

# Outsourcing, Organisational Performance and Employee Commitment

John Benson\*

## Abstract

*A growing trend in work organisation in Australia is for firms to outsource many activities that had been previously performed in-house. Outsourcing these activities, it is argued, will free up human and capital resources as well as allow for increased flexibility in the way labour is employed. Although the extent of outsourcing and other approaches to flexibility have been well documented in Australia, little attempt has been made to evaluate such practices. The purpose of this paper is to review the existing research and to evaluate the effect of outsourcing on firm performance and employee commitment. The research findings, which are based on four manufacturing companies, shows that employee commitment among contractor employees is generally high, although the economic benefits to the firm may take several years to realise.*

## Introduction

During the late 1980s Australian business enterprises came under pressure to restructure and improve their competitiveness in the domestic and international marketplace. A number of Government initiatives were im-

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plemented to encourage and assist Australian companies achieve such objectives (*Best Practice Demonstration Program; National Industry Extension Scheme*). This quest for efficiency and improved productivity led to a more strategic approach to management and human resource practices. Total quality management, best practice benchmarking, lean production, and continuous performance improvement are all terms that have been used to describe the various managerial approaches of the 1990s.

In addition, a number of writers have argued that enterprises will improve efficiency by concentrating on their core functions and outsourcing all peripheral activities to firms that specialise in such tasks (Cannon, 1989; Edwards, 1994; Harrison and Kelley, 1993; James, 1992; Rees and Fielder, 1992; Sharpe, 1997; Smith, 1991). The increasing use of contractors, for the supply of components and services, has been one of the notable trends in work organisation in Australia over the past decade (Mayhew, Quinlan and Bennett, 1996: 1). As Benson and Ieronimo (1996) reported most Australian manufacturing firms surveyed had outsourced at least one activity with most planning further outsourcing within the next three years. This finding is supported by Wooden and VandenHeuvel (1996) who found that 90 per cent of the 522 workplaces surveyed had used contractors in the past year.

The concept of outsourcing is not new. Firms have been outsourcing since the early 1900s, although under a variety of labels (Cappelli, 1995; Chandler, 1964; Quinlan, 1998). The activities outsourced, however, were not generally central to the core objectives of the firm and usually made a low contribution to the value chain. Conventional wisdom was that outsourcing core activities or technologies would threaten the firms' competitive advantage (Bettis, Bradley and Hamel, 1992). The success of companies like Microsoft, Benetton and Nintendo has, however, demonstrated that a competitive advantage can be achieved through outsourcing arrangements. These firms have outsourced many of the traditionally perceived core competencies including product design, software development and distribution. Many of these firms are new and so are free from historical practices and cultural restraints.

Is it possible for mature firms to achieve a competitive advantage through an outsourcing strategy? According to Quinn (1993) all firms must re-examine their entire value chain and outsource those activities found not to be at a 'world class' standard. Mature firms are now beginning to appreciate that their current organisational arrangements may no longer be suitable for their key competencies (Goldman, Nagel and Preiss, 1995). Indeed, significant advantages, such as lower costs, lower production and

market times, and improved innovation, may result from market-based relationships (Stalk, 1988). This has led to an increasing number of firms outsourcing their key competencies and capabilities (Miles and Snow, 1992; Piore and Sabel, 1984).

Yet despite these developments little is known about the long-term consequences of mature firms pursuing a flexibility strategy based on outsourcing. Evidence is now emerging which points to higher health and safety risks under an outsourcing strategy (Kochan *et al.*, 1994; Mayhew, Quinlan and Bennett, 1996; Mayhew and Quinlan, 1998). Will a similar fate be bestowed on firm performance and will workers be disaffected in the process? These are important questions as unlike many of the other management strategies of the last decade it will be, in many cases, difficult for firms to reverse the process. In part, this is due to the nature of the contracts entered into and, in part due to the loss of the key skills necessary to perform the particular function.

This paper will examine these issues. In particular, the paper seeks to ascertain the impact of outsourcing on firm performance and employee commitment. As the move to outsourcing is generally part of a wider drive for flexibility the paper begins by examining the potential flexibility and problems associated with an outsourcing strategy. After a brief section dealing with methodological issues, the paper reports the findings of detailed case studies of four manufacturing firms that have outsourced their maintenance operations. Case study research was seen as the most appropriate way to understand the outsourcing decision (Deavers, 1997: 517), although it does mean the results may not be representative.

