



## **Insourcing *versus* Outsourcing: PSA perspective**

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## 1. Introduction

The capacity of the state to deliver quality service is a serious issue of public concern. Service delivery-related protests are becoming rife - turning more violent as the public is getting frustrated and impatient. Meanwhile, the South African government has sought to improve its capacity by, amongst others, procuring services from specialised private-sector companies to render public-related services. From the provision of water to waste removal; from construction of public facilities (*inter alia*, hospitals, schools, roads, *etc.*) to providing security of public buildings; from cutting of grass in parks and along the roads to cleaning services, all these services and others not cited, are outsourced to the private sector. This has, in turn, left government departments and state-owned entities (SoEs) essentially performing contract management responsibilities, and not doing the work for which they have been set up.

Yet, as the rate of unemployment continues to rise, the unemployed are becoming more vulnerable and desperate, getting exploited, accepting jobs that offer them paltry wages, with neither benefits nor job security. Interestingly, government-outsourced jobs are not immune to these kinds of exploitation. If anything, it is in these outsourced jobs where exploitation is rife. Hence, the call for insourcing of workers has become a minefield for political parties, with a few of them already highlighting it as one of their rallying calls for elections.

Meanwhile, public concerns about the capacity of the state to provide service delivery should not be taken for granted. Neither should the exploitation of workers by unscrupulous private companies be swept under the carpet just because of the high rate of unemployment. Two questions that need to be answered are:

- Is insourcing the panacea that will improve the capacity of our state?
- How should the plight of workers for decent work be addressed?

However, before we address these questions, we need first to understand the impact of outsourcing and casualisation of jobs on the economy.

## 2. Outsourcing and casualisation

In South Africa, the tendering process – the outsourcing of work – is tainted. The word “tender” has become so notorious that it is now associated with corruption and bribery. There is no denying that most corruption cases that are exposed in the public media relate to corruption in government. The State Capture Inquiry under the chairpersonship of then-Deputy Chief Justice Zondo was a clear indication that corruption in government had reached its zenith. Thus, it must not come as a surprise, that the word “tender” in South Africa is largely associated with corruption.

The noble intentions of tendering – to boost state capacity, development of business and job creation – notwithstanding, the tendering process has become a process through which the casualisation of work manifests itself the most. Aided by labour brokering, casualisation has reversed the gains that labour has made since the dawn of democracy.

Casualisation of labour – through labour brokering – has become a wide-spread phenomenon in the South African labour market, and by 2012 it already accounted for over 7% of the South African workforce.<sup>1</sup> According to the *Adcorp Employment Index* then, almost a million of the workers (998 000 employees) were employed by temporary employment agencies in 2011.

With labour's failed bid to force government to ban labour brokers, it is possible that the numbers have increased. Whilst permanent employment has been falling, temporary employment has been on the rise, confirming yet again that casualisation is becoming wide spread. Since 2000, permanent employment has fallen from 11.0 million to 9.1 million workers, a decline of 1.9 million workers or 18.7% of the workforce.<sup>ii</sup> There were 3.9 million temporary workers in South Africa accounting for 30.2% of total employment in 2013. Since 2000, the number of temporary workers has increased by 2.6 million workers.<sup>iii</sup> The increase in the number of temporary workers is clearly linked to labour brokering. More than 25% of all temporary workers are employed by labour brokers and they constitute 7.7% of the total workforce. This is an indication of the prevalence of this practice in South Africa's labour market.

The aftermath of COVID-19 forced a complete shutdown of the economy, leading to the collapse of many businesses, and the loss of millions of jobs. It goes without saying that until there is certainty about the future and the economy has stabilised, many companies under recovery will, if not doing so already, be opting for temporary workers rather than permanent jobs and making the state of labour even more precarious.

