

**SUBMISSION NO 1
NAME WITHHELD**

**SENATE FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
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Every application to get an outsourcing contract is genuinely carried out after careful consideration of the costs of providing the services by the outsourcing companies. The winner is normally a firm that has provided a low quotation and is demonstrably a large enough company that the Department concerned is confident that it can resolve any problems that arise.

The salesperson that successfully gets the contract is significantly rewarded by their company. Once the contract is awarded the contract is then handed over to project managers.

The project managers now have a budget to provide the services.

Every outsourcing company that I have been involved with has a minimum profit margin of 20%, most of the larger firms ensure there are incentives to their project managers to return margins of 25%. However, the contract that has been negotiated will only cover costs.

Therefore, if the contract has a value of \$1 000 000, then the project manager must ensure that costs only come to \$800 000 to retain his or her position. Extra savings are rewarded as bonuses. Otherwise, he or she must ensure that to meet the costs of \$1 000 000 the charge to the client must reach \$1 250 000. The outsourcing company then proceeds to meet this return by lowering costs and increasing revenue.

Whilst employed by outsourcing firms, the instructions received are clear:

- ❖ Ensure that all work carried out is identified as extra contract if in any way possible.
- ❖ Do no extra work (overtime etc) unless it is clear how the work relates to the contract
Prioritise on extra contract work
- ❖ Carry out the minimal functions to resolve obligations and hence minimise costs.

Individual managers are each allocated some budget that does not meet their requirements. Furthermore, the managers are evaluated on their performance to budget, not on customer satisfaction, meeting the contract obligations or staff retention practices.

The project manager ensures that costs are kept to a minimum by many practices:

- ❖ Delays in employing personnel
- ❖ Understaffing areas
- ❖ Decreases in services

Due to problems obtaining sufficiently qualified and experienced personnel at the desired salary, personnel without the skills are hired to carry out core functions. More experience

personnel are moved to 2nd and 3rd level support, hence supporting the underskilled junior staff only and getting lost to the customer.

Extra staff are hired to carry out customer relationship functions to ensure that the customer sees pro-active staff trying to resolve issues, even if the issues cannot be resolved due to insufficient skill in the employed staff. The hired non-technical staff are significantly cheaper than fully trained and experienced engineers.

The end result is that the shareholders of the outsourcing companies are happy with the return on investment, the outsourcing company fulfills the absolute minimum obligation to ensure the returns, and poor service becomes a way of life.

There are many practices and solutions to this situation, and I would be happy to provide some more information if required.

I hope you find my experiences relevant for your enquiry. If you wish to contact me then please reply to email.

9 January 2001