## **Outsourcing, Labour Flexibility and Employee Commitment**

The theme underpinning many of the recent managerial approaches is the development of a more flexible workforce. This search for improved flexibility had, according to Baglioni (1990: 12), become employers' new frontier in the management of labour. In Australia the catalyst for the introduction of flexible forms of work was the introduction of enterprise bargaining in the late 1980s. A centralised wage system could not, it was contended, facilitate the improved competitiveness required by Australian manufacturing enterprises (BCA, 1989). Enterprise bargaining not only allowed a variety of issues to be addressed that were seen as impediments to improved flexibility but hastened the development of a reform culture amongst management.

The term flexibility has been given a variety of meanings (Atkinson, 1987; Brunhes, 1989; Blyton and Morris, 1992; Clarke, 1992; OECD, 1986) although an often used typology breaks the concept into three forms (Harrison and Kelley, 1993: 213-214). Functional flexibility refers to the ability of the enterprise to re-deploy labour to cover new work tasks or new production methods. The second form is wage flexibility, in which the enterprise attempts to link wage payments to productivity and product demand. Finally, numerical flexibility is the ability to adjust labour inputs to product demand. The introduction of these forms of flexibility has been well documented in Australia (Department of Industrial Relations, 1992; Green and MacDonald, 1991; Rimmer, 1991; Rimmer and Zappala, 1988; Stewart and Spatz, 1993). Australian enterprises have instituted all three forms of flexibility although the actual mechanisms have, in the main, been limited to multi-skilling, performance-related payment schemes and the greater use of part-time, contract and casual work.

Outsourcing contributes to all forms of flexibility; wage, functional and numerical. Outsourcing involves 'the purchase of goods or services that was previously provided internally' (Lacity and Hirschheim, 1993: 74). Thus, management by outsourcing can achieve considerable flexibility as payment is made only for work undertaken and completed, the tasks undertaken are contract-related and not craft-related, and worker numbers can be adjusted to the requirements of the plant. This last issue is particularly relevant to those firms that experience fluctuations in demand for their major product or service. By outsourcing enterprises are free to direct the released physical, managerial and financial resources to producing a quality product or service at a competitive price (Venkatesan, 1992).

Outsourcing can thus be a form of strategic flexibility where the firm adopts a different form of workplace organisation in an endeavour to improve enterprise performance.

Nevertheless, while outsourcing can improve flexibility, the arguments for adopting this practice have tended to focus on cost considerations (McCune, 1993; Plunkett, 1991; Rees and Fielder, 1992; Sharpe, 1997; Tully, 1993). Plunkett (1991: 8) reported that outsourcing is usually implemented to save money rather than forming part of any coherent strategy. Tully (1993:106) contended, however, that outsourcing 'frees companies to direct scarce capital where they have a competitive advantage'. This raises the question of strategy, although Strassman (1995: 2) concluded that for most companies 'strategy is not driving outsourcing' but rather 'they're in financial trouble'.

Abraham and Taylor (1996) found only limited evidence that the search for lower costs was driving outsourcing, although the outsourcing of lower skilled activities appeared to be motivated by a desire to reduce hourly labour costs. Similarly, Wooden and VandenHeuvel (1996: 179) found accessing specialised skills, coping with peak periods, and the ability to deal with one off tasks were the major reasons workplaces had used contract labour. As Sharpe (1997: 541) argued 'outsourcing enables organisations to gain the benefit of state-of-the-art skills and technologies without investing directly in their development or exposing themselves to more risk than they care to take on'. Abraham and Taylor (1996) found support for this proposition in that smaller enterprises were likely to have outsourced more highly skilled activities.

Outsourcing may also be an impetus and agent for change. Contractors can bring to the organisation more specialised and efficient ways of undertaking the given tasks (Johnson and Johnson, 1991; Bergstrom, 1993; Sharpe, 1997). This is particularly important if the enterprise has work practices that are no longer relevant or economically sustainable. In addition, outsourcing enables the benchmarking of activities across firms (Sharpe, 1997: 542). Another advantage may be improved industrial relations that result from shifting industrial relations responsibility to a third party. This can be the case where the union representing the employees currently providing the service is militant or where workplace reforms are being resisted (Way, 1993). Unions, for their part, have expressed concern about the shift to market-mediated employment arrangements and as Kosters (1997: 555) pointed out, these practices 'can make enforcement more difficult for requirements like those for minimum wages or overtime pay'. Nevertheless, Harrison and Kelley (1993: 230) found 'no evidence that subcontracting is associated with union-avoidance *per se*'.

