When Performance Fails to Meet Expectations: Managers' Objectives for Outsourcing

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Abstract

Managers may implement outsourcing for one or more of a range of reasons: to improve strategic focus, to achieve numerical or functional flexibility, to reduce costs or risk, to change their own roles, to change organisational culture or workplace power structure, and to intensify work effort. However, often there are associated costs, either unanticipated or unquantified. This paper provides evidence from two food processing companies to address the following questions: (1) Why do managers pursue outsourcing? and (2) Have managers anticipated and quantified the potential costs as well as the benefits of outsourcing? We conclude that while it seems clear that managers do begin with clear objectives for outsourcing and anticipate that benefits will flow, sometimes these objectives are not met, unexpected costs are incurred, or objectives change as new information is available or situations change. In other cases managers have been unable to objectively substantiate the outsourcing decision.

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https://doi.org/10.1177/103530460001100106 Published online by Cambridge University Press

Introduction

Outsourcing is one of a number of methods managers use to externalise organisational tasks or jobs. Since there is substantial overlap in the definition of outsourcing and the related activities of outwork, contracting out, and use of agents, it is important to be clear on its meaning. Outsourcing has been defined as one organisation contracting an external organisation to provide a service or conduct an activity 'where the vendor takes over the responsibility for the outsourced activity under long-term contract' (Gantz, 1990: 24). Outsourcing can therefore be seen as the *act* of entering into a contract at a point in time. Reilly and Tamkin (1996: 5) define outsourcing as the *process* of one 'organisation pass[ing] the provision of a service or execution of a task, previously undertaken in house, to a third party to perform on its behalf'. They are supported by Domberger and Rimmer (1994: 439) who state that outsourcing 'defines the process of search and selection of suppliers of services traditionally produced in-house within an organisation', unlike sub-contracting, which 'has a long history associated with engaging third parties to do work which has never been done in-house' (Reilly & Tamkin 1996:5). Implicit in these definitions is a *monitoring* component, whereby those responsible for managing the outsourcing contract seek to ensure that its requirements are met. Thus outsourcing has three elements: the act of contracting of a task to an external organisation; the process of transition from internal performance of that task to its external performance; and monitoring of performance in relation to the contract.

Interest in outsourcing is strong amongst Australian unions, governments and business. While union and ACTU policy generally has been to oppose outsourcing, Australian managers seem to have actively adopted outsourcing and it has received substantial positive attention in the business press (see, for example: Smith, 1991; James, 1992; Zampetakis, 1997) and in industry journals (see, for example: Walter, 1992). What empirical evidence exists about the impact of outsourcing in Australian companies? There has been some academic research, on its incidence (Morehead et al, 1997) and effects (Harley, 1994; Benson & Ieronimo, 1996), as well as on associated phenomena, such as flexibility (for example: Atkinson, 1984; Campbell, 1993), downsizing (for example: Littler et al, 1997; Zeffane, 1995) and trust and commitment (for example, Pfeffer, 1994; Pearce, 1993). However, the bulk of the research deals with the public sector (Rimmer, 1994; Industry Commission, 1995; Graham & Scarborough, 1996; Hodge, 1996; Domberger, 1994; Domberger, Meadowcroft & Thompson, 1986, 1987, 1988).

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Despite the paucity of evidence on the impact of outsourcing in the private sector, or perhaps because of it, the opinion is often voiced that the full costs of outsourcing are either misunderstood by managers, not anticipated, or both. Thus, the Engineering Manager of a large food manufacturing company said:

> Companies get management consultants in who say if 'you get rid of so many people or so many functions this is how much you're going to save', and they extrapolate over a period of a couple of years but they don't follow it up to see if this is the exact saving that they got. And they don't account for any extra costs. (Interview with 'CanCo' Manager, 1998).

We seek, therefore, to look at why managers make the decision to outsource, and whether they have anticipated and quantified the potential costs and benefits.

In this paper, we use the term 'managers' generically, to mean those people within an organisation who have sufficient authority to enter into the outsourcing contract, manage the process, monitor its progress, or all three. Depending on the type and value of work to be outsourced, the decision may be made at senior management or Board level, or by a senior line or staff manager. What these managers have in common is that they may be presumed to be held accountable for meeting the objectives set by or for them for outsourcing. The first section of this article examines the reasons that managers outsource work, highlighting the potential organisational and other benefits that managers expect to gain. The second section discusses the costs, often unanticipated or difficult to quantify, that may be incurred. Thirdly, evidence of outsourcing in two food processing organisations is provided. This industry sector was chosen because in recent years it has, according to union officials, seen an increased use of outsourcing in several areas. The concluding section discusses the implications of the cases for the alignment of managerial expectations and actual organisational performance on outsourcing.

Managerial Objectives for Outsourcing

In this section, the reasons that managers choose to outsource work are described, along with their theoretical basis. We identify nine reasons, but these are significantly inter-related.

The first reason to outsource is to improve strategic focus by building the 'core competencies' of the organisation. Core competencies are said to exist in distinctive technical, product and customer knowledge held within

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the organisation, and are necessary for the provision of value-added services. This argument derives from the work of Porter (1980), who argued that organisations should concentrate on those activities or skills which represent a sustainable competitive advantage. Thus later research proposes that an organisation should only employ workers to perform tasks in which it has a 'core competence', and may then outsource other tasks (see Cannon, 1989; Prahalad & Hamel, 1990; Quinn, 1992; Morkel, 1993).

Outsourcing can also introduce labour flexibility into work processes. Flexibility is widely discussed in the literature as a method of responding quickly to environmental uncertainty and changing markets, products and technologies (Atkinson, 1984; Bramble, 1988; Burgess & Macdonald, 1990; Burgess, 1990; Campbell, 1993; Zeffane, 1992, 1995). The flexible firm model for the organisation of labour requires maintenance of a core workforce while outsourcing peripheral functions (Atkinson, 1984; Blaxhill & Hout, 1991; Handy, 1990). The peripheral group, with skills not specific to the firm, do work which is either highly specialised, very mundane or periodic, and are mobilised to respond to shifts in the demand for labour (Atkinson, 1984). Numerical flexibility is provided by managers' ability to manipulate the number of workers in the peripheral group. Functional flexibility was originally conceived as the use of the lateral skills of the core group of employees across a range of tasks. The concept of functional flexibility has been extended to apply to an external workforce which can introduce new and expert skills to the organisation that are not available in-house. This equates with a form of flexibility that Atkinson (1984) labels 'distancing' and Bruhnes (1989) calls 'externalisation'.

Therefore, the second and third reasons for outsourcing are numerical flexibility and functional flexibility. Outsourcing can, for example, provide numerical flexibility by filling jobs externally in times of peak or specific demand, or for non-core activities, without affecting the security of the long-term workforce (Abraham & Taylor, 1996). This has occurred in areas such as production, maintenance, catering and clerical work (Harrison & Kelley, 1993: 214). Outsourcing is also undertaken to increase functional flexibility, allowing access to a wider range of skills than is available in-house. Thus '... one merely contracts with a different company or uses a different set of temporary workers, rather than confronting the costs of retraining the permanent workforce' (Pfeffer & Baron, 1988: 273). Pfeffer (1994: 23) asserts that 'the use of contingent employment to buffer a set of critical, core employees is compatible with achieving a competitive advantage through the workforce'. In this way, achieving numerical and func-

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tional flexibility through outsourcing complements improved strategic focus.

