FIGHTING PRIVATISATION TOOLKIT

Making the case against outsourcing

The case against outsourcing is growing stronger all the time. Fundamentally, it boils down to three points:

1. Outsourcing has a detrimental effect on staff and therefore on quality.

2. Outsourcing is risky, entailing hidden costs.

3. The potential cost savings have been wildly exaggerated.

4. As such, it represents an unacceptable gamble with the reputation of colleges and universities.

1. Outsourcing is detrimental to staff and quality

The only way for private companies to extract profit from running public services like education is for them to keep the costs of the contract low through aggressive human resource management techniques.

For staff, this typically means:

- Job insecurity, especially for 'second generation' staff who are directly employed by the contractor and have not been transferred.

- Increasing downward pressure on the terms and conditions and pay rates of transferred staff over time.

- General wage restraint, job cuts and the widespread use of temporary and agency workers.

- The standardisation of work processes, the unbundling of professional roles and the de-skilling of jobs.

- The loss of avenues for employees to have a voice in their workplace, leading to more disputes.

These lead to a diminishing quality of service provision. As an ACAS discussion paper noted the loss of control over work associated with outsourcing can lead to 'lower levels of job satisfaction, higher stress and greater absence and turnover among the workforce'. (Huws, 'Outsourcing', p.14)

A recent academic study of outsourcing noted that there is growing evidence that outsourc-ing 'can compromise the quality of service and lead to a competitive race to the bottom for both terms and conditions of the employees and the commitment these staff then have to providing high quality services'. (Jeffreys, 'Shared business services outsourcing', p. 14)

- The recent examples of the scandalous treatment of people in elderly care homes and the spread of MRSA in hospitals clearly demonstrate the dangers here.

- A 2011 University of Greenwich study of outsourcing in the NHS concluded that 'Outsourcing often has a negative effect on the quality of patient care.' ('Empty Promises', p.3)

- In higher education, IT and Library provision has been a common target for outsourcing and this too poses a threat to quality.

- Outsourcing of email systems poses a threat to data protection, data integrity and audit control, while outsourcing of virus-scanning has led to security problems.

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■ Similarly, the outsourcing of some functions within library services leads to a loss of quality. Outsourcing cataloguing functions for example, diminishes the specialist knowledge based in particular libraries. Specialist librarians are less able to be able to provide a tailored expert service to academic specialists and students.

2. Outsourcing is risky and entails hidden costs

Outsourcing is risky because it contains costs that are not always apparent to college and university managements.

Firstly, there are significant costs in terms of the coherence of the service and the ability of management to exercise control.

While they are seduced by the tales of cost-savings and private sector efficiency, managements rarely factor in the cost of breaking up vertically integrated services.

For example, they under-estimate the amount of investment that will be needed to put in place efficient systems and personnel skills in managing large-scale procurement: new systems and personnel are required to handle the commissioning, target-setting, monitoring and evaluating of large-scale, long-term contracts. Do college and university managements understand this? The early signs are not reassuring.

These problems are better understood in the private sector and in public services like Local Government for example, where outsourcing has a longer history.

A report by Deloittes from 2005, based on a survey of companies using outsourcing noted that 1 in 4 brought their services back in house after realising they could do it better and/or at lower cost.

The report listed the top six risks identified by companies using outsourcing as:

■ vendor under-performance

■ loss of control

■ cost-related problems

■ knowledge loss

■ intellectual property/Confidentiality

■ hidden costs.

Similarly, the Association for Public Sector Excellence (APSE) surveyed 140 local councils and found that 57% of them had already brought a service back in-house or were considering doing so.

60% of the council services responding cited 'the need to increase efficiency or reduce service costs' as the main reason for bringing the service back in-house. In fact the report found that budgetary pressures were one of the biggest reasons for councils bringing services back in-house. (APSE, In-sourcing Update, p. 3)

3. Outsourcing: the myth of cost savings

The salespitch for outsourcing is most commonly based on the ability of supposedly efficient private sector managers to run services more cost-effectively. The commonly cited claim is that outsourcing can achieve cost-savings of between 10 and 30%.