Outsourcing can, however, create problems for the enterprise. Outsourcing decisions tend to be incremental. As Bettis, Bradley and Hamel (1992: 7) concluded, 'a whole series of incremental outsourcing decisions, taken individually, may make economic sense, but collectively they may also represent the surrender of the business's capability to compete'. Core products or technology may be compromised and the firm could become dependent on a large range of suppliers (Blaxill and Hout, 1991). Furthermore, Teresko (1992: 42) challenged the cost of outsourcing claiming that 'the economics are troubling at best and extremely costly at worst'. This view was shared by Cooper, who believed conventional accounting systems are incapable of providing the relevant cost information on which to base a decision (Cooper, 1987 quoted in Davis, 1992: 60).

In the long-term, McCune (1993: 34) argued that outsourcing may not be the best strategy for every function. As Prahalad and Hamel (1990: 84) argued, 'outsourcing can provide a shortcut to a more competitive product, but it typically contributes little to building the people-embodied skills that are necessary to sustain product leadership'. Deavers (1997: 510) rejects such an argument as there 'is little empirical evidence to support their concern'. An additional problem is the co-ordination and supervision required when a company outsources activities. The Boston Consulting Group found 'co-ordinating a gaggle of subcontractors is often more time-consuming – and costly – than managing in-house manufacture of the parts in question' (*The Economist*, 1991: 56). If the lack of co-ordination results in poor communications then this could also have 'severe effects on workplace safety' (Kochan *et al.*, 1994: 55).

In contrast to those advocating improved flexibility, a number of writers have argued that organisations will need to adopt strategies that enhance employee commitment if they are to be competitive in the 1990s (Porter, 1990; Walton, 1985; Womack *et al.*, 1991). Commitment can have a variety of meanings (Morris *et al.*, 1993) but most frequently refers to 'the strength of an individual's identification with and involvement in a particular organisation' (Porter *et al.*, 1974: 604). Most commitment research has focused on individual perceptions and experiences (Mathieu and Zajac, 1990). As such organisational factors have been overlooked in much of the commitment research (Rousseau and Wade-Benzoni, 1995: 293). A number of organisational factors clearly need to be considered including the types of work practices and forms of flexibility present within an enterprise.

Changes to work practices and the pursuit of improved flexibility by outsourcing may, however, be incompatible with high employee commitment. As Hyman (1988: 56) asserted the 'central objective (of such forms of flexibility) is to render workers disposable rather than adaptable'. This coupled with the uncertainty and stress associated with the restructuring of work can lead to a lowering of commitment, (Hirsch, 1987). In turn, outsourcing if it reduces employee commitment, will impact negatively on productivity, product quality, and labour turnover (Walton, 1985; Morris, *et al.*, 1993). For example, the retrenchment of regular employees, the different employment conditions and the intensification of work often associated with outsourcing can lower the morale and trust of those employees remaining in the firm (Pearce, 1993: 1094). This low-trust environment will almost certainly have a negative impact on firm performance due to lower employee effort (Organ, 1988) and higher turnover (Porter and Steers, 1973).

A study of a lengthy and bitter strike in the Victorian Power Industry supports this contention. That study found that a major factor in the dispute was the higher levels of remuneration, albeit on the basis of different employment conditions, that was being received by a group of contractor employees (Benson and Goff, 1979). Employee commitment may thus, depend more upon equity considerations (Price and Muller, 1986; Williams and Hazer, 1986). Similarly, Brockner *et al.* (1993) found that organisational commitment declined less when layoffs were considered to be handled fairly.

Pearce (1993), however found little evidence to suggest that organisational commitment was different between contractors and employees of the enterprise. Part of the explanation for this finding was that contractor employees tended to avoid social ostracism by adopting the behaviour of good team members (Pearce, 1993: 1094). Alternatively, contractor employees may have had low levels of commitment and that the commitment of full-time employees had declined to that level. This explanation is plausible given that the contractors in that study often had to move to various locations to maintain regular employment.