A fourth common reason cited by managers for outsourcing is to cut costs. Theorists propose that the optimal organisational structure is that which accomplishes exchanges at the lowest costs (see Williamson, 1979; Coase, 1986; Borland & Garvey, 1994). Whether services should be provided in-house or external to the firm is then decided solely by analysis of the costs of exchange in each scenario. Much of the research on outsourcing has been on its financial effects. Numerous studies have shown that the net costs of service provision have been lowered by as much as twenty per cent by the use of outsourcing (see, for example: Industry Commission, 1995; Hodge, 1996; Aubert, Rivard & Patry, 1996; Domberger, Meadowcroft & Thompson, 1986, 1987, 1988; Cubbin, Domberger & Meadowcroft, 1987). Other studies, however, have found cost increases (see, for example: Evatt Research Centre, 1990; Teresko, 1992; Rimmer, 1993; Willcocks, 1994). The results must depend, to some extent, on what costs and benefits are measured, how they are measured, and over which time period.

A fifth rationale for outsourcing is to reduce future organisational risk. The concept of sharing risk through such devices as joint venture partnerships is familiar to managers. Outsourcing can also provide the means to share risk in situations where future benefits are uncertain, such as in research and development or in the design and implementation of leading edge information technology. It can also allow organisations to gain access to potentially important information and skills that are hidden in the contracting fraternity (Harrison & Kelley, 1993: 216). For example, Aubert, Rivard and Patry (1996: 62), in their research into the outsourcing of information technology, found that it allowed firms to engage in major organisational restructure and modernise their technological environment. Thus managers may contract with an external organisation with complementary objectives to work on a particular project, in order that immediate costs are reduced in return for a share of potentially large but uncertain future benefits.

A sixth reason for outsourcing is for managers to change their own individual roles within the organisation. Research has found that outsourcing decisions have been based on problems of managing the department (see, for example: Reponen, 1993; Reilly & Tamkin, 1996). Pfeffer (1992) asserts that managers who cannot manage their own personnel use contract workers to solve problems in addressing turnover, compensation, selection and training (see also Reilly & Tamkin, 1996: 24; Benson & Ieronimo, 1996). Managers may also transfer responsibility for their existing work to

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others through outsourcing (Harley, 1994: 118). Further, they may seek to increase their organisational status by changing their departments into administration control agencies, with predominantly white-collar workers employed to monitor and control contracts, at the expense of blue-collar jobs (Dunleavy, 1986: 21). Thus individual managers may see outsourcing as a way to change their own situation.

Managers may also use outsourcing as an intervention to assist in changing the culture and attitudes of the workforce, this being a seventh reason for outsourcing. Theories of organisational culture emphasise the importance of harnessing group behavioural norms and shared values in order to more effectively achieve organisational goals (Kotter & Heskett, 1992). Further, recent literature on high-performance or high-involvement work systems emphasises the importance of a skilled, motivated workforce, sharing the benefits of improved organisational performance as a result of their efforts (see, for example: Pfeffer, 1998). Managers may believe that outsourcing of those jobs or activities performed by people seen as resistant to proposed changes will improve the likelihood of culture change in the remaining workforce, 'motivating them to achieve organisational objectives such as cost reduction or customer service' (Reilly & Tamkin 1996: 17).

An eighth, and clearly related, reason for outsourcing is to alter the existing workplace power structure. It is claimed that outsourcing allows organisations to reduce restrictive work practices, limit the power of trade unions and change work conditions (Burgess & Macdonald, 1990; Benson & Ieronimo, 1996). Thus managers may seek to cull groups who are resistant to change. Pfeffer and Baron (1988: 276, 289) suggest externalisation of employment assists employers to resist unionisation by reducing the number of workers employed and thereby decreasing potential organising targets, and outsourcing, specifically, is used by managers when unions are already entrenched to decrease their overall power. Campbell (1993: 21) asserts that flexibility, in practice, is a process used to enhance managerial prerogative since it is used to justify changes in labour conditions that managers desire.

The ninth and final reason for outsourcing is intensification of work effort. This may be achieved through actual or threatened change. Loss of employment security arising from the active consideration of outsourcing can be a catalyst for significant concessions by employees and unions, even if the service eventually is kept in-house (Burgess & Macdonald, 1990). Thus outsourcing can cause productivity improvements of employees whose job security is threatened (Caves & Christensen, 1980, as cited in

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Morgan, 1992; Industry Commission, 1995; Donald, 1995; Sharp, 1995; Hodge, 1996; Domberger, Meadowcroft & Thompson, 1996). Hodge (1996: vi) reports that the '... results in agency costs in areas adjacent to those actually contracting out showed effect sizes of around two-thirds of those areas contracting out ... [as] the threat of competition and the acquisition of new financial performance knowledge itself led to real performance improvements'.

Table 1. Managers' Objectives for Outsourcing

Type	Managers' objective	Anticipated benefits of outsourcing	Unanticipated or unquantified costs of outsourcing
Strategic Focus	To gain or sustain a competitive advantage for the organisation	Allocation of resources towards core skills or services required for long-term competitiveness	Making the wrong choice in regard to core and non-core skills or services
Numerical Flexibility	To increase organisational flexibility by expansion & contraction of the number of workers	Reduced employment and labour costs whilst maintaining the security of the core workforce	Inability to contract people to meet organisational requirements
Functional Flexibility	To increase organisational flexibility by expansion & contraction of skills available	Access to required skills whilst maintaining the security of the core workforce	Inability to contract people to meet organisational requirements
Cost	To lower costs whilst maintaining an adequate level of service	Reduced unit cost for services, particularly mundane, non-core or occasional services	Costs arising from insufficient prior analysis, inadequate contracts, or poor performance monitoring
Risk	To share the risk of investing in the development of new skills and technology	Increased likelihood of organisational investment in new skills and technology	Loss of future control over core skills or technologies
Managers' roles	To enable managers to change their organisational roles and responsibilities	To improve the position or work of individual managers or groups of managers	Sub-optimisation of organisational interests
Culture	To change workforce behaviour and attitudes	Increase in workforce commitment to organisational goals	Active or passive workforce resistance to culture change
Workplace power structure	To change power structure to increase managerial prerogative	Removal of 'problematic' employees/groups, removal of structural barriers to change	Workforce resistance, industrial disputation, skill loss through employee departure
Work intensification	To increase labour productivity through threat to or loss of job security	Increased labour discipline and productivity	Workforce resistance, industrial disputation, lower morale, health and safety problems, reduced productivity

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Thus there are at least nine reasons that managers implement an outsourcing strategy, shown in Table 1. These reasons are to improve strategic focus, to achieve numerical or functional flexibility, to reduce costs or risk, to change managers' roles, organisational culture or workplace power structure, and to intensify work effort. Any single decision to outsource may be designed to achieve one or more of these objectives. Harrison and Kelley (1993: 228) found that 'the interdependence among managers' rationales is striking. Table 1 also shows the anticipated benefits of outsourcing mentioned above, and indicates unanticipated or unquantified costs, which are discussed below.

