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# **Financial drivers of domestic outsourcing: Case study of food services in the San Francisco Bay Area**

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**Abstract:** This paper examines drivers of domestic outsourcing through a case study of food services. It demonstrates that outsourcing is not necessarily motivated by clients' desire to reduce costs or improve efficiency, and suggests that in some cases outsourcing may cost more than in-house production. Instead, this study points to other kinds of financial incentives to outsource food services. For tech companies, an important incentive is to limit employee headcount in order to improve productivity metrics and thereby increase a company's appeal to financial stakeholders. For universities, an important incentive is to obtain financing for facilities improvements from contractor companies.

**Keywords:** Outsourcing, Financialization, Service sector, Firm strategy

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A broad array of occupations and industries have been affected by domestic outsourcing in recent decades, but important questions remain about outsourcing's distinct forms, causes, and consequences. Research and theory suggest that outsourcing is typically motivated by a clients' desire to reduce costs and improve efficiency, especially for services that are not an integral component of the clients' core business. This study investigates the drivers of domestic outsourcing in the U.S. through a case study of food services at tech companies and universities in the San Francisco Bay Area.

My research demonstrates how financialization has disrupted the outsourcing process. I find that the relative cost and efficiency of outsourcing a particular service is not necessarily the most important factor as a firm decides whether or not to outsource—in many cases client firms believe that outsourcing food services is *more expensive* and *less efficient* compared to operating food services in-house. Instead, firms that decide to outsource food services often have other financial incentives for doing so. Outsourcing food services helps tech companies appeal to financial stakeholders by reducing employee headcount, thereby improving their productivity metrics. Food service contractors offer financing to help universities fund major capital upgrades as an incentive to enter into or renew a contract. Both of these examples demonstrate distinct ways that financialization has affected firms' production decisions related to food services outsourcing.

### **Literature review: motivations for outsourcing**

This study investigates the question: *what factors are motivating firms' decision to outsource food services, or to provide those services in-house?*<sup>2</sup> Among industry actors, and

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<sup>2</sup> I use the term "firm" broadly, encompassing private and public-sector organizations.

throughout this paper, this choice is referred to as a firm's decision whether or not to outsource (or "contract out") food services, versus "self-operating" programs in-house. In alignment with industry nomenclature, I use the term outsourcing to refer to a business strategy based on external sourcing, regardless of prior practice. Some other uses of the term outsourcing refer *only* to an event in which production is shifted from in- to outsourced. In this study, I explore the motivations for outsourcing events—in which a firm with in-house food services decides to shift production to an external provider—and I explore motivations for contracting out food services where no prior history of in-house production exists. I also consider motivations to produce food services in-house, and to shift production from external to internal providers (in-sourcing events).

Outsourcing became increasingly common in both the public and private sector in the 1980s and 1990s. Some economists and management scholars have argued that organizations should prioritize outsourcing less profitable components of the business and those that are lower value-added, more routine, and/or of less strategic importance, citing a wide range of short-term and long-term benefits (Bryce & Useem, 1998; Kogut & Zander, 1992; Lepak & Snell, 1999; Prahalad & Hamel, 1990). Certain services are commonly seen as low-hanging fruit for outsourcing across many industries, including facilities-related services, such as cleaning, maintenance, security, and food services; and business support services, like customer support, internal technical support, payroll, and accounting (Caniëls & Roeleveld, 2009; Kakabadse & Kakabadse, 2005). These are services that many different types of organizations require, and that they may produce themselves, but that aren't necessarily an integral part of what determines the firm's competitive advantage (Rojot, 1989)

There has been fairly broad agreement across disciplinary and theoretical perspectives that the reason a firm might decide to outsource non-core services is in pursuit of two general types of advantages: reductions in the cost of services, and improvements in the efficiency of providing those services (Glickman et al., 2007; Gupta et al., 2005; Roberts, 2001; Sharma et al., 2015). However, emerging evidence about the outcomes associated with outsourcing under different circumstances raise questions about whether these are realistic expectations, and what other motivations to outsource might come into play.

### **Cost reduction and efficiency improvement**

There are several mechanisms by which outsourcing non-core services may reduce the cost of those services relative to in-house production. First, outsourcing introduces market competition, which can reduce prices for non-core services as contractors compete to win bids (Domberger, 1994; Domberger et al., 1995; Domberger & Li, 1995). Cost reduction may be partly a result of lower wages paid by contractor firms, compared to clients producing a comparable service in-house (Quiggin, 1994; Dorn et al., 2018; Dube & Kaplan, 2010; Goldschmidt & Schmieder, 2017; Weil, 2014). Outsourced service providers may also be able to reduce costs compared to in-house providers for reasons other than reducing wages. Because contractors typically offer the same types of services to many different clients, they can sometimes benefit from increased economies of scale relative to a client trying to produce the same services in-house (Alexander & Young, 1996). For example, contractors may be able to purchase inputs more cheaply in bulk, limit purchases of expensive equipment, transfer knowledge about best practices across client sites, and spread staff among various locations to adjust to fluctuations in need.

