

Sell the Mailroom

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More and more people working in and for organizations will actually be on the payroll of an independent outside contractor. Businesses, hospitals, schools, governments, labor unions -- all kinds of organizations, large and small -- are increasingly "unbundling" clerical, maintenance and support work.

Of course, the trend is not altogether new. A great many American hospitals -- and European and Japanese hospitals as well -- now farm out maintenance and patient feeding; 40 years ago none did. "Temporary help" firms go back more than 30 years; but while in the beginning they handled file clerks and typists, they now provide computer programmers, accountants, engineers, nurses and even plant managers. Cities farm out "waste management" (once known as street cleaning and garbage disposal); even prisons are being run by private contractors. . .

Support work is rapidly becoming capital-intensive. In many manufacturing companies, the investment in information technology for each office employee now equals the investment in machinery for each production worker. Yet the productivity of clerical, maintenance and support work is dismally low, and is improving only at snail's pace, if at all. Unbundling will not by itself make this work more productive. But without it the productivity of clerical, maintenance and support work is unlikely to be tackled seriously.

In-house service and support activities are de facto monopolies. They have little incentive to improve their productivity. There is, after all, no competition. In fact, they have considerable disincentive to improve their productivity. In the typical organization, business or government, the standard and prestige of an activity is judged by its size and budget -- particularly in the case of activities that, like clerical, maintenance and support work, do not make a direct and measurable contribution to the bottom line. To improve the productivity of such an activity is thus hardly the way to advancement and success.

When in-house support staff are criticized for doing a poor job, their managers are likely to respond by hiring more people. An outside contractor knows that he will be tossed out and replaced by a better-performing competitor unless he improves quality and cuts costs.

The people running in-house support services are also unlikely to do the hard, innovative and often costly work that is required to make service work productive. Systematic innovation in service work is as desperately needed as it was in machine in the 50 years between Frederick Winslow Taylor in the 1870s and Henry Ford in the 1920s. Each task, each job, has to be analyzed and then reconfigured. Practically every tool has to be re-designed. . . .

The most important reason for unbundling the organization, however, is one that economists and engineers are likely to dismiss as "intangible": The productivity of support work is not likely to go up until it is possible to be promoted into senior management for doing a good job at it. And that will happen in support work only when such work is done by separate, free-standing enterprises. Until then, ambitious and able people will not go into support work; and if they find themselves in it, will soon get out of it.

It is hardly coincidental that the productivity decline in American factories set in as soon as finance and marketing were taking over from manufacturing in the early '60s as the main avenues of advancement into senior management. Nor is it coincidence that stock brokers have been plagued by recurrent "back office" crises despite steadily increasing employment and increasing investment in clerical and support work. Until very recently even the head of the back office (though responsible for half the firm's expenses), was at best a "titular" partner. Promotions, bonuses, but equally the time available on the part of top management were reserved by and large for traders, analysts and sales people.

They are "we"; the back office is "they." And one explanation why non-instructional costs in colleges and universities have risen twice as fast as instructional ones since World War II -- to the point where they now account for almost two-fifths of the total bill -- is surely that the people who run the dorms or the business office don't have Ph.D.s and are therefore non-persons in the value system of academia.

Forty years ago, service and support costs accounted for no more than 10% or 15% of total costs. So long as they were so marginal, their low productivity did not matter. Now that they are more likely to take 40 cents out of every dollar they can no longer be brushed aside. But value systems are unlikely to change. The business of the college, after all, is not to feed kids; it is teaching and research.

However, if clerical, maintenance and support work is done by an outside independent contractor it can offer opportunities, respect and visibility. As employees of a college, managers of student dining will never be anything but subordinates. In an independent catering company they can rise to be vice president in charge of feeding the students in a dozen schools; they might even become CEOs of their firms. If they have a problem there is a knowledgeable person in their own firm to get help from. If they discover how to do the job better or how to improve the equipment they are welcomed and listened to. The same is true in the independent firm that takes over customer accounting in the mutual-fund company.

In one large hospital-maintenance company, some of the women who started 12 or 15 years ago pushing vacuum cleaners are now division heads or vice presidents and own substantial blocks of company stock. As hospital employees, most of them would still be pushing vacuum cleaners.

Of course there is a price for unbundling. If large numbers of people cease to be employees of the organization for which they actually work, there are bound to be substantial social repercussions. And yet there is so far no other option in sight for giving us a chance to tackle what is fast becoming a central productivity problem of developed societies.