Besides the COVID situation, the reasons for the growth in casualisation are varied. *Adcorp* attributes this growth to, amongst others, the global trend amongst companies to outsource non-core activities and that the management of production workers is increasingly being viewed as a non-core activity. Thus, employers prefer to outsource employment to shield themselves from taking responsibility for the wellbeing of employees. They prefer the intermediary to deal with trouble of aggrieved employees. In this environment, the employer-employee relationship becomes blurred. The employer has no interest in knowing who his workers are, for as long as the work is done. In this practice, workers are like tools that can be rented and returned to the owners whenever the user has no more use for the tool. This is precisely why labour brokering is tantamount to slave trade.

As workers demand decent work, on their part, employers want labour flexibility – employment flexibility, wage flexibility, and functional flexibility. Put simply, this is the flexibility to hire and fire as they please. They want the freedom unilaterally to determine the levels at which to employ people. In wage flexibility, they seek to alter wages without restraint. By functional flexibility they mean the freedom to alter work processes and conditions of employment at will. Essentially, they want deregulation for them to pay low wages.

The PSA has never been ambiguous about its position on labour brokering. It is an evil system aimed at pauperising workers. Labour brokers add no value and derive huge profits from the labour of employees who are prevented from receiving all the income that is due to them. The PSA sees this as a practice designed to shield the actual employers from the country's legal framework.

There is no doubt that outsourcing begets casualisation of jobs. Because some of the services that are outsourced are not permanently required by the outsourcing companies/government departments and the duration of the service-level agreement is not permanent, usually the service provider employs his/her workers on short-term basis. These workers have no job security, are paid meagre salaries, and have no social protection benefits. In this way, outsourcing becomes a strategy through which companies absolve themselves of their responsibility towards the workers. This is how outsourcing and casualisation are interconnected - bonded by the exploitation of the working class.

It is no wonder, therefore, that Cohen and Moodley observed that an increased reliance upon outsourcing and sub-contracting arrangements gave rise to the growing "casualisation" of the labour market and an unregulated and insecure labour force in South Africa.<sup>iv</sup>

### 3. Who benefits from outsourcing?

Workers' interests are peripheral to the economic motives of outsourcing. Those who outsource do so to reduce and control operating costs, improve the companies' focus, free internal resources for other purposes or because they think a function is time-consuming to manage and therefore not profitable for them to do.<sup>v</sup> Some outsource to avoid stringent employment regulations, high taxes, high energy costs, and costs associated with defined benefits in labour-union contracts and taxes for government-mandated benefits. Clearly, the interests of workers are not amongst the reasons why companies, let alone government departments or SOEs, resort to outsourcing.

When companies outsource work, they are not goaded by a social motive to improve the conditions of workers. It is all done for economic gain. As Adam Smith reminds us, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest."<sup>vi</sup> Similarly, when companies outsource work, be it to foreign countries or local companies, their interest is to make profit.

At the centre of outsourcing is the exploitative character of capital and its desire to maximise profit at all costs. The casualty is the working class whose job security diminishes when companies look offshore. Workers in the recipient countries are not better off either. They are exploited as cheap labour and they too become victims of casualisation. The movement of jobs offshore is not to create decent jobs in these emerging economies but rather to suck the blood of the meek, who out of their material conditions, are desperate and readily available to take any job just to survive.

One of the dangers of outsourcing is that it pits the poor against each other. As Paul Krugman puts it, outsourcing "pits one national workforce against another in an effort to lower firm costs and increase profits."<sup>vii</sup> Foreigners who come from neighbouring countries seeking economic refuge become the main source of cheap labour. Because of their vulnerability and unfamiliarity with labour laws of the land, they accept meagre wages that are far below the regulated minimum wages, displacing locals who cry for decent work. These foreigners are treated like slaves and the employer hires and fires at will. When employers prefer cheap foreign labour over locals, inevitably they sow the seed of xenophobia. Foreigners become the target, with locals venting their anger and frustration on them. Instead of seeing them as comrades and victims of the same exploitation, they begin to see them as a real threat to job security.

