this is that the purchasing and leasing of equipment becomes the core function of the new company (focus and emphasis on cost), and they will also carry the responsibility for maintenance.

Communication was seen as an indicator that could affect sustainability. The scope of communication in this context is broader than the normal understanding of communication and it will be discussed in this broad sense. I recommend that communication should take place at two levels, namely, inter-company and externally between the company and the contractor. Companies need to internalize the outsourcing process in order to get clear understanding of the strategic intent, the objectives and the process amongst all hierarchical levels.

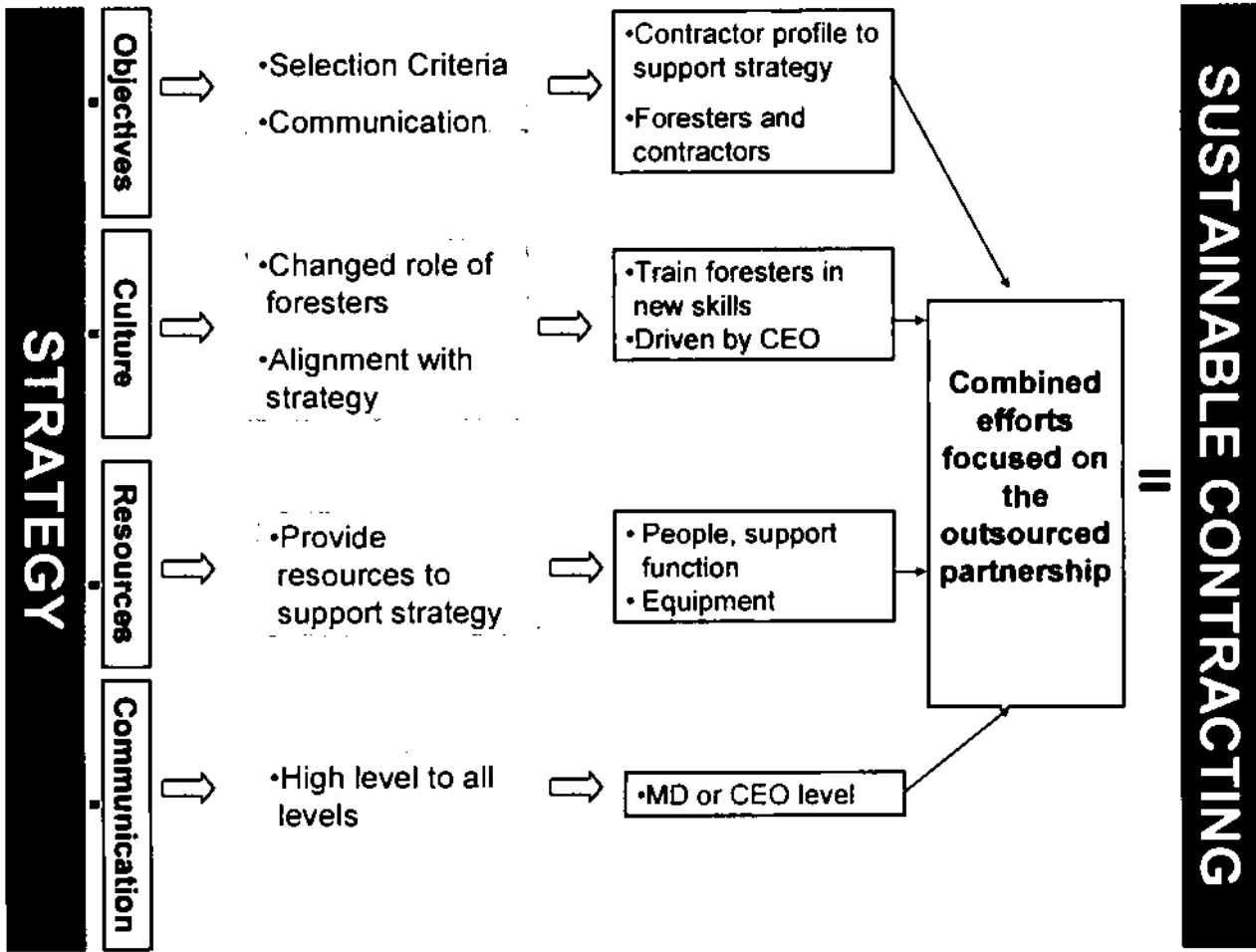
Although outsourcing in forestry has been a reality for the last two decades, it is important to take a critical, analytical look at this strategy. The strategy gurus, Thompson & Strickland, (2003) and Ghemawat, (1999), indicate that strategy is only successful if it fits in with the organisational culture. My hypothesis is that culture is dynamic and each new CEO or MD makes subtle changes to the culture to suit their management style. Arguably then the culture and strategy will have changed after two decades. To ensure that the desired and expected culture exists and that the collaborative approach to the delivery of the contract objectives occurs, it is recommended that there is an induction or initiation process to get the contract off on the right foot:

- Review the contract objectives and how success in the achievement of these objectives will be measured.
- Review the roles, responsibilities and obligations of the stakeholders – how the team will work together and relate to each other.

- Establish an understanding of organisation and individual work communication styles to identify the style to be utilised as the preferred team style.
- Establish a shared view of the role of the contract (document) and how it is to be interpreted – is it a bible or a tool?
- Test the concept that the contract is a tool to facilitate the delivery of the contract objectives and to define the rights obligations and risk apportionment.
- Establish a framework for communication which does not necessarily relate to contractual requirements – how can we most effectively work together?
- Agree on performance evaluation processes and implement regular reviews of performance against both contract and non-contract objectives throughout the duration of the contract.
- Identify non – contractual team vision, values and objectives.
- Establish an expectation of personal performance, accountability and integrity – people and teams not contracts or businesses deliver outcomes.

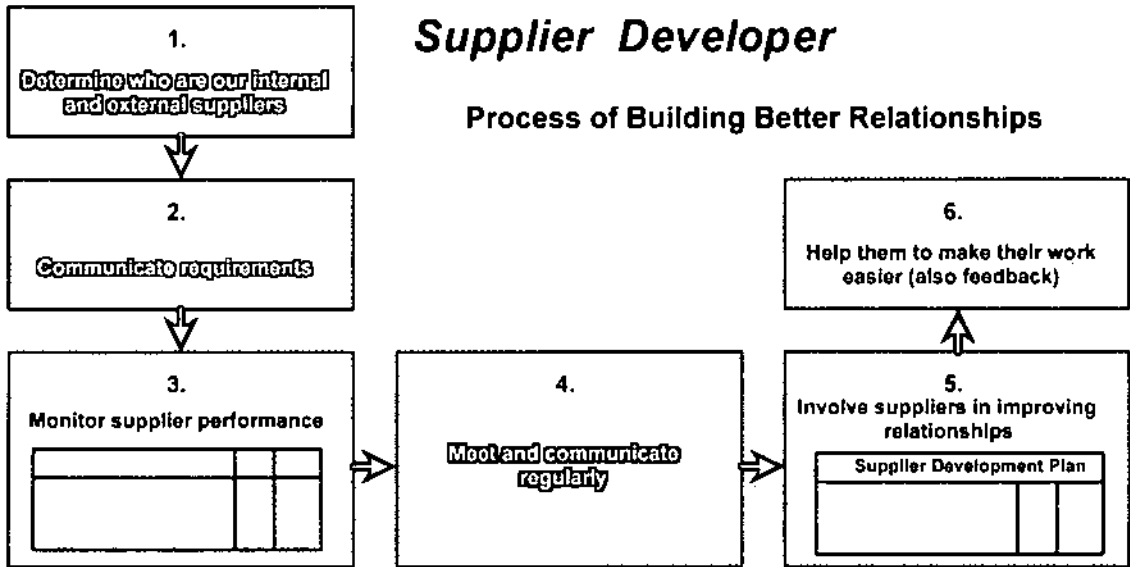
Grower companies need to look at their outsourcing strategy. This process is shown in Figure 19: Model for the strategic process of outsourcing.

Figure 19: Model for the strategic process of outsourcing.



This model should be considered in conjunction with Figure 10: Strategic partnering framework (Manyuchi, 2002) and Figure 20: Developing your supplier.

Figure 20: Developing your supplier.