Unanticipated and unquantified costs

Recent research has found that many of the costs associated with outsourcing are either unanticipated or difficult to quantify. These costs, described in Table 1, may arise from an imperfect outsourcing decision, availability and cost of required skills, detrimental changes to the employment relationship, and inadequacies in performance measurement. In this section, these unanticipated and unquantified costs are explained.

In much of the less reflective literature on outsourcing, the decision about what constitutes the core competencies of an organisation is assumed to be both objective and static. What if the decision may be more correctly characterised in some instances as self-interested, imperfectly informed, and dynamic? Firstly, it has been proposed that managers' self-interest affects the strategic direction of the organisation and the assessment of core competencies (Walker, 1988). Whoever makes the decision about what constitutes core activities may do so at least partly to play to their own abilities or interests. Secondly, a strategic decision about what constitutes core and non-core activities may be made at one or several levels removed from the workplace. Without appropriate consultation, lack of information could easily lead to the incorrect designation of what properly constitutes core activities. Finally, changing environments can quickly change the focus of the organisation and thus what is non-core now may also change. Thus Anderson, Brosnan and Walsh (1994: 493, 515) contend that employers were operating opportunistically when they outsourced functions as a short-term reaction to recession, but intended to move back to standard employment in the future. At least in some circumstances, then, costs may be incurred because of poor decisions or decision-making.

The assessment of what constitutes core and non-core activities also has important implications for skill availability and costs. Outsourcing to

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achieve numerical and functional flexibility assumes that managers can find trained, competent staff to perform non-core activities with expertise in a timely manner. This may not always be possible to achieve or sustain. Further, if competitive advantage is obtained by having a skilled workforce that cannot be duplicated by others, what happens if managers make poor outsourcing decisions and lose control over core skills and technology? Once staff have left the organisation it is difficult to re-employ them. Even if outsourced activities are non-core, specialisation creates switching costs, and may leave an organisation vulnerable to opportunistic behaviour by the supplier (Walker, 1988). Furthermore, particularly in manufacturing, when the management of operations passes to contractors, problems may arise with control over intellectual capital and technical skills, and feedback and communication between areas of the organisation (Morkel, 1993: 396). All of these problems have cost implications, although a specific dollar value may be difficult to assign.

Employment relations may change with outsourcing, affecting trust, workforce commitment, morale, safety and industrial disputation. There is a growing body of research that has found that outsourcing leads to lack of organisational commitment and decreasing trust and morale (see, for example: Pfeffer, 1994; Pearce, 1993; Arnett & Jones, 1994; Kochan et al, 1994; Ang, 1994). Furthermore, as outsourcing is often linked to downsizing, the reduction in number may further increase the tension in organisations between managers and employees, the effect of which may be lack of trust and co-operation, uncertainty, reduction in workforce effectiveness and disruption to work processes (Sharp, 1995; Zeffane, 1995). Additionally, studies have found that contracting out has had detrimental effects on particular ethnic and gender groups, such as women, part-time workers and those of ethnic descent (Hodge, 1996; Fraser, 1997; Ascher, 1987). Safety problems have also been found with poorly trained contract staff (Rebitzer, 1991; Kochan et al, 1994; Fraser, 1997). As well, industrial relations problems have often increased (Rimmer, 1994).

Does outsourcing reduce overall costs? As reported earlier, there is mixed evidence on its economic impact. It is claimed that outsourcing can reduce costs through lower pay to contracted staff, and the use of less qualified, and therefore less costly, staff by the contracted organisation. Specialist firms performing outsourced work are seen to have comparative advantages arising from their special competencies and from the economies of scale and scope they may capture by performing the same or similar work for many contracting organisations. Reduced costs can also come from

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competition between the bidders for outsourcing contracts, thereby eliminating rents associated with non-competitive internal transactions.

Conversely, there is argument and evidence that outsourcing may increase costs. The threat of opportunism and uncertainty associated with outsourcing may produce excessive transaction costs. Firms may underestimate the costs of outsourcing because of their inability to describe the complete decision tree (Lacity & Hirscheim, 1993), to specify all contingencies in the process (Williamson, 1979; Milgrom & Roberts, 1990, cited in Ghosal & Moran, 1996), and to fully cost bargaining, performance measurement and information acquisition. Thus some managers prefer to keep employment internal to the organisation rather than to outsource, due to their ability to control opportunistic behaviour through both hierarchical control (Ghosal & Moran, 1996) and organisational trust and social control (Ouchi, 1979, cited in Ghosal & Moran, 1996). The loss of such control may be a further cost of outsourcing.

It appears, then, that there are significant risks in outsourcing. Evidence suggests that managers may not fully appreciate the implications of their outsourcing decision (unanticipated costs), or be unable to quantify them (unquantified costs). Not anticipating the full costs of outsourcing may be explained as the result of inexperience or lack of knowledge. The reasons that managers are unable to fully quantify some of the costs of outsourcing are more complex.

Three problems may arise. Firstly, existing measurement systems may be inadequate. It has been argued that objective cost-benefit data are impossible to project when making the outsourcing decision because of deficiencies in management accounting systems (Pfeffer, 1981; Cooper, 1987). Consequently, 'before' and 'after' comparisons may be impossible, creating uncertainty about the value of outsourcing. The presentation of apparently objective data, where it does exist, may be misleading because it can be fabricated to support decisions already made (Lacity & Hirscheim, 1993: 43). Secondly, the achievement of some objectives for outsourcing may be most effectively measured by long-term or subjective data, not conducive to traditional cost-benefit analysis. For example, outsourcing may be one of several management initiatives implemented to achieve the same purpose, such as culture change. The complex, subjective nature of the objective is not easy to quantify, and the special contribution of outsourcing is hard to separate from the package of related changes. Thirdly, the desire to measure the effects of outsourcing may generate data not previously accessible (Pfeffer & Baron, 1988: 288), and in doing so change the behaviour of managers, and the objectives they seek to meet from

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outsourcing. The very existence of new information will influence the behaviour of decision-makers. Therefore the dynamic nature of strategy, measurement and performance may make it difficult to pin down at any one time costs and benefits in relation to objectives.

Thus, while the benefits managers may seek from outsourcing are relatively clear, if substantially inter-related, assessing costs is more complex. To investigate these issues, we now turn to two case studies which describe several outsourcing initiatives in more detail.