In a society where unemployment is as high as South Africa (24.5%), where 20 million people or 40% of the population is dependent on state grants, the scramble for jobs is a reality. People become desperate and take any kind of job whilst capital thrives on their exploitation. It is crucial and urgent that the so-called job creation strategies move from merely electioneering slogans to reality. Otherwise, without job creation, "decent work objectives are likely to remain solely aspirational."<sup>viii</sup>

#### 4. The plight of workers

The economic situation has not been good for workers in both private and public sectors. All economic indicators show South Africa is on the decline. The economic growth rate has stagnated and regressed. Rating agencies have not been kind either, making borrowings too expensive to bear. The unemployment rate is amongst the worst in the world. So too is the inequality gap. South Africa bears the ignominy of being the most unequal society in the world. In this kind of environment, it is possible for the plight of the workers to disappear into oblivion as society is dealing with such excruciating and vexing matters. In such a situation, any job, no matter how exploitative or indecent, is expected to be received as a blessing.

Yet, we can do better. South African workers in general, and public servants in particular, deserve decent work. They deserve to be treated like human beings, and not slaves. Yes, serving the public is an honour. However, it is not honourable to be a subject of exploitation. Hence, the PSA is unrelenting in its call for decent work in the public service. The PSA's call for decent work must be properly understood. It is a demand for job security, a demand for better wages, reasonable working hours, social protection, safety, and sustainable livelihood. On the contrary, outsourcing and casualisation are an onslaught against the rights of workers to have decent jobs.

In his address to the 87<sup>th</sup> International Labour Conference, in 1999, Juan Somavia, provided a clearer definition of decent work. He said, "productive work in which rights are protected, which generates an adequate income with adequate social protection. It also means sufficient work in the sense that all should have access to income-earning opportunities. It marks the high road to economic and social development, a road in which employment, income, and social protection can be achieved without compromising workers' rights and sound standards."<sup>ix</sup>

The International Labour Organisation's (ILO) view of work is broad and is not limited to economic benefit derived from income. According to the ILO, work has a social value and purpose. In addition to being a source of income, work is a source of personal dignity, family stability, and peace in a community. It is not just an economic activity. It is central to people's well-being and paves the way for broader social and economic advancement, strengthening individuals, their families, and communities.<sup>x</sup> This conception of work is what we should promote here in South Africa.

The ILO has done a lot of work to place the agenda of decent work on the global stage. Whilst a lot of work remains to be done towards the achievement of decent work, placing it as part of the Millennium Development Goals helped to foster a common understanding and approach amongst the community of nations. This has facilitated the signing of various conventions that promote decent work by many countries around the world. Convention 131 on minimum wage, Convention 95 on Regular Pay and Protection, Convention on Compensation Overtime, Convention 158 on Termination of Employment, Convention 189 on Decent Work for Domestic Workers, and many others, are examples of the ILO's unrelenting commitment to advance decent work.

Efforts to promote decent work ought to be aligned to and guided by ILO objectives for job creation, guaranteeing rights at work, extending social protection, and promoting social dialogue. As the ILO suggests, the first step to decent work is job creation. There cannot be decent work if there are no jobs. However, these must be sustainable jobs that give the worker job security and stability.

The rights of workers should be recognised, protected, and guaranteed. All workers, and in particular disadvantaged or poor workers, need representation, participation, and laws that protect their interests and shield them from exploitation. Such laws as governing the working hours, leave, *etc.*, are crucial to the agenda of decent work. Similarly, social protection, for example, medical and pension benefits, should be extended to all workers. Workers must be allowed adequate free time and rest and compensated adequately in case of lost or reduced income. Dialogue between employers and employees is crucial. It helps to minimise disputes at work. The pursuit of these four objectives is what will make decent work possible.

## 5. Building a capable state

It is crucial for the state to develop internal capacity to do its work. Whilst the government tendering process cannot be phased out completely, it needs to be properly managed to reduce corruption and improve the quality of services provided to the state. The state must therefore develop internal capacity to initiate, monitor, and evaluate projects to reduce over-reliance on service providers.

State capacity cannot be reinforced if tender corruption is tolerated. Corruption in tender processing must be eradicated for real capacity to be built. The beginning of such a process is the actioning of the recommendations of the State Capture Report and flushing rotten apples out of the system. After years of investigations and hearings and huge amounts spent on the state capture matter, what is left is the political will to ensure that those who are guilty face the music. Only when the public begins to see beneficiaries of state capture in orange overalls will they have confidence that the state is not paying lip service to the fight against corruption.