In addition to reducing costs, outsourcing non-core services may also improve efficiency (and potentially improve performance) for the contractor or the client organization, compared to producing those services in-house. Contractors offering non-core services specialize in a particular type of service that is not the primary business of the client. As a result, they may have greater expertise in how to provide a quality service at a lower cost (Alexander & Young, 1996; Maltz, 1994). The client can improve efficiencies as well, because the reduction in costs frees up resources for the client to invest in more strategic, high-value aspects of the organization. Outsourcing also reduces the client's managerial responsibilities for day-to-day oversight of non-core activities, allowing the client to concentrate its attention on the most essential aspects of its business (Abraham & Taylor, 1996; Alexander & Young, 1996; Lacity et al., 1996).

### **Questions and critiques**

As public and private sector organizations increasingly turned to outsourcing non-core services during the 1990s, and as younger organizations adopted these strategies from the outset, experience revealed new insights and new critiques of the practice. These critiques have shed light on the costs and benefits of outsourcing for firms,<sup>3</sup> raising important questions about their motives for outsourcing and their expectations about outcomes.

Studies across different industries and types of outsourced services have shown that the outcomes of outsourcing events frequently fall short of managers' hopes, and that outsourcing can introduce new frustrations. Even if cost savings materialize from an outsourcing event, they

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<sup>3</sup> There is also a growing body of research examining outsourcing's consequences for workers too, of course, such as reduced wages and benefits, increased precarity, job polarization, diminished opportunities for advancement, increased production pressure and work speed-up, and de-unionization, among others (Appelbaum, 2017; Batt et al., 2020; Berlinski, 2008; Bolton & Wibberley, 2014; Carroll et al., 2005; Cunningham et al., 2014; Flecker & Meil, 2010; Greer et al., 2017; Grimshaw et al., 2019; Howcroft & Richardson, 2012; Kirov & Hohnen, 2015; Perraudin et al., 2014; Walsh & O'Flynn, 2011).

may not be as significant as anticipated, and they may not be sufficient to justify the transition (Caldwell, 1997; Greenberg & Canzoneri, 1997; Fan, 2000; Kang et al., 2012; Sanchís-Pedregosa et al., 2017).) Critiques of outsourcing in the public sector have been especially pronounced. While many observers agree that it is possible to do outsourcing effectively in the public sector, studies of a variety of services have found that “failure is the more common outcome,” and that there is no guarantee that outsourcing will ease budgetary constraints or improve quality and efficiency in the long run (Barthélemy, 2003; Lok & Baldry, 2015; Wekullo, 2017). Some studies have found that outsourcing tends to *increase* long-term expenses for universities because the contractor firm’s intrinsic profit motive limits the cost-savings potential relative to self-operating (Comm & Mathaisel, 2008; Glickman et al., 2007; Herath & Ahsan, 2006).

Food services outsourcing in particular has come under increasing scrutiny at k-12 schools in recent years. A 2008 study of Michigan schools found that the schools that hired private food service contractors rather than self-operating were not able to save money on their food programs, overall. It also found evidence of cost shifting: decreases in labor and food expenses offered by contractors were offset by increases in contract and supplies expenses, compared to schools with self-operated food services (Zullo, 2008). In 2010, New York State won a \$20 million settlement against the food service contractor Sodexo for retaining product rebates from public k-12 school food service contracts, rather than passing along those savings to the public schools (Komisar, 2011). On average, Sodexo received 14% rebates from its suppliers. This practice was determined to have violated the terms of the contract, as well as state and federal law (New York State Attorney General’s Office, 2010).



## Research design and case study selection

Evidence that outsourcing may not always result in significant cost reductions or efficiency gains calls into question firms' motivations for continuing to pursue this production strategy. Are there other reasons why a firm might decide to outsource non-core services, besides expected benefits related to cost and efficiency? In this study, I investigate firms' motivations to outsource food services through a close case study of cafeterias<sup>4</sup> at universities and tech companies in the San Francisco Bay Area, California. In this section I offer an explanation for the selection of my case study industries and region, and I discuss my research methods.