In one of the few longitudinal studies of outsourcing and employee commitment Kessler and his colleagues found that commitment rose slightly over the first 18 months following outsourcing. They concluded that the new employer had 'clearly delivered in important respects and honoured promised protections' (Kessler, *et al.*, 1999: 16). Putting aside other possible explanations, including the public sector context of the study and the possible differences in the two samples, this finding is important for two reasons. First, it provides support for earlier research that organisational commitment will not necessarily be lower in contractor firms (Pearce, 1993; Benson, 1998). Second, it suggests that the transition period and how workers are treated will be key variables in determining employee attitudes to outsourcing.

### **The Case Study Companies**

Four manufacturing companies that had outsourced their routine maintenance activities to Skilled Engineering (SE) within the previous three years were chosen for investigation. Maintenance activities were chosen as there is a direct relationship with the production process and maintenance work is often considered a core activity. The research was carried out in the period March to June 1994 and involved management of the four firms completing a client information survey which sought to ascertain changes in key



performance indicators before and after the outsourcing of maintenance work.

Interviews with senior management personnel were also conducted to ascertain their perceptions of why outsourcing occurred, and the benefits and disadvantages of outsourcing strategies. Finally, a survey of contractor employees was undertaken to ascertain their views on a variety of issues including their level of organisational commitment (Mowday *et al.*, 1979). More details of the research methodology can be found in Benson and Ieronimo (1996) and Benson (1998). Table 1 provides details on the companies prior to outsourcing to allow the analysis to be placed in context. Substantial restructuring or new technology had been introduced in all companies (TabCo, AusFood, PaperCo and AusBeer) at the same time as the outsourcing of maintenance work and led, in two cases (PaperCo and AusBeer), to significant reductions in staffing.

Firms outsourcing to SE were chosen as SE is Australia's largest labour-hire firm and they specialise in providing qualified trade employees to companies, primarily in the manufacturing and construction industries. Since 1990 SE has offered an on-site continuous plant maintenance service. Skilled Engineering is, however, different from many labour contract firms operating in Australia (Maher, 1991; Thomas, 1992). The majority of its contract maintenance employees are permanent full-time employees, who receive full award wages and conditions, and are required to be members of the appropriate union. For these companies, outsourcing was not therefore an attempt to eliminate traditional modes of employment (Hyman, 1988; Stewart, 1992; Fenwick, 1992) or gain cheap labour as has occurred in the building and meat industries (Underhill and Kelly, 1993). By examining only firms where SE was the contractor, the research findings will thus exclude the effects of atypical forms of employment (Cordova, 1986; Stewart, 1992).

**Table 1: Profile of Case Study Companies Prior to Outsourcing**

Company	Industry	Employees	Maintenance Employees	Maintenance Unions
TabCo	Tobacco	1800	78	6
AusFood	Dairy Products	304	32	3
PaperCo	Paper Products	323	32	3
AusBeer	Brewing	417	73	3



Each company cited multiple reasons for contracting SE to undertake maintenance work. Nevertheless, as can be seen in Table 2, economic factors played a pivotal role in the decision process. For example, the manufacturing manager at AusFood claimed maintenance costs were too high, maintenance workers inefficient and the amount of overtime worked excessive. In addition, all companies were undergoing significant change. This change, managers claimed, had been brought on by the need to substantially improve economic performance so as to compete in global markets. Outsourcing was seen as a means to reduce costs, by reducing the number of maintenance workers and overtime worked, and as having more flexibility in the allocation and type of work performed.

**Table 2: Reasons for Outsourcing**

Company	Reason
TabCo	Flexibility Concentrate on Core Business Cost Reduction
AusFood	Cost Reduction/Improve Efficiency Demarcation Disputes High Overtime
PaperCo	Cost Reduction Flexibility Demarcation Disputes/Improve Industrial relations Changes to Production Process
AusBeer	Cost Reduction Flexibility Improve Industrial Relations

All four companies expected that an improvement in industrial relations would result from the outsourcing decision and three of the four companies (AusFoods, PaperCo and AusBeer) saw this as an important factor in their decision. Table 3 provides details for each company on the industrial relations problems that existed before outsourcing. Demarcation issues were a major problem for all firms. Production workers could not perform any maintenance work, even of a minor or routine nature, and company tradespersons could only undertake work appropriate to their skills. This meant that labour flexibility was low, which was further exacerbated by the limitations placed on hours of work, overtime availability, the type of tasks that could be performed and the use of supplementary labour. In short, as

the mill manager at PaperCo claimed, a total change to work practices was required if the plant was to survive.