Yet the evidence for these claims is extremely thin.

■ The Deloittes survey notes for example, that while 70% of respondents said that cost savings were their primary motive, 38% of these respondents said that they had paid additional or hidden costs for services they believed were in their contracts.

■ Research by Dexter Whitfield of the European Services Strategy Unit revealed 105 outsourced public sector ICT projects with significant cost overruns, delays and terminations with a total value of £29.5 billion and a total overrun cost of £9 billion.

■ Finally, research by Professor Steve Jefferys has shown that the claims for cost-savings are 'reliant on a tiny number of very dated and often contradictory studies that are beset with methodological problems'. In fact, the evidence suggests that 'it is not clear whether a) there are any initial cost savings; or b) if there are any savings that they are maintained over time.'

As Jefferys notes, the last point is important because long outsourcing contracts create 'outsourcing dependency' as valuable skills and knowledge are lost, increasing the outsourcing company's bargaining power in the contract and weakening a 'vendor's' control.

Perhaps the final word should be left to Deloittes, whose rather pithy summary was:

"contrary to the optimistic portrayals of outsourcing by vendors and the market-place, outsourcing is an extraordinarily complex process and the anticipated benefits often fail to materialise." (Deloittes, 'Calling a Change', p. 2).

4. Outsourcing is a threat to the reputations of our colleges and universities

Colleges and universities are more 'demand sensitive' than ever. The creation of greater competitive pressures in the system and the pressure to recruit students are making colleges and universities very 'brand' conscious.

Yet the foundation of their 'brand strength lies in the service provided by their staff. This is obviously the case with academic staff. But it is also true of support staff.

'Student experience', which is supposed to be the number one priority of all our institutions, is shaped by the huge range of social exchanges and interactions that take place on a college or university campus every day, involving libraries, careers services, security guards, catering staff, cleaning staff, estates staff and so on and so on.

If the staff who make our campuses work every day are demoralised, de-skilled and de-valued, then the quality of the student experience, the reputation and ultimately the finances of the institution will suffer.

Outsourcing is a huge gamble with this reputation, undertaken on the basis of a fundamentally false prospectus.

Further reading

Empty Promises: The impact of outsourcing on the delivery of NHS services, (University of Greenwich and UNISON, 2012) *http://www.unison.org.uk/acrobat/20682.pdf* .

Steve Jefferys, 'Shared business services outsourcing:Progress at work or work in progress?' *WLRI Working Paper* 11, May 2012. *http://www.workinglives.org/ londonmet/fms/MRSite/Research/wlri/Working_Papers/WLRI_Working_ Paper_no_11_Progress_at_work_or_work_in_progress.pdf*

Ursula Huws, 'Outsourcing and the fragmentation of employment relations: the challenges ahead', *ACAS Future of Workplace Paper discussion paper*, August 2012, *http://www.acas.org.uk/media/pdf/p/8/Outsourcing-and-the-fragmentation-of-employment-relations-the-challenges-ahead.pdf*

Deloittes, Calling a Change in the Outsourcing Market (Deloittes Consulting, 2005). *http://www.deloitte.com/assets/ Dcom-Luxembourg/Local%20Assets/Documents/Global_brochures/us_outsourcing_callingachange.pdf*

Insourcing update: The value of returning local authority services in-house in an era of budget constraints (APSE and UNISON, 2011). *http://www.unison.org.uk/acrobat/20122.pdf*

Shadow State: A report about outsourcing of public services (Social Enterprise, 2013). *http://www.socialenterprise.org.uk/uploads/files/2012/12/the_shadow_state_3_dec1.pdf*

Dexter Whitfield, Cost overruns, delays and terminations: 105 outsourced public sector ICT projects (European Services Strategy Unit, December, 2007). *http://www.european-services-strategy.org.uk/outsourcing-ppp-library/contract-and-privatisation-failures/105-public-sector-ict-contract-failures*

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