

# Outsourcing: a risky business

For many Australians, fear of job loss has become a constant preoccupation. Economic downturn early in the last decade spawned much of this as organisations struggled to stay afloat. In that climate job losses were probably inevitable.

But what of recent years? On all conventional measures, Australia's economy has boomed. Very strong growth has continued for an almost unprecedented period. Profits are strong. The share market is at record levels. Unemployment seems at last to be falling, even though improvement is slow and built on rather shaky statistical foundations.

Yet for all this 'good news', job insecurity continues to dominate employee attitudes at work in almost all occupations and in most industry sectors. Why? Clearly, the normal booms and busts of a market economy do not provide an answer. Otherwise, we should now be seeing a surge in worker optimism.

The answer almost certainly lies in the way in which workplaces are being organised — or perhaps it would be better to say 'reorganised'. Major research work done at Melbourne University reveals that over the second half of the 1990s a remarkable 88 per cent of Australian enterprises were significantly restructured. Many were reorganised on more than one occasion.

While 'downsizing' [the deliberate shedding of labour] has attracted much attention in reviews of these ubiquitous change programs, it is clear that contracting-out, or 'outsourcing', has been at least as strong a factor in driving insecurity within the workforce. 56 per cent of larger Australian organisations have outsourced functions during the past 5 years, and 55 per cent have increased outsourcing in the past 2 years. Among librarians, my discussions with ALIA members certainly suggest that fear of the contracting out of parts or all of their library service is a prime area of concern for them.

One of the clearest findings of recent research on restructuring outcomes was that good results came from organisations that were far less likely to have outsourced work functions. A dominant feature of organisations incurring negative results from restructuring was their strong focus on outsourcing. [see: 'The Contours Of Restructuring and Downsizing in Australia', Dawkins et al, Melbourne Institute, Uni. of Melbourne 1999]. This invites analysis of particular outsourcing programs not on their popularity or appeal to current managerial fashion, but rather on their efficacy. In this context, it seems that outcomes are often quite the opposite of objectives.

The Melbourne project finds a number of possible advantages from outsourcing. These

include access to a broader skills base, adoption of more up-to-date methods, modernisation and standardisation of infrastructure and stabilisation of peaks and troughs in capital expenditure.

But there are major risks. Cost and performance standards are frequently not met and while many contracts include penalty clauses for poor performance, the research shows that they are very rarely invoked. Critically important skills and information are often lost and management can lose practical control of key functions. While outsourcing may be introduced incrementally, the total effect of individual programs can ultimately shatter management control by stealth. Over time, dependence can switch strongly in the supplier's favour. In extreme cases, local management can be captured and held to ransom by an incumbent service provider. There are persistent problems with measuring and ensuring service quality, demonstrated by the worst-case scenarios of maintenance and safety failures in industries such as aviation and electricity supply. As is the case with downsizing, it is fascinating to note the simultaneous popularity of outsourcing and the demonstration that, more often than not, it fails. While a majority of its exponents adopt outsourcing primarily to reduce costs, a recent Deloitte & Touche study of 1 400 respondents found only 35 per cent reported any benefits and only 20 per cent achieved any reduction in costs. UK research supports these findings. Looking below the surface of fashion and 'knee-jerk' answers to complex problems, these results are really not at all surprising. With outsourcing so often fundamentally linked to job-shedding programs, it is inevitable that it will frequently produce negative outcomes among employees. And it is obvious that improvements are extremely difficult to achieve if the atmosphere for staff management is dominated by employee dissatisfaction and nervousness.

In any case, the rationale for outsourcing as a cost reduction strategy has lost some of its force from another quarter. In several major recent decisions, the Federal Court has ruled that outsourcing cannot be used as a simple measure to reduce established employment conditions [see, for example: *North Western Health Care Network v Health Services Union of Australia*, FCA 897, 2 July 1999]. Industrial laws contain strong 'transmission' provisions compelling enterprises to retain award conditions of employment where ownership moves from one organisation to another — in take-overs and incorporations, for example. The Court has now confirmed that employees moving to an external provider under outsourcing arrangements continue to have legal rights to the conditions previously applying to their em-



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ployment. A significant component of assumed cost reduction is therefore removed from the outsourcing equation.