**Table 3: Industrial Relations Issues**

Company	Demarcation	Restrictive Work Practices		
		Hours	Overtime	Tasks
TabCo	Major Problem	Yes	Yes	Yes
AusFood	Major Problem	Yes	No	Yes
PaperCo	Major Problem	No	Yes	Yes
AusBeer	Major Problem	No	Yes	Yes

### Improved Firm Performance?

The expectations of management of the four firms was that outsourcing would reduce costs, increase productivity and improve industrial relations by introducing flexibility into the maintenance activity. This section will examine whether these objectives were realised. It should be re-iterated that all companies had outsourced their maintenance operations in the three years prior to the research. As such the research cannot address the long-term impact of that decision. A summary of the research findings is presented in Table 4.

### Cost Reductions

The four companies had achieved a significant reduction in their maintenance workforce with PaperCo and AusBeer achieving reductions of 47 per cent and 51 per cent respectively. In three cases, most employees were retrenched and replaced with SE employees. Those employees remaining were offered staff positions. In PaperCo all employees were retrenched. Employees retrenched were paid redundancy payments, based on current wages and years of service. These payments exceeded the minimum award provisions. Given the size of the redundancy payments and the contract price for SE services, it would appear that the minimum financial break-even time would be greater than two years. This figure probably under-estimates the total cost of outsourcing as it does not include other costs such as the build-up of inventories to counter possible industrial action, extra supervision of contract workers and additional training. This estimate was confirmed by the manufacturing manager in AusFood, who stated that it

would take at least two years to break-even. Findings are presented in Table 4.

**Table 4:** Financial Implications of Outsourcing

Measure	Company			
	TabCo	AusFood	PaperCo	AusBeer
Reduction in Maintenance Workforce (%)	22	34	47	51
Average Redundancy Payment (\$) (redundant employees)	29,824 (57)	17,517 (29)	22,000 (29)	35,000 (73)

### *Production*

All companies reported an increase in labour productivity. Improved flexibility may account for some of this change, although given the reduced maintenance workforce, it is most likely due to SE employees having to work harder than the former maintenance employees (Schor, 1992). Results are presented in Table 5. As all firms had undertaken substantial restructuring or introduced new technology at the same time as outsourcing it is difficult to attribute all productivity gains to outsourcing. In three companies, productivity was substantially higher (TabCo, PaperCo and AusBeer). Yet, in AusFood and AusBeer the assessment was not based on the same level of maintenance service as management felt that the maintenance service had declined. The decline in service was claimed to be due to inexperienced staff and the lack of preventive maintenance. In all cases, however, the firm retained responsibility for the planning and scheduling of preventive maintenance work. In addition, the production engineer at AusBeer stated that improved service could now only be achieved with the employment of more maintenance workers. Clearly some confusion existed amongst management as to the allocation of responsibilities and the required level of staffing. Moreover, for AusFood, PaperCo and AusBeer machine downtime had increased. This finding questions the value of outsourcing and whether an improved maintenance service was the major reason for outsourcing.

**Table 5: Maintenance Outsourcing and Production Performance**

Measure	Company			
	TabCo	AusFood	PaperCo	AusBeer
Productivity <sup>a</sup>	a lot higher	a little higher	a lot higher	a lot higher
Level of Service	same	lower	higher	lower
Machine Downtime (Pre/Post – % of total Production Hours)	N/A <sup>b</sup>	15/20	N/A <sup>c</sup>	12/14

Notes: a. these findings should be treated with caution as they rely on managers rating the change in productivity on a five point scale ranging from a lot lower to a lot higher.

b. high volumes and new machines since outsourcing does not allow a reasonable comparison to be made.

c. line changes and new machines since outsourcing makes comparisons difficult, but within the first six months machine downtime increased by about 10 per cent.