Two Case Studies of Outsourcing in Food Processing

Interviews were conducted in late 1998 at two companies in the food processing industry. Access to the companies was facilitated by an official of the ACTU. State officials of the major unions represented on both sites were informed about the study. Managers at both companies took advantage of the researchers' offer to disguise the company name and specific products, although all other details are correct. Interviewees were guaranteed confidentiality.

The first case study describes MeatCo, the New South Wales site of Meat Processing Subsidiary, which in turn is part of a large Australian publicly listed company. Interviews were conducted on-site with five managers. One was a senior staff manager with Meat Processing Subsidiary, the other four were line managers at the MeatCo site. Each interview was approximately four hours duration. A union official from one of the largest unions was interviewed off-site. In addition, the researcher attended a Consultative Committee meeting between the single bargaining unit representatives and managers, and a safety committee meeting.

The second case study deals with CanCo, the Victorian site of a canned and processed food business, which is part of a multinational United States company. An interview was conducted off-site with an ACTU official with first-hand knowledge of CanCo. Interviews were also conducted on-site over one day with five people. A union delegate and another employee were interviewed alone, then the union delegate was joined in turn by the Australasian Engineering Manager, a site engineering supervisor, and project engineer.

Interviews were taped and later transcribed. Newspaper reports and other published material were used to supplement interview material, although sources are not named to maintain anonymity. In both case studies, interviewers were guided by a protocol with questions about:

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- managers' objectives pursued in outsourcing;
- the way in which associated costs and benefits were treated; and
- perceptions of the success of individual outsourcing initiatives.

Case Study One – MeatCo

MeatCo is one site of Meat Processing Subsidiary (MPS), part of one of Australia's largest food processing companies. MPS's parent company has a growth strategy aimed at revitalising core businesses, extending existing business into new product categories and markets, as well acquiring new businesses. The parent company strategy is to harness group synergies so that different business units operate in an integrated manner.

Meat Processing Subsidiary is Australia's second largest meat processing producer, with processing plants in five states and farming facilities in every state. Meat Processing Subsidiary employs approximately 3,500 people, of whom 71.6 per cent are labourers. MPS's senior staff manager reported that MPS had, in the past, been under-resourced by its parent company in terms of people and capital. Between 1995 and 1998, while revenue increased by 15 per cent, this was due to an increase in average product price rather than sales volume. Further, the 1999 first half-year result was anticipated to fall sharply due to excess industry production and lower prices. Return on funds for MPS is considerably lower than that for the whole group; Meat Processing Subsidiary contributed 15 per cent of total group sales in 1997, but contribution to profit was only 7 per cent. The major cost drivers in the business are feed price, labour, maintenance and distribution. Deboning, one of the major processing tasks, has a labour component of 77 per cent of costs. To summarise, MPS is an under-performing organisation in a labour intensive industry.

MeatCo – The Case Study Site

MeatCo, one of many MPS sites, is located in regional NSW and employs approximately 1,800 people. The current profitability of MeatCo is also below market and managers' expectations, with stagnant sales growth and low margins. The operation shows the highest cost per state compared to other Meat Processing Subsidiary operations, primarily due to increasing feed costs and higher labour and maintenance costs arising from the age and state of the infrastructure.

Industrial relations practices prior to 1998 were described, by the senior staff manager, as 'industrially primitive'. Managers were recruited internally and promotions were based on seniority. Managers had low expecta-

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tions of employees and were anti-union. An employee morale survey a few years ago found that employees lacked trust in managers, thought managers lacked credibility, felt an overall lack of pride in self and site, and had a poor focus on safety. Management style appeared autocratic and, according to a union official, even when opportunities arose for increased participation in decision-making, workers felt intimidated and would not become involved. Industrial relations were characterised by frequent stoppages, numerous and complex awards, pedantic interpretations of these awards, and strong and frequent demarcation problems between unions (which covered almost all employees on site).

In 1998, changes were made in the management team. The new managers, several of whom were interviewed, claimed their approach is based on more open communication with employees and acceptance of union involvement. Unions involved in the single bargaining unit in recent enterprise bargaining negotiations include the Australasian Meat Industry Employees' Union, covering the majority of employees; the Australian Workers' Union; the Australian Manufacturing Workers' Union; the Electrical Trades' Union; the Federated Miscellaneous Workers' Union; the Transport Workers' Union; the Shop, Distributive and Allied Workers' Union; and the Australian Services Union. Managers and the bargaining unit meet every two months to discuss issues of financial performance, strategic direction, planning forecasts and operations. According to the senior staff manager, improvements in union-management consultative mechanisms and managers' recognition of the positive role of unions have changed the climate from one of confrontation to one of consultation in the achievement of business goals.

The business challenges facing MeatCo have been accepted by the unions and the employees. This is evident in the acceptance of only a 2 per cent per annum wage increase in the latest round of enterprise bargaining, which is less than half that granted elsewhere in the industry. One union official stated that 'workers wanted job security rather than higher wages. The workers are now thinking about ways to improve productivity to secure jobs and improve marketplace competitiveness'. Officials of two of the key unions, speaking at a consultative committee meeting and in a later interview, stated that workers are more satisfied with their working environment, proposed major work changes can now be discussed between managers and employees, and skill recognition and better communication have led to productivity improvements and improvements in employees' self-worth.

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One example of change at the workplace is a recent safety initiative which produced savings of $800,000 in 1998 and saw a decrease in lost time injuries and absenteeism. There has also been a reduction in employee turnover from 35 per cent per annum to 17 per cent. The safety initiative was supported by management training, site safety audits and quantifiable safety measures in manager's performance management plans. The workers are also acting cooperatively in contributing to safety initiatives. There has also been a change from a purely production focused culture to one that acknowledges the role of a safe workplace in improving production output and quality.

Outsourcing at MeatCo

The Meat Processing Subsidiary, MeatCo's parent, has outsourced a number of different functions. Three functions, farming, deboning and recruitment, will be considered in detail here. For a fourth function, cleaning, outsourcing was considered but eventually rejected. The process by which this occurred will also be described.

Formal MPS policy is to outsource non-core activities. However, there has been discussion at Board level about what constitutes core activities for the organisation. Moreover, some MeatCo managers believe that if the designation of an activity as non-core is the sole decision criterion, this could worsen MeatCo's financial position. As the senior staff manager stated:

> Outsourcing should only be used on project work. Process work should be kept in-house unless there are management or industrial relations problems or large technology costs of the process. Good managers should be able to complete processing tasks cheaper in-house.

Thus, despite company policy, evidence of outsourcing at MeatCo shows that each decision has been made to meet different objectives.

Farming

Outsourcing of farming to contract farmers was done in the past due to lack of capital and the desire to improve product quality. However a range of problems arose, including

- safety issues at contract farms;
- poor company control over production, leading to product conformity and quality questions;
- a deteriorating asset base for the company;

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- inadequate contract management leading to higher than anticipated costs; and
- lack of alignment between company and contractors' business strategies.

In contrast MeatCo's major new competitor has not experienced such problems. They grow all their produce in-house, but do so at the lowest cost in the industry by capturing scale economies and efficiencies arising from new technology, new systems, and integrated supply chain management.