Although identified as an indicator, the skills level of foresters is perhaps not a critical issue towards sustainability. It does however warrant discussion. The role of the forester has changed from front-line management, responsible for operational implementation, to the role of contracts manager. As indicated in the research, it is perceived that the skill levels of foresters pertaining to relationship building, business skills and human resource management needs improvement. This is supported by Brink & Kellogg (2001). Perhaps it is time to reflect upon the issue of what is required of a modern day forester? This changed requirement needs to be described in the job description; it also needs to be communicated to the forester. The lack of required skills is relatively easy to address, there are any number of courses available that can provide the training. The industry should identify the skills needed and communicate these to the tertiary institutions providing formal forestry training to include in the curriculum.

6.3 Conclusion

Over the past two decades forestry contracting has increased substantially in South Africa. It is highly unlikely that this trend can or will be reversed. The best possible

options are to pursue strategic partnerships, which will benefit all the stakeholders and aim for long-term sustainability.

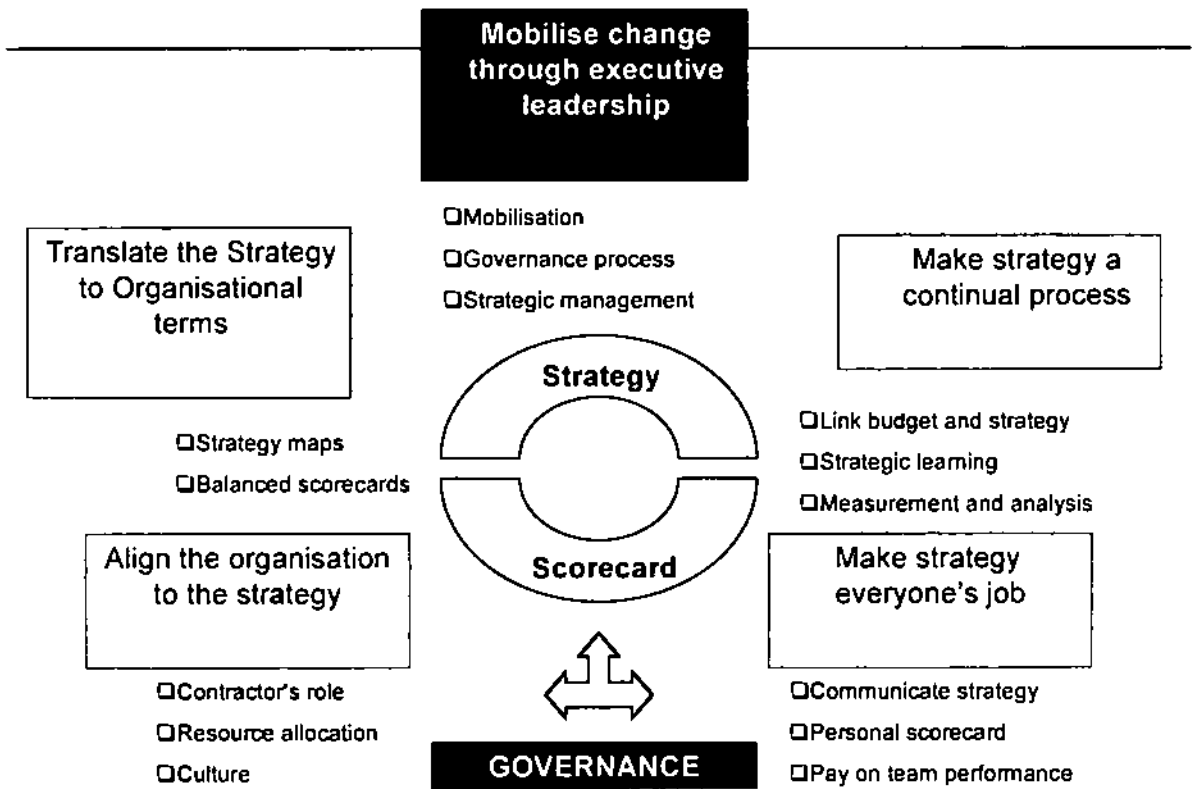
There are indicators of where the interventions in the strategic partnership should be. These indicators warrant further analysis or specific research.

There is a need to research the impact of rate and what the rate should be for sustainable outsourcing. The impact that HIV/Aids is having on labour turnover must be researched in an effort to quantify the problem. Once quantified, it will be clear what the strategy and resource allocation should be to mitigate the risk.

