PRO'S AND CON'S OF OUTSOURCING

Following a growing international trend, outsourcing of functions and services has also become commonplace in South African organisations. Locally, motivations for outsourcing vary from a desire to improve levels of efficiency and competitiveness by focusing on core business, to an attempt to avoid the impact of labour laws and unionisation. While its attractions to employers may seem obvious, outsourcing is often viewed from a very different perspective by employees. While for some employees, especially those in the information technology and security sectors, outsourcing has become the norm, for many others outsourcing spells unemployment, diminished job security or reduced benefits if they are fortunate enough to have their services transferred to the new service provider.

A major attraction that outsourcing has is that it allows the business to focus on its core business and competencies, leaving peripheral and support functions (e.g. IT, security, personnel administration and so on) to be serviced by outside experts. For smaller employers, outsourcing might also have the advantage of a reduction in numbers, thereby possibly removing the business from the statutory thresholds that imply increased obligations, e.g. submission of employment equity plans.

Before a business embarks upon outsourcing, however, there are a few potential downsides to consider. First, because outsourcing often involves dismissal of staff who become redundant as a result, it contributes to (rather than helps resolve) the country's chronic unemployment problem. It might also – and often does – create unease and uncertainty among those who remain, in turn causing talented staff to move on to more secure pastures. Second, there is still major uncertainty in legal circles over the question whether and under what circumstances outsourcing constitutes a transfer of a business as a going concern, thus activating the onerous provisions of s 197 of the LRA. In cases where it falls under that section, both the old and the new employer in an outsourcing situation will be saddled with certain statutory obligations that might render the outsourcing not worth their while.

Third, employers (with very benevolent motives) sometimes outsource non-core functions to existing staff with the idea that they would become entrepreneurs for their own account by supplying expertise back to the old employer as independent contractors. While this might stimulate the entrepreneurial spirit, many such enterprises fail because the entrepreneur now also has to run an own business – and manage his or her staff – with little or no experience, knowledge or back-up. The result is either business failure, or staff who carry their unhappiness about their employer (the entrepreneur focused solely on getting the job done) onto the premises of the client.

This also happens where employers enlist the services of outsiders who do not apply good human resources and labour relations practices in respect of their staff: their problems eventually become the client’s, except that the client now has less influence or say than over its own staff. Simply recycling the service provider’s staff does not solve the problem. For one thing, it militates against continuity and involves a cost each time a new staff member has to be shown the ropes.

A fourth problem is that the introduction of a service provider in the form of a labour broker may upset established relations in the workplace and create friction, or at least a dualism, between the employer’s own employees and those of the service provider.

Less obvious, perhaps, is the fact that long-term exclusive outsourcing arrangements create a dependency that might isolate the organisation from the market. By giving the vendor the exclusive right to understand one’s business, one is also making it harder in the longer term to terminate the relationship.

Further, the higher the number of external service providers, the greater the need for the organisation to enlist the services of project or contract managers to supervise the different agreements.

Finally, the vendor may build up relationships with the business’s peers and partners and become a surrogate for the business in dealings with them. Unless the rules are clearly spelt out and the business does an effort to maintain its visibility and links with peers and partners, there is a very real risk of its relationships with them relationships disappearing.

In conclusion, while outsourcing offers potential benefits in terms of cost, service levels and access to talent, it is a strategic decision requiring careful thought about risks, benefits and governance.