Chapter 12

Insourcing of IT Workers: A Win–Win Strategy – Economic Analysis of IT Units in Israeli Governmental Offices

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ABSTRACT

Corporate Social Responsibility (CSR) is a policy and the practices of corporate responsibility for the common good. It might take the form of donations, environmental responsibility, or socially related investments. However, CSR can also be an in-house strategy regarding all the Human Resources (HR) of the company, making them part of the “common good” by fair employment. In this manner, employment contracts can be regarded as both a CSR and Business Ethics (BE) issue. Treating your employees in a respectable way represents the most basic form of corporate responsibility and respectable ethics. The chapter brings an economic analysis illustrating that applying fair and moral HR practices, particularly favoring internal employment (insourcing) over external employment (outsourcing), is consistent with CSR and serves the primary corporate goal, increasing its value. Insourcing is thus a win-win strategy, where in addition to CSR and BE aspects it has a direct impact on the company’s achievements.

INTRODUCTION

Outsourcing of Information Technology (IT) workers has become extremely common. IT workers are hired as external employees on an absurd “permanent temporary” basis. This mode of employment, originally applied to project-based work, is currently also applied to routine management and maintenance of the organization’s information technologies. This has become a convenient employment solution that enables flexibility and rapid adjustment to changing demands for professional IT workforce. Project-based work is particularly common in the IT sphere (Earl, 1996; Hilmer & Quinn, 1994; Worthington, 1997), but this mode of employment is used throughout the range of corporate IT activities. As a result, IT workers that are members of the same team...
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and perform the same tasks are employed under different terms (internal vs. external employment). Using different modes of employment for people who work shoulder to shoulder may have a negative effect on the texture of an organization’s social capital, and directly impact the productivity of its human capital (Reed, Lubatkin & Srinivasan, 2006).

This paper presents an economic analysis of Israel’s governmental sector, which employs large numbers of external workers in its IT departments. In 2008, about 66% of the IT staffs of government bodies (approximately 2100 people) were external workers. Their terms of employment were based on a tender issued in 2003 (The Israeli Ministry of Finance, 2003), which offered two main contract types: a “Cost Plus” contract and employment through a software vendor (Cost Plus is an indirect employment method in which the worker is employed by a manpower contractor who pays his wages, but actually works for another client. The client pays the manpower contractor the cost of the employment and an additional sum that constitutes the latter’s profit, hence the name “Cost Plus”).

The 2003 tender created a situation that was very convenient for the software vendors. They were able to determine the wages of their employees in a way that was disconnected from the hourly wage they received for each worker, and thus significantly increase their profits from the work of these employees. In the “cost plus” method, the contractors received a certain extra percentage over the employment overheads, but the workers’ wages were lower than those of workers employed through software vendors. Different contractors also paid different wages (The Israeli Ministry of Finance, 2003).

One of the premises of the 2003 tender was that in addition to recruiting workers with appropriate knowledge and experience, the vendors also undertook to continue training them throughout their period of employment by the government. The actual situation appeared to be quite different. Workers were employed back-to-back with the needs government bodies issued. The employers gave professional training on much smaller scales than they were expected to provide and pay for and the involved government bodies often had to invest time and resources in recruiting and training of these workers (The Israeli Ministry of Finance, 2003).

Moreover, the data we collected indicated that the advantage of flexibility was rarely put to use, as 75% of the external workers had been employed for over five years, and 50% of them had been employed for over nine years. This strongly indicated that external employment was only applied for the convenience of the management. The workers employed this way had no security in their job, and very few of the benefits of human resource practices (support). This, in turn, affected their motivation and organizational identification. All these factors give rise to concern that these IT workers would be reluctant to share their knowledge, thus impairing the organization’s productivity.

The economic analysis revealed that changing the employment mode of outsourced IT workers promised to reduce the monthly expense by almost 600 US dollars per employee. At the same time, this change was expected to improve Collaborative Behavior (CB) in IT departments, and lead to higher productivity and improved welfare of both the organization and its employees, defining this as a distinctive win-win strategy (corporate: employees, i.e. business and social).

In terms of CSR and business ethics, the economic analysis indicates that insourcing (internal employment) of IT workers is socially sane and financially wise. It offers the workers a steady and safe employment structure, as well as job security. These, in turn, influence their collaborative behavior, motivation, organizational identification, and knowledge sharing, improving their productivity and thus enhancing the value of the business and increasing its profits.