Due consideration, by the grower companies, must be given to the provision of loans/capital. This will be an important factor in facilitating the achievement of BBBEE targets set by the industry. The industry needs to look analytically at the role of the forester, how it has changed and the skill required to best fill this role.

Communication at all levels needs to be improved. I believe the approach to a lot of these issues should be reflective in nature and all stakeholders need to reflect on the historic processes, or the lack of them, that has lead to the current situation. I also believe that the approach must be a holistic one best described by the model in Figure 21. Grower companies, as discussed earlier must revisit their outsourcing strategy but include the contractors in the process. Organisations focused on strategy and the successful implementation thereof will highlight a lot of the issues discussed and find ways of addressing them.

Figure 21: The strategy focused organization.



Adapted from Crosbie, 2003.

My research has focused on the management process post-contractor selection and awarding of contract. In retrospect, though, I believe that the pre-contact and contract initiation phases of the outsourcing process is where things go wrong. We are all human beings with a natural inclination to, as quickly as possible, get to the implementation phase, which will after all result in the fastest and most effective route to our desired objectives, won't it?

I trust that in the foregoing chapters I have raised awareness that there are indicators for sustainable outsourcing. It is our ability to understand the dynamics and complexities of the outsourcing process and partnerships that will enable us to understand the importance of such indicators and how to manage them successfully.

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Appendix 1: Contractors Questionnaire

Please mark with an x your opinion of the question.
 NA = no answer, does not apply, don't know.