On the side of the PSA, building state capacity should entail the capacity to monitor compliance with labour law. It is not enough for government to prescribe sectoral determinations on pay and not ensure compliance. The capacity to monitor compliance with labour regulations is a necessity not a privilege.

Insourcing has become a familiar word in political speak. It is part of the lexicon used in electoral campaigns for local and national leadership. It should be expected to be in the manifestos of several political parties across the left and right spectrum of politics. Its proponents suggest insourcing will alleviate the exploitation of workers who find themselves earning peanuts, without benefits, whilst tenderpreneurs make millions out of their labour. They also believe it will enhance the capacity of the state to provide services directly.

Be that as it may, the experiences of those who experimented with it paint a not-so rosy picture. In the City of Johannesburg Municipality, insourcing of security and cleaners has not made the city property safer or buildings cleaner. Instead, there has been a sharp increase in the number of incidents of theft of city property. City-owned buildings and *Rea Vaya* bus stations, for example, are not as clean as they used to be when the cleaning service was provided by private companies. Insourcing of security and cleaners in Johannesburg may have given job security to those employed but has not given them a sense of duty. There cannot be a sense of duty and responsibility where there is a sense of entitlement or ill-discipline. Be it insourced or outsourced, as a paramilitary service, security operates efficiently through command and control. Without these, there are bound to be security breaches. Hence, the failures in the City of Johannesburg cannot be used to cast aspersions on the entire system of insourcing. Instead, it must provide lessons on what to avoid and what to do better.

## 6. Conclusion

The PSA does not condone ill-discipline or laziness. Neither can ill-discipline and lack of a sense of duty on the part of a few individuals be used as an excuse to perpetuate the exploitation of a workforce. The PSA supports insourcing that strikes a better balance between addressing the plight of workers for decent work, decent pay, better benefits on the one hand and for workers to fulfil their end of the bargain by showing commitment, dedication, and diligence to their work on the other. That way we can build state capacity to provide quality services to the people of South Africa. The PSA is for a public service imbued by strong work ethic and a culture of service that puts people first.

By outsourcing, casualising work and using labour brokers, employers undermine workers' demand for job security, better wages, reasonable working hours, social protection, safety, and sustainable livelihood. As demonstrated in this article, these practices are incongruent with decent work and must be abandoned. Decent work is crucial to attaining stability in the workplace. Hence, the PSA adds its voice to the calls to make it a reality.

The PSA believes that labour brokering is detrimental to decent work and should be phased out completely. Labour brokers are mere intermediaries who thrive on trading the skills of the aspirant employee. They take away the independence of an individual and make a worker beholden to them for the job he/she properly deserves. Beholden to the broker, the worker is treated like a tool that can be borrowed and returned to the beholder whenever the work is done. They shield employees away from responsibilities and promote non-compliance with labour laws. This practice is inhumane and should be banned.

## 7. Endnotes and References

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<sup>i</sup> Tereblance, B, 2012, Lawyers lick chops at labour brokers, Mail and Guardian, 20 April 2012.

<sup>ii</sup> Adcorp, 2012, Adcorp employment index, May 2012.

<sup>iii</sup> Ibid.

<sup>iv</sup> Cohen T., and Moodley L., 2012, Achieving decent work in South Africa?, PER, Vol.15, No. 2.

<sup>v</sup> Handfield Robert, 2006, A brief history of outsourcing, NCS state university.

<sup>vi</sup> Smith, 2003, *The Wealth of Nations*, New York: Random House.

<sup>vii</sup> Paul Krugman is a respected American Professor of Economist at the City University of New York.

<sup>viii</sup> Cohen T., and Moodley L., 2012, Ibid.

<sup>ix</sup> Mr. Juan Somavia, in his address to the 87th International Labour Conference in 1999.

<sup>x</sup> The International Labour Organisation