In response to its competitor, MeatCo managers are returning some growing in-house and are attempting to devise a remuneration system to better align the goals of the growers and the organisation. A new method of costing will support this alignment. Even after capital outlays to facilitate this shift, managers expect cost improvements. A senior line manager stated that 'the outsourcing of farming was done historically due to lack of capital. Growing by contract was right for the time but needs to be modified now'. Further, he expects that moving farming back in-house will increase control over production. He said:

> The bringing back in-house of growing is due to financial considerations. Control is maintained, there is faster introduction of new technology, better ways of operating can be shown to existing contractors, competition is provided to existing contractors and culture can be changed.

Bringing production back in-house can be flexibly implemented. For example, the company can use a contract manager to run the farm. The senior line manager believes that this may lead to improved outcomes over a purely in-house model, including transference of entrepreneurial risk to the manager, increase in flexibility and decrease in bureaucracy, improved coordination and resultant reduction of costs of up to 10 per cent. Specifically he reported effects on employees of reductions in absenteeism, increase in levels of personal responsibility and increase in trust and morale. Overall, the manager believes the outsourcing model chosen should be one that suits the culture and the people involved in each individual circumstance. 'The rationale is always what works for each individual business'.

Deboning

The catalyst, eight years ago, for the initial decision to outsource some deboning of meat was increased demand in a new value-added product. The stated aim was to improve efficiency with piece-rate payment instead of hourly wages, thereby reducing costs whilst improving functional flexibil-

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ity. Managers also used this outsourcing decision as a test case to see if industrial relations problems would emerge. Outsourcing of this function is now viewed by the senior line manager as successful in several areas: cost savings, improving industrial relations, ease of management, product quality enhancement, and access to skilled workers:

> 'We didn't want the workforce at the one site, as there would be too many people. This causes industrial relation' problems and management problems of employing such a large workforce. If they are paid on a piece-rate basis [off-site] they are easier to manage.'

The use of contractors has also allowed more flexible use of labour. The contractors work between eight and twelve hours per day whereas the in-house staff would only work over eight hours by agreement and on overtime rates. Also, off-site production in the nearby large capital city allows MeatCo to gain access to available, highly-skilled workers, most of them of Asian background. If individual contractors did not complete the work to standard their contract could be terminated. As the line manager states:

> We don't have to go through the union processes when people are not doing their work and then we wish to sack them. If contractors don't do the work, they don't have the work. A strong union presence gives the in-house workers protection. Slow de-boners can still work in-house, but wouldn't get work for the contractor.

Nevertheless, some deboning is still conducted in-house at the local site. The in-house deboning staff are paid a higher rate than other process employees, in order to attract people to work which is boring, takes a long time to learn, and is repetitive and constant. Training is offered for in-house deboners. The senior line manager stated 'We are aiming for an efficiency improvement of ten per cent for in-house staff to get to the same level as contractors. Contractors have a higher output per hour and also a greater output because they work longer'.

Some of the same performance improvements achieved by contractors may have been gained by paying in-house staff on a piece rate basis rather than an hourly basis. However, in the past, workers and unions have been unreceptive to a policy whereby different employees on the same site are paid on a different basis. Now managers believe that this could be an option as there is increased trust, a changing culture and an increased understanding by the workers of the organisation's business environment.

The union's goal is to bring the deboning process back in-house completely, and officials agree that the cultural change may allow for perform-

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ance-based remuneration. The union official stated that the original outsourcing of deboning left workers feeling vulnerable because of continual management threats of job losses if productivity improvements were not made. Workers felt hostile, resented management and were reluctant to propose changes. The official stated that even though there were opportunities for worker participation, management often 'put them down' or accepted the ideas and then circulated them as their own. However, the official further stated that with the changes to management style, more open communication and a new classification structure that recognises deboners skills, employees now feel satisfied and content and believe that there is a future for in-house deboning.

Recruitment

For some years and until recently, recruitment was outsourced. Recruitment has now been moved back in-house with the intention of saving money, improving the quality of personnel selected, and becoming more responsive to business needs. According to a senior staff manager, these aims have been realised along with the integration of recruitment and succession planning with strategic planning. Thus an activity that in the past was seen as non-core has been brought successfully back in-house, in the opinion of the senior staff manager.

Cleaning

Considering internal cleaning operations to be too costly, managers recently considered the option of outsourcing cleaning services in order to try and reduce costs from $1.5 million while maintaining service quality and reliability. The three contractors approached produced quotes ranging from $0.9 to $1.8 million. However, managers lacked confidence in the contractors' understanding of the unique characteristics of the industry and decided instead to improve internal service provision by developing internal staff skills.

Competency assessment of supervisors revealed the need for training, as only five of the 33 supervisors could demonstrate the necessary team leader competencies required in the future as the area moves to a team based work organisation. Managers propose to instigate a skills matrix within this team based structure to allow career progression and skill development of employees. No redundancies have occurred but skill classifications of individual workers are expected to change as employee skills are recognised. Unions have been consulted during the process, and officials expect

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that changes will result in increased skill levels and flexibility for their members. Employees believe they will see improvements in pay and recognition of their worth.

Overall, then, MeatCo managers are seeking to better link behaviour to organisational performance, and through performance to pay. This has been done through outsourcing of some functions but there are also examples, such as with recruitment and farming, of a return from outsourcing to in-house production.

Case Study Two – CanCo

CanCo, which is located in Victoria, is part of a large US food processing company operating worldwide. In response to a range of factors, the site underwent major changes in 1992 and 1993. Beginning in 1992, the parent company conducted a worldwide restructuring of operations to take advantage of growth in the sector and export opportunities in Asia. Part of this restructuring involved the purchase of a major New Zealand food processing company, and its incorporation into worldwide production planning.

Since 1992, structural change at CanCo has been driven and reinforced by changes in industrial relations and work practices, negotiated through successive enterprise bargaining agreements. In mid-1992, CanCo's first jointly developed enterprise bargaining agreement was struck, with a single bargaining unit covering the Metal and Engineering Workers' Union (since renamed the Australian Manufacturing Workers' Union), the Electrical Trades Union, the Plumbers and Gasfitters Employees' Union, and the Federated Engine Drivers' and Firemen's Association. The agreement gave standard metals industry wage increases of 4.5 per cent in return for gains in productivity, efficiency and flexibility.

In early 1993 a Memorandum of Understanding was signed between food industry companies and unions. It committed management and unions to reform work practices. In April 1993, after nearly a year of discussion, a deal was hammered out between the company, union and Australian Council of Trade Unions (ACTU) representatives. The deal's terms reduced the size of the workforce by approximately 14 per cent (130 workers), with a further 90 job losses to follow, in order to cut costs by at least $15 million and ensure the survival of operations in Australia.