1 Contracts should be for a minimum of three years.

Strongly agree	Agree	Disagree	Strongly disagree	NA

2 Rations, pension & health insurance should be part of the forestry worker's (labourer) remuneration.

Strongly agree	Agree	Disagree	Strongly disagree	NA

3 With the current rate structure contractor's cannot afford to pay for rations, pension & health insurance.

Strongly agree	Agree	Disagree	Strongly disagree	NA

4 Contractors should provide educational programmes to support employees.

Strongly agree	Agree	Disagree	Strongly disagree	NA

5 Forestry companies must provide training for contract labour.

Strongly agree	Agree	Disagree	Strongly disagree	NA

6 Sustainability is dependant on size of contract i.e. hectares or volumes.

Strongly agree	Agree	Disagree	Strongly disagree	NA

7 HIV/Aids has increased labour turnover.

Strongly agree	Agree	Disagree	Strongly disagree	NA

8 Forestry companies must include contract labourers in their Aids programmes.

Strongly agree	Agree	Disagree	Strongly disagree	NA

9 Non - tasking has increased the cost of production.

Strongly agree	Agree	Disagree	Strongly disagree	NA

10 Lower interest rates will reduce the cost of production.

Strongly agree	Agree	Disagree	Strongly disagree	NA

11 A centralised administration centre would be advantageous to contractors.

Strongly agree	Agree	Disagree	Strongly disagree	NA

12 Fuel increases have a significant effect on cost of production.

Strongly agree	Agree	Disagree	Strongly disagree	NA

13 Communication on technical and safety aspects is important between contractors and the companies.

Strongly agree	Agree	Disagree	Strongly disagree	NA

14 Contractors should not be subjected to micro-management.

Strongly agree	Agree	Disagree	Strongly disagree	NA

15 The next logical step in contracting is to award management contracts i.e. to give plantations out on contract.

Strongly agree	Agree	Disagree	Strongly disagree	NA

16 Foresters should have business and inter-personal skills.

Strongly agree	Agree	Disagree	Strongly disagree	NA

17 Contractors should have business and technical skills.

Strongly agree	Agree	Disagree	Strongly disagree	NA

18 Contractors should be allowed more freedom in managing their business.

Strongly agree	Agree	Disagree	Strongly disagree	NA

19 Fuel increases have little or no effect on cost of production.

Strongly agree	Agree	Disagree	Strongly disagree	NA

20 High interest rates negatively influence replacement of equipment.

Strongly agree	Agree	Disagree	Strongly disagree	NA

21 Equipment is often used beyond the replacement life.

Strongly agree	Agree	Disagree	Strongly disagree	NA

22 Using old equipment results in high maintenance cost, increasing production cost.

Strongly agree	Agree	Disagree	Strongly disagree	NA

23 Using old equipment causes unnecessary downtime.

Strongly agree	Agree	Disagree	Strongly disagree	NA

24 For success in business relevant controls and measures must be implemented.

Strongly agree	Agree	Disagree	Strongly disagree	NA

25 Monitoring cash flow is important in a business.

Strongly agree	Agree	Disagree	Strongly disagree	NA

26 Contractors need a support base in terms of administration and business skills.

Strongly agree	Agree	Disagree	Strongly disagree	NA

27 Supervisors need to be well trained.

Strongly agree	Agree	Disagree	Strongly disagree	NA

28 Supervisors need technical and business skills training.

Strongly agree	Agree	Disagree	Strongly disagree	NA

29 Staff turnover has a negative impact on sustainability

Strongly agree	Agree	Disagree	Strongly disagree	NA

30 Staff turnover has increased over the last three years.

Strongly agree	Agree	Disagree	Strongly disagree	NA

31 It is easy for new contractors to establish themselves.

Strongly agree	Agree	Disagree	Strongly disagree	NA

32 Appropriate resources are available to contractors to support their services

Strongly agree	Agree	Disagree	Strongly disagree	NA

33 A formal team structure is in place for managing contractors

Strongly agree	Agree	Disagree	Strongly disagree	NA

34 Foresters have the following skills required to manage contractors:

Forestry technical (Harvesting, silviculture, logistics)

Management (planning, lead, organise & control)

Relationship building (Communication, problem solving, etc.)

Business (Business plans, contract & finance management)

Human resource management

Strongly agree	Agree	Disagree	Strongly disagree	NA

35 Contractors have the following skills required to deal with Foresters:

Forestry technical (Harvesting, silviculture, logistics)

Management (planning, lead, organise & control)

Relationship building (Communication, problem solving, etc.)

Business (Business plans, contract & finance management)

Strongly agree	Agree	Disagree	Strongly disagree	NA

Appendix 2: Forestry Industry questionnaire

The responses and identity of respondents participating in this questionnaire will be treated as strictly confidential.

Respondent information (optional)

Name of Company:

Location:

Name of respondent:

Position in company:

1. What are the reasons your company chose to outsource some or all of their activities?

2. How do you perceive the relationship between the forestry companies and the contracting companies?

3. On the scale below indicate where you think the relationship is positioned.

Very negative

Very positive

4. How has this relationship changed and what has is the current state of dynamic tension?

5. What are the impacts of contracting and how does it create winners and losers?

6. Does outsourcing impact on the profitability of the company?

7. Does outsourcing impact on the profitability of the contracting company?

8. In terms of outsourcing auxiliary services, allowing the company to focus on core issues, do you think this has applied to outsourcing in forestry?

9. What are the best sustainable options for outsourcing forestry operations?

10. Any appropriate recommendations you might have regarding the sustainable management of forestry contractors.

11. Does the culture of your contracting partners fit with your organisational culture?

12. Has the decision to outsource been considered in terms of the changing environment, specifically, Employment equity, BBBEE and rising fuel and wage costs?

13. How does your company select an outsourcing partner?

14. What competencies does your company look for in a forester/contractor manager?

15. How has your company implemented the BBBEE Act of 2003?

Appendix 3: Selecting a partner (Lendrum, 1998)

Selecting a partner

Objective

To select a potential partner based on an understanding of the general operating environment, the strategies of your own organisation, competitors, customers and suppliers.

Key Points

1. Confirm potential partner(s) short list via a full customer and/or supplier (current and potential) profile analysis.
 - (a) Impact vs \$value/cost
 - (b) Willingness vs capability, and
 - (c) Detailed analysis opposite agreed criteria
2. Look at potential partners on the basis of urgency and impact opposite the business strategy and/or by means of a SWOT analysis. Then understand the drivers for partnering.
3. Understand the nature and quality of the supply chain involved.
4. Is it a proactive or reactive approach, i.e. is the selection crisis-driven?
5. Make the selection by using a team that includes the Partnership Manager and front-line people who have a vested interest or prior involvement in the customer's success.
6. Consider the impact this partnership will have on the servicing of the existing customer or supplier base.
7. Understand your competitors' strategies opposite your chosen customer partner(s) and other organisations in the supply chain.