### *Industrial Relations*

All case study companies expected some form of industrial action and had costed this into their outsourcing strategy by building up inventories or arranging alternative production facilities. TabCo also built into their contract with SE a provision for all their maintenance workers to be employed by SE, although on different sites. In no case did industrial action occur. This was primarily due to the approach recommended by SE for the changeover day, their commitment to unionism, and the limited strategies available to the unions involved. For example, all workers were paid out by bank cheque, many were offered employment elsewhere by SE, and the unions only received the minimum required notice of the impending redundancies. By accepting a 'cash' payment workers were, in effect, accepting the termination of their employment. In this climate it was difficult for the unions to mobilise member support for industrial action.

Industrial relations, at least from a managerial perspective, has improved. Demarcations and work restrictions are no longer a problem in the case study companies. Production workers can undertake minor maintenance functions and the number of maintenance unions were substantially reduced. In the case of AusFood and PaperCo, only one maintenance union remained on site. Shopfloor morale has generally improved, at least among the production workers. Except on technical issues, maintenance workers now report to production supervisors. This, management argued, has integrated the two groups and broken down the long-standing barriers between skilled and semi-skilled workers.

Prior to outsourcing all companies, with the exception of AusBeer, had experienced industrial disputes over maintenance work. No disputes have occurred since outsourcing. Employee absenteeism rates have remained reasonably stable. This suggests that other employees have not been greatly affected by the change and that those employees that work along side contract labour have not experienced many difficulties. In TabCo, PaperCo and AusBeer, labour turnover has increased. Given the high level of unemployment during 1994 this finding indicates concern by some regular employees about further changes taking place in these companies. Findings are provided in Table 6.

**Table 6:** Industrial Relations and Maintenance Outsourcing

Measure	Company			
	TabCo	AusFood	PaperCo	AusBeer
Industrial Action during Changeover	no	no	no	no
Demarcations and Work Restrictions (Pre/Post Change)	yes/no	yes/no	yes/no	yes/no
Industrial Disputes (Pre/Post Change)	yes/no	yes/no	yes/no	no/no
Absenteeism (%) (Pre/Post Change)	5/5	7/8	4/3	N/A
Labour Turnover (%) (Pre/Post Change)	9/10	9/1	10/13	3/5

## Employee Commitment

While the limited research to date suggests that the presence of contract labour could have a negative impact on regular employees, it is not clear whether firms that outsource end up with a less committed group of contractor employees. This is a difficult question to research as access to contractor employees is possible only after outsourcing has occurred. Nevertheless, the level of commitment shown by contractor employees in the four case study firms is, with the exception of PaperCo, about the same or higher than that reported in other commitment studies. For example, Deery *et al.* (1994), Deery *et al.* (1995), Iverson *et al.* (1995) and Pearce (1993) all used the same short-form of the Mowday *et al.* (1979) organisational commitment instrument and found the mean scores for commitment

were 3.07, 3.28, 3.04 and 3.37 respectively. Results of the survey are presented in Table 7.

The concerns expressed by Hunter, *et al.* (1993), that the short-term benefits of outsourcing may be negated by the decline in employee commitment do not appear to be substantiated. This finding may be due to SE employees engaging in more extra-role behaviour to gain social acceptance (Pearce, 1993: 1090). On the other hand, the result may reflect the particular set of circumstances facing these workers. For example, many of them had been retrenched by their previous employer and the offer of permanent employment with SE had been welcomed. In addition, the variety of work performed and responsibilities given may have enhanced their commitment (Smith, 1994: 299-300). The comment by the production engineer at AusBeer that maintenance workers appeared more content, happy and enjoyed to some degree the increased pressure of work typified the responses of management at this company and also of management at TabCo and AusFood.

**Table 7: Employee Commitment by Firm**

	Company			
	TabCo	AusFood	PaperCo	AusBeer
Commitment	3.53	3.26	2.87	3.77
	(0.90)	(0.85)	(0.38)	(0.62)

Note: standard errors are presented in parentheses.

One firm, PaperCo, did, however, record a low level of commitment amongst SE employees. This firm had outsourced its maintenance work two and a half years earlier and the net reduction in maintenance workers had been nearly 50 per cent. AusBeer, while recording a similar drop in employment had only outsourced maintenance work for 8 months at the time of the survey. Thus work intensification does not appear to be the explanation, although it may be that the honeymoon period for SE employees had ceased in PaperCo and the realities of working with a vastly reduced workforce had set in. Interestingly, this did not seem to effect the level of service as PaperCo management were the only group to report a higher level of service by the contractor employees. Alternatively, the age of the factory and the generally poorer work conditions meant that PaperCo was probably the least desirable work location of the four plants. This may explain why management had detected some insecurity among SE employees on site.