In April 1993, a new enterprise bargaining agreement was in negotiation, designed to help make CanCo internationally competitive. A consultative committee was formed and, in June 1993, representatives from the company and unions undertook an overseas study mission on best practice. According

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to the union delegate, who was a member of the study mission, seeing other companies enabled the group to come back to CanCo and communicate the value of a 'partnership' between employees, unions and managers in improving performance and workplace relations. In May 1994, a Certified Agreement was signed which incorporated the study mission's recommendations. The agreement committed CanCo to an eight per cent wage increase in three parts, and committed the parties to developing a best practice, world competitive company. Specifically, the agreement provided for the development of multi-skilled teams, skills-based classification and reward, training and development, changes in work design (particularly removal of demarcations), redundancy and employment security, and made a commitment in principle to seven day, twenty-four hour operation.

The 1996 agreement, covering manufacturing and electrical workers, specified staffing levels for permanent employees, and committed parties to twelve hour shifts and annualised salaries, with a pay rise of 13 per cent over the life of the agreement. Employees on a Metal Industry C10 classification were to be paid $43,760/annum for day shift and $53,636 for night shift. Employees on a C1 classification received $70,016 and $85,818 for day and night shift respectively. The Engineering Supervisor stated that the move to annualised pay and twelve hour shifts improved productivity and simplified administration.

At the time of interview in late 1998, negotiations were ongoing for the next bargaining agreement. Those interviewed agreed that the progression of changes signalled in successive enterprise bargaining agreements provided the context in which outsourcing at CanCo can and does take place.

Interviewees from the Engineering Services area, on which the case study focuses, emphasised the change in company culture since 1993. The union delegate said 'it was great to go from a company that was fighting all the time to one that negotiates much more'. There have been no strike days lost on local issues since 1993. The roster system, designed by the unions, reportedly works well for employees. Indeed, relations between managers, supervisors and union delegates appeared to be both productive and cordial, with managers pointing out in a general meeting on-site with all interviewees that much of the credit for progress to date is due to good relations held with unions on site.

The engineering supervisor reported the following impressions of employee involvement in the changes which have taken place:

> Ten per cent couldn't be bothered with any of it and are often counter productive. If you try and get rid of these people it seems like it always levels out to be about ten per cent so there's no point getting rid of them.

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> Twenty per cent are extremely enthusiastic to learn and see the changes work. Seventy per cent just do their jobs and accept the changes. This group often sits on the fence and may be a little sceptical but let the results speak for themselves.

Outsourcing at CanCo

A number of functions at CanCo have been given over to contractors since 1993. For example, three employees were made redundant when the pest control function was fully contracted out. Catering was partially contracted out, reducing the number of employees from fifteen to six. However, the focus of this case study is two major outsourcing initiatives conducted since 1993 in the engineering (maintenance) area.

Electrical trades outsourcing

One outsourcing initiative at CanCo replaced employee electricians with contract electricians. This was done during what employees refer to as the 'big bang' of 1993, a time of great change for CanCo. The Engineering Manager stated that cost was not the basis of the decision, but the need for increased flexibility in order to improve productivity: 'I spent seventy per cent of my time arguing with unions about demarcations', he said. The Engineering Supervisor acknowledged that the rigidity of demarcations, both at the case study site and elsewhere in industry, had arisen at least in part because 'unscrupulous managers would use it to get rid of people' by shifting skilled work to those less qualified in order to reduce employee numbers and costs. However both he and the union delegate agreed that one of the biggest impediments to flexibility, and to skills transfer and training, was the unwillingness of the electricians to allow any encroachment on their traditional territory.

Following an agreement struck with the unions and the ACTU, the electricians took voluntary redundancy (and were immediately employed with the contractor who was subsequently awarded the work). The work was put out to tender. CanCo awarded the work to one of the country's largest labour hire firms, a company respondent to the Electrical Contracting Industry Award 1992, and agreed to by all parties. While the number of electricians on site has reduced from about 18 to 11, the Engineering Manager stated that in the long-term he estimates the direct cost of the contractors as 30-40 per cent higher than the cost of in-house electricians. However, his (undocumented) analysis of the resultant cost savings in other areas through increased flexibility and more effective use of managers' time is that overall costs have gone down.

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The union delegate stated that work demarcations now exist 'only on skill and safety'. Qualified fitters with electrical skills now carry out electrical work where appropriate, under the supervision of the electrical supervisor. Employees are involved in new machinery acquisition and installation. However, work is monitored to ensure that jobs requiring licenses or special qualifications are only carried out by those qualified to do so. The demarcation issue has been addressed by training and upgrading of qualifications. Some CanCo employees in the Engineering Department now hold two trade qualifications whilst one is triply qualified – he is a qualified fitter, instrument maker, and electrician.

Apart from technical qualifications, workers have also received training in quality management techniques, and there is a 'transfer of skills' program between maintenance and production workers. The union delegate and engineering supervisor emphasised the importance of training in building workforce flexibility and increasing employee input into decision-making, consistent with CanCo's 'best practice' goals. Further, according to the engineering supervisor, the changes ratified in successive enterprise agreements, particularly the introduction of 12 hour shifts and annualised salaries, have also increased flexibility. Outsourcing of electrical trades work is clearly seen by those interviewed as only one early move, albeit critical, in progressive changes required to improve CanCo's performance.

Maintenance and minor capital works outsourcing

CanCo outsources maintenance and some minor capital works projects to its own employees, to be completed in their time off. The process began on a small scale before the 12 hour shifts were introduced, but since their introduction 12 hour shifts have allowed the practice to increase. Employees act as partly independent contractors. That is, they go through the same tendering process as outside contractors but employee tenders are co-ordinated and costed on company time by one of the engineering workers. Tenders are designed and let by the engineering supervisor or area manager responsible for the outcome. Decisions are made partly on cost, but taking into account the length of time it will take, necessity for understanding the equipment or context, and expected quality of outcome. The company pays all employee contractors a standard hourly rate.

An example of this type of outsourcing was provided by a CanCo project engineer. An existing platform, high up on a tank used for food production, needed replacing for better access and safety. Operators in the area were consulted about appropriate specifications, and the project engineer checked the draft with health and safety representatives and the area

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manager. The project scope was then provided for tender to the internal contracting group and to an external contractor. While the quote from the internal group was marginally more costly,

> they got the job anyway because it was critical that the job was done on a particular weekend, and [the group's] existing access meant they could start early, since they were on site anyway, and if there was a problem then they would be on site to fix it immediately

The project came in over budget, but the project engineer attributed this primarily to a change in specifications after installation had commenced.

Some problems exist with the system, which managers are seeking to address. For example, monitoring of costs on these jobs has not been tight, particularly in relation to original budgets. Sometimes this has been a result of insufficient information from which to tender, requiring job specifications to change during the job. However, it may also result from the fact that employee-contractors are currently not held responsible for budget over-runs, are not required to include in their budgets their on-site advantages such as use of power and spare equipment from stores, and have not received training in proper tendering procedure. Budget over-runs have been as high as 60 per cent above quote. One other problem exists because CanCo cannot designate its best tradespeople to tender for jobs. As a result, some of those who are less qualified or able are also getting work. However, as the Engineering Supervisor stated, 'It would be terrific if they were all good tradesmen and all positive and all did the right thing, it would work like a dream, but we don't live in a perfect world'. According to the project engineer, outside contractors, who know about CanCo's system, are awarded other work where appropriate to ensure they are still happy to quote on jobs for which they seldom, now, win the tender.