Outsourcing is clearly not going to disappear overnight. Librarians will continue to be plagued by 'core business' and contracting out philosophies. But it is clear that they are no panacea. Whether they like it or not, all enterprises and their managers that have not

yet done so will sooner or later have to confront the reality that sustained improvement in performance and service standards is most likely to occur when the workforce is also committed to the same outcome. The Damocles sword of serious job insecurity, which over-reliance on downsizing and outsourcing seems invariably to produce, will not create the climate for that necessary common purpose to thrive. ■

# ALIA Membership

ALIA welcomes the following new members who joined the Association in November and December 1999 and congratulates those who have upgraded their qualifications

## November

### New Members

*Lynette Bonomini NSW*

*Margaret Breare VIC*

*Mona Brown ACT*

*Janette Coghill VIC*

*Alice Dodd SA*

*Sharon Donaghue QLD*

*Janet Epps SA*

*Alison Foster USA*

*Clare James NSW*

*Catherine Jorgensen NSW*

*Jenifer Lewington WA*

*Kah Lok Lim SINGAPORE*

*Andrew Lovday SA*

*Eva March VIC*

*Emy Marcos VIC*

*Amanda McAuliffe SA*

*Vicki McKay VIC*

*Bimlesh Mudaliar NSW*

*Stelios Podias WA*

*Maureen Raynor WA*

*Farah Siddiqui VIC*

*Terena Solomons WA*

*Michelle Teis QLD*

*Lawley Yukich WA*

### New Technicians

*Colleen Hayes VIC*

*Linh H Ly NSW*

*Yasmin Moore VIC*

*Wendy Rutten SA*

*Cathy Sayer NSW*

*Robin Smith WA*

### New Associates

*Mary Bartholomew SA*

*Lynn Davis WA*

*Stephen Leahy SA*

*Ruth Nitschke WA*

*Fiona Raike VIC*

*Fairlie Stanish NSW*

*Margaret Stuart NSW*

*Zoe Talikka VIC*

*Naida Tattersall QLD*

*Catherine Voutier VIC*

*Tanya Wolfe QLD*

## December

### New Members

*Andrew Black WA*

*Melinda Burge NSW*

*Jennifer Cutting QLD*

*Amanda De Cinque WA*

*Patricia Deane QLD*

*Anne Gaylard VIC*

*Carl Grant USA*

*Kathryn Harding VIC*

*Janet Heard WA*

*Wallace Hunt-Smith WA*

*Ruth Jacobsen QLD*

*Bernadette Kean VIC*

*Leonie Kennedy ACT*

*Barbara Overbury VIC*

*Slavjana Stosic NSW*

*Deveni Temu ACT*

### New Technician

*Lynette Bonomini NSW*

*Cheryl Emin NSW*

*Piphal Engly ACT*

*Alison Gibson QLD*

*Catherine Jorgensen NSW*

*Kaye Kane VIC*

*Naomi McAnalen QLD*

*Betty Wilson NSW*

### New Associate

*Mona Brown ACT*

*Sylvania Cheung VIC*

*Karen Christensen QLD*

*Gillian Colledge ACT*

*Amber Davies NSW*

*Katherine Jorgensen QLD*

*Brita Lim WA*

*Sharmila Maitra NSW*

*Sean Monaghan QLD*

*Julie Rappold VIC*

*Vicki Roberts QLD*

*Catherine Smith NSW*

*Rebecca Toohey VIC*

*Alison Turner NSW*

*Kylie Wansink VIC*

### Upgrade to Associate

*Man Shuen Ip NSW*

*Man Pan-Paul Li QLD*

*Mark Norman NSW*