On the other hand, AusBeer recorded the highest level of contractor commitment. As pointed out above, outsourcing of maintenance work at this firm was accompanied by a similar level of redundancies to PaperCo. What then can explain this difference? Outsourcing of maintenance work was one of a series of changes brought about by a loss in market share and new ownership. These changes resulted in the total workforce declining from 420 to 206 employees. About 100 contractor employees are now working on the site in activities such as distribution, laboratories, garden maintenance, warehousing, and occupational health and training programmes. The last two of these activities are contracted to joint venture companies owned jointly by former employees, the Breweries Employees' Union and AusBeer. The widespread nature of the changes means that contractor employees are no longer the exception and the novel contracting approaches may have led these employees to be more willing to accept change. In addition, and unlike SE employees at the other three companies, all SE employees enjoy the same staff benefits and facilities as AusBeer employees. It may, however, be the case that as outsourcing had occurred just eight months prior to the research that the possible long-term effects of the change had yet to arise.

## **Conclusion**

The case studies revealed that a variety of reasons underpinned the decision to outsource maintenance work for the four case study companies. This supports the conclusion of Abraham and Taylor (1996: 417) that 'the picture of employers' motives for contracting out from our analysis is rather more complex than that given in the typical popular account'. Labour flexibility and cost reductions were clearly important for all firms. Yet underpinning these objectives was the need to reform industrial relations so as to eradicate the rigidities imposed by demarcation divisions and restrictive work practices.

These issues, as identified by Perry (1997: 524), are important determinants of labour costs and so may be pursued for this reason or as an end in themselves.

The case study research indicated that substantial reductions in staffing costs had been achieved and that labour flexibility had improved. On the other hand the level of service had declined and machine downtime increased for two of the companies. Managers also expressed a concern that preventive maintenance was being neglected. Moreover, any net financial benefit will take several years to realise owing to the level of redundancy



payments and other costs associated with the change. Day-to-day industrial relations had improved, although absenteeism and labour turnover, measures often used to indicate the health of an organisation, showed little change. Thus, at least in the short-term it is not possible to argue unconditionally that outsourcing of maintenance work had improved firm performance. There was, however, no evidence to suggest that the contractor employees had a lower level of commitment to their host organisation than that of regular workers.

How best can the outsourcing decision be characterised? The four case study firms clearly wanted to reduce costs and any impediments to cost reductions such as restrictive work practices or labour rigidities. Improvement in the maintenance service was only rated as an important factor by one firm that also wanted to reduce labour costs. Japanese manufacturing companies operating in Australia were found by Benson and Ieronimo (1996) to be reluctant to outsource maintenance work as this could be a source of competitive advantage. This was particularly the case with the need to retain specialist staff and the development of the team concept. Flexibility for those firms was achieved by internalisation strategies where work arrangements were made more flexible. In contrast, the four case study companies sought improved flexibility by externalisation strategies, in this case subcontract labour (see Brunhes, 1989).

Yet it would be incorrect to classify the strategies of the four case study firms as simply defensive forms of flexibility (Boyer, 1988; Rojot, 1989). Contract maintenance was introduced only after extensive negotiations with unions, in some cases over several years, aimed at restructuring maintenance work. Contract labour was therefore not an *ad hoc* solution but rather, at least in managements' perception, the last resort. Furthermore, contract maintenance was not a short-term solution as the cost of changing to contract labour would take several years to recoup. In addition, permanent improvement will only be achieved if regular preventive maintenance is undertaken and the level of worker commitment is maintained.

Further research is clearly needed to analyse the economic and management aspects of outsourcing. Given the changeover costs and the relative irreversibility of the process, outsourcing cannot be seen as a short-term solution to labour rigidity or cost reductions. In addition, little is known of the socio-technical aspects of outsourcing for the firm and whether long-term problems will arise if possible core competencies, or activities that support core competencies, are outsourced. While employee commitment was high in three of the case study firms, the one firm where commitment was low had outsourced maintenance work for a substantially longer period

of time. This raises the question as to whether it is possible to maintain high levels of contractor employee commitment over the long-term.

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