The rationale for undertaking this type of outsourcing, as described by the engineering supervisor, the union delegate and the employee contract manager, is that:

- it 'ensures CanCo money stays in the family';
- skills and knowledge exist in CanCo to do the jobs properly the first time;
- employees are more flexible about when and how the work is done than many contractors would be; and
- employees receive extra money, in effect representing overtime although this no longer exists with annualised salaries.

If outsourcing of the electrical trades work can be seen as helping to lay the foundations for workplace change at CanCo, then the outsourcing of

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minor capital works should be seen as one of the results of this change. The latter has been enabled by removal of demarcations and the introduction of 12 hour shifts, key planks in CanCo's workplace change efforts. Both CanCo outsourcing initiatives have been conducted with the involvement of unions, and have been facilitated by associated changes in industrial relations and work practices.

Discussion of outsourcing at MeatCo and CanCo

Managers at MeatCo and CanCo sought to fulfil a range of objectives from their outsourcing initiatives. In this section we identify these objectives, and relate them to the evidence on how costs and benefits were treated (summarised in Tables 2 and 3) and how this affected perceptions of the success of outsourcing.

Table 2. Reasons for outsourcing and for reversing outsourcing at MeatCo

Organisational area	Type of outsourcing	Cost/benefit evidence
Outsourcing decision		
Deboning	Numerical flexibility, Functional flexibility Cost Workplace power structure Work intensification	Cost savings, quality enhancement, workforce flexibility
Cleaning	Cost (initial only) Culture	Proposed changes in-house to gain benefits of functional flexibility
Reversal of former outsourcing decision		
Recruitment	Cost Strategic Focus	Reduced costs, strategic focus, improved quality
Farming	Cost Strategic Focus	Expected improvements in safety and quality, lower costs, strategic alignment with growers, improved operating procedures

Outsourcing at MeatCo has met with mixed success. While outsourcing of some deboning operations was clearly regarded by managers as successful, outsourcing of farming and recruitment were not.

The outsourcing of deboning also shows how objectives can change over time. While the initial goal was to reduce costs while increasing functional flexibility, managers sought to use the initiative to test the implications of changing the workplace power structure. Other objectives were developed post hoc as unanticipated benefits accrued. Thus the benefits of the initial contract became the objectives of subsequent contracts. These objectives included a change in the workplace power structure and managers' roles,

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and work intensification. Case evidence suggests that these benefits could not be captured in-house due to

- a lack of appropriate skills in-house, while these skills can be found amongst available contract labour;
- an internal requirement for overtime payments after 8 hours, while contractors work longer shifts at the standard rate; and
- a workplace culture previously resistant to piece-rate payment and consequent differential pay rates.

With reported changes in management style, workplace culture and union attitudes, these hurdles may be overcome, allowing MeatCo managers to bring deboning operations back in-house. The literature highlights problems arising from the inability to contract skilled people when required to meet demand. MeatCo managers have attempted to overcome this by basing the contract operations in the capital city, where skilled labour is more readily available, and organising the immigration of skilled deboners from overseas. As a result, however, the organisation does not capture the entire benefit from the work required to gain immigration clearance for these contract workers as other organisations contracting for deboning work gain access to their skills. Regardless of whether the function is conducted in-house or by contract, the company has established a higher performance standard by which in-house operations can now be measured.

Another area where objectives have changed over time was the proposed outsourcing of cleaning. Managers initially believed they could reduce cleaning costs while maintaining an acceptable level of service, either through intensification of work effort or lower pay rates. However, the attention given to this function as a result of the proposal to outsource highlighted internal deficiencies in training and skill classification, and associated morale problems. A decision was made that the expected benefits of outsourcing could be captured more effectively in-house through improving functional skills. Managers also realised that they had not genuinely considered the potential costs of inadequate service and quality and the effects of these on the organisation.

Not all outsourcing initiatives at MeatCo have been as successful. An example where manager's objectives for outsourcing were not met is farming. Managers sought to share risk and improve quality by contracting the growing of meat. In relation to risk-sharing, the actual consequences of outsourcing was a deteriorating company asset base, with no sign of the expected investments in infrastructure by farming contractors. This, along

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with safety problems and lack of management control, led to a deterioration in quality.

One result of trying to meet several objectives with a single outsourcing initiative is that these objectives may come into conflict. This is evident when managers who have outsourced a function for one reason, such as cost, decide to bring that function back in-house for a different reason, such as control over quality, or loss of core skills (Anderson et al, 1994:511). While MeatCo outsourced farming due to lack of capital and quality problems, the company proposed that moving farming operation back in-house would lead to improved control, quality, and safety, the latter being a newly introduced 'core value' in the organisation.

The evaluation of what constitutes core and non-core activities has important implications for the control of core skills and technology required for long-term viability. Although recruitment seems to have been easily transferred from outside to in-house provision, this is not always possible when skills are lost. Even though problems eventuated in the contract farming operations, considerable time elapsed before the managers began to consider other production options. Their implicit belief that new capital infrastructure was too costly stopped them making an objective reassessment as the situation changed. New entrants to the industry have demonstrated that an initial injection of capital in systems and technology and better strategic alignment with growers can lead to overall cost savings, and MeatCo managers now believe that they can capture these same economies even after an initial outlay. Thus the evaluation of the relative importance of strategic objectives is subjective, dependent on perceptions of decision-makers, and the notion of what is important is dynamic as decision-makers and conditions change.

In relation to performance measurement, MeatCo has not in all cases used explicit performance reporting to substantiate the decision to outsource or use in-house production. Managers seem to rely on gut feel especially in evaluating the effect of outsourcing on workforce management. For example, the monetary benefits of changing the strategic focus and core activities have not been measured. Nor have the benefits of strategically aligning the goals of growers and MeatCo been considered. The reported cost saving in outsourcing of cleaning was reported as not being sufficient to justify the unquantified costs of reduced quality and reliability. In addition, there were no examples provided by managers of the cost benefits of bringing farming and recruitment back in-house.

MeatCo managers' experience with outsourcing can be characterised by "learning by experience". The evidence from MeatCo reveals mixed ob-

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jectives for and results from outsourcing. One issue which is highlighted by the evidence from MeatCo is that a decision to outsource based on managerial perceptions of what constitutes 'non-core' functions may be inadequate, or that as a competitive situation changes over time, what constitutes a core competency may change. Indeed, applied definitions of 'core competencies' appear to be subjective, fluid, and easily manipulated. What is clear is that methods other than outsourcing, such as an increased emphasis on good employment relations, communication and open governance, have been at least as successful in meeting managerial objectives.

Table 3. Reasons for outsourcing at CanCo

Organisational area	Type of outsourcing	Cost/benefit evidence
Outsourcing decision		
Electrical trades	Workplace power structure Functional flexibility Culture Managers' roles	Increased workforce skills and flexibility, one manager's perception that overall costs have gone down, more productive role for managers, less industrial disputation
Maintenance and minor capital works	Strategic focus Functional flexibility	Costs appear to be higher than outside contractors, but ease of access, local knowledge and positive employee response provide benefits

At CanCo, the two major outsourcing initiatives described, electrical trades and maintenance and minor capital works, had very different objectives. Both, according to CanCo managers, were successful.

Electrical trades outsourcing was conducted to change the workplace power structure. The Engineering Supervisor's comment was "this was because of demarcs. The union was very rigid with demarcs." Outsourcing facilitated a range of other changes desired by managers. CanCo has substantially improved functional flexibility amongst its remaining workforce through removal of skill demarcations and improved skills. Managers and others report an improvement in workplace culture since 1993; outsourcing was part of a package of changes which allowed and encouraged increased workforce participation and commitment. The Engineering Manager reported a change in his role, in that much less of his time was spent on tackling problems and disagreements arising from demarcation disputes. He also reports his impression that, while direct costs for electrical workers have increased, overall costs have gone down as a result of increased flexibility and efficiency. So, while a change in power structure was the

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primary reason for outsourcing, benefits were also reported in functional flexibility, organisational culture, the role of managers, and cost.

Measurement of performance in these areas is, however, imperfect. Claims made for the benefits of outsourcing electrical work are subjective, since it appears that no hard data were collected to provide before and after comparisons. One explanation is that, since a change in the workplace power structure was the main goal of outsourcing, assessment of outsourcing was only planned in relation to this objective, and the objective is one which lends itself to anecdotal or subjective assessment. While other benefits did accrue, and could, according to managers, have been reasonably expected when the workplace power structure was changed, these benefits were not directly measured because they were seen as a bonus. Another explanation lies in the highly political nature of the outsourcing. While CanCo subsequently outsourced non-core functions such as pest control, outsourcing electrical work represented a significant change. It represented an infrequent opportunity to change the workplace power structure with the involvement and co-operation of unions, including the union representing the workers to be outsourced. Perhaps managers did not want to endanger this co-operation by collecting data which could later be used against the unions. Finally, the lack of performance measurement may simply be explained by a lack of knowledge amongst managers about what data to collect, or how. Certainly, for one of the benefits reported, culture change, only subjective, partial or surrogate measures are available. However, other benefits, like the assertion regarding overall cost reduction, should have been simpler to measure. The risk in this lack of substantiation is that the assertion is wrong, or that others, seeking hard evidence, will not take it on faith. Thus, while there are at least three explanations for managers lack of direct assessment of electrical outsourcing at CanCo, the lack of systematic measurement does cast doubt on whether CanCo managers are aware of the full costs of outsourcing.

Collaboration with unions and the union peak body clearly facilitated the outsourcing of electrical work. However, the existence of a powerful external threat gave urgency to the negotiations. As stated above, electrical outsourcing was done during CanCo's 'big bang' in 1993. In this same year, an internal, international benchmarking study showed that CanCo was one of the poorer performing sites, and the head of CanCo's parent company overseas threatened to close the plant. Under this pressure, union and ACTU officials agreed to accept retrenchments, overhaul work practices and make a commitment to 'best practice' principles. While, several years on, both the union delegate and the ACTU official interviewed still believe these

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changes were necessary to keep the plant open, CanCo managers had a powerful threat at their disposal at the time with which to change practices and intensify work effort.

The second type of outsourcing at CanCo was the outsourcing of maintenance and other works. Maintenance is regarded by many as a non-core service (see, for example; Handy, 1990; Harrison & Kelley, 1993) and as such may be seen as ripe for outsourcing. CanCo turns the traditional notion of outsourcing on its head, with the work being conducted by CanCo employees in their time off. CanCo managers sought to improve strategic focus and functional flexibility. Strategic focus is ensured through the most efficient use of the core skills of engineering employees. Flexibility is achieved by ensuring that CanCo managers can tap into these skills with more ease. This is an interesting development and supports the proposition that it is necessary to keep skills in-house as they are difficult to replace once lost (Pfeffer, 1994; Morkel, 1993), even if it is non-core area. Further, benefits accrue for employees in terms of the opportunity for increased earnings. This may make skilled workers less likely to leave, protecting CanCo's substantial training investment in their employees. Again, however, only anecdotal evidence on the benefits of this outsourcing is provided. The exception is the information that direct costs may actually be higher due to budgeting problems.

Measurement of the costs and benefits of outsourcing has not been systematic at CanCo. Many of the claimed benefits position outsourcing as one of several related change initiatives, including enterprise bargaining, improved consultative mechanisms, a better workforce understanding of the competitive pressures facing the company, and changes in work organisation. Thus, while benefits were anticipated, and reported, they are difficult to separate and quantify in practice. This supports Pfeffer's (1981) and Cooper's (1987) assertions that objective cost-benefit data is impossible to project when making the outsourcing decision because of deficiencies in performance measurement systems.

Conclusion

The recent increase in the use of outsourcing in Australia is linked with the interest in the overall use of labour market flexibility to achieve improvements in economic performance. Numerical and functional flexibility can be achieved through outsourcing and this is often highlighted by managers as one of the primary reasons, along with cost savings, when outsourcing is considered. With the advent of the recent Federal Court decision on

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transmission of business, currently under appeal, outsourcing in order to reduce costs by changing conditions of work may no longer be possible. However, this paper has also highlighted other reasons that managers choose to outsource work; namely, increased strategic focus, risk sharing, a change in managers' roles; a change in the workplace power structure or culture of the organisation; and work intensification.

The benefits of outsourcing are discussed, as well as some of the unanticipated or unquantified costs. The description of outsourcing initiatives in two organisations in the food processing sector allows a more specific investigation of what objectives managers seek to fulfil from outsourcing, and whether performance meets expectations. It seems clear that managers do begin with clear objectives for outsourcing and anticipate that benefits will flow. However, sometimes these objectives are not met, unexpected costs are incurred, or objectives change as new information is available or situations change. This may require a reversal of the outsourcing decision. Deficiencies in performance reporting are also highlighted, with managers unable to objectively substantiate the outsourcing decision. It is clear that in some decisions, benefits and costs cannot be assessed objectively by performance systems, especially in cases where the reason may be based on strategic focus, or the benefits and costs relate to factors which are difficult to quantify, such as organisational culture.

While the two companies described in the case studies have fairly clear objectives for each outsourcing initiative, cost benefit analysis of undertaking the initiative was either subjectively or only partially measured. Outsourcing is often part of a process of organisational change, which may include changes in culture and management style, and so it is difficult to separate the effects of outsourcing from those of other initiatives. The decision can usefully be seen as fluid and subjective and as a result managers' objectives are not always met, nor are the potential benefits and cost anticipated and quantified.

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