### Why food services?

My study concentrates on the food services industry, specifically school and workplace cafeterias.<sup>5</sup> One reason for selecting this industry is that food services is a type of outsourced service that is not typically considered a *core* aspect of the production process of its clients. As such, we expect that organizations may be motivated to outsource this type of service in pursuit of cost reductions and efficiency gains. Additionally, food services are a form of outsourced service that must be produced onsite, meaning that geographically-based disparities in regulation and the cost of labor and other inputs are not a factor in firm decision-making here (unlike, e.g. call center services).

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<sup>4</sup> Cafeterias come in many different forms: some may resemble a restaurant, a food court, or a buffet, or some combination thereof.

<sup>5</sup> Specifically, I am interested in long-term (e.g. multi-year) contracts for food services rather than one-off contracts, e.g. one-time for catering for an event.

## **Why tech companies and universities?**

Food service workers are directly engaged with a wide range of industries and institutions throughout the economy, including hospitals, corporate offices, universities, and sports stadiums. These clients may purchase food services from a contractor firm, or they may decide to self-operate their food services, employing their own staff and managers. I concentrate on two client markets for onsite food services: cafeterias at technology (“tech”) companies and at universities. I selected these two types of sites in order to be able to draw comparisons across a similar set of sites in each category, and to be able to compare related but distinct market segments. These were the two biggest market segments of the food services contractor industry in 2018: out of the \$47.9 billion in industry revenues, 33.3% came from the business and industry market, and 25.5% came from educational institutions (Hyland, 2018: 17).

University and corporate cafeterias typically have more comparable business models than some of the other major market segments, such as hospitals or stadiums. However, there are important differences between universities and corporate offices that make them interesting groups to compare. In particular, most universities are non-profit, and they include a mix of public and private organizations. The higher education market in the Bay Area includes both public and private institutions, some with outsourced food services and some self-operated. Schools typically have limitations on their financial resources that a successful private company does not. Public schools in particular may face intense pressure to cut costs due to restrictions in public funding of higher education in recent years, but they are not under the same type of pressure to deliver growing profits to shareholders.

Within the corporate market for food services I focus on the tech industry. Because of the tech industry's role as a key industry driving growth and innovation across the U.S. economy, the tech industry is often looked to as a leader of corporate practice and a bellwether for future trends in organizational management, such as decisions about outsourcing and amenities like cafeterias.

### **Why the Bay Area region?**

The metropolitan statistical areas (MSAs)<sup>6</sup> that anchor the San Francisco Bay Area are San Francisco-Oakland-Hayward<sup>7</sup> and San Jose-Sunnyvale-Santa Clara.<sup>8</sup> These areas include the following counties: Alameda, Contra Costa, San Francisco, San Mateo, Marin, San Benito, and Santa Clara. I refer to each of these MSAs as San Francisco and San Jose, respectively, and I refer to the two MSAs combined as the Bay Area for this paper.<sup>9</sup> These two metro areas overlap heavily in practical terms, such as commuting patterns (Terplan & Szambelan, 2018). The Bay Area is an engine of economic productivity and innovation, and is often considered a leading indicator of future economic trends affecting other regions. The region is home to several leading higher education institutions as well as corporate leaders in the tech industry.

### **Data and methods**

My primary research methods were interviews with experts on and key stakeholders within the industry, and observation and participation at industry meetings and conferences. I

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<sup>6</sup> MSAs: <https://www2.census.gov/geo/pdfs/reference/GARM/Ch13GARM.pdf>

<sup>7</sup> [https://www.bls.gov/oes/current/oes\\_41860.htm](https://www.bls.gov/oes/current/oes_41860.htm)

<sup>8</sup> [https://www.bls.gov/oes/current/oes\\_41940.htm](https://www.bls.gov/oes/current/oes_41940.htm)

<sup>9</sup> There are several competing definitions of the “Bay Area” in popular and academic use, sometimes including Napa and Solano Counties and excluding San Benito County, and sometimes including Santa Cruz County. Because of the focus of this study on the technology industry and its surrounding region, I focus on the San Jose and San Francisco MSAs. However, I draw from a geographically broader definition of the Bay Area for some of my higher education interviews in order to expand my interview sample – specifically, to include UC Davis and UC Santa Cruz.

also use secondary sources including industry data and articles in trade publications, as well as publicly-available labor and economic data.

My interviews focused on several groups of industry actors: contractor firms, client organizations, self-operator organizations,<sup>10</sup> advocacy groups, and industry experts. I interviewed a total of 33 people across 29 different organizations. Each interview took between one and two hours, and interviews were recorded (when consent to do so was granted) and later transcribed. Participants varied in their preferences for confidentiality, but most preferred not to be identified by name or organization in published material without explicit review and consent of the attributed content, so anonymity was my baseline practice. I analyzed interviews holistically, due to the small sample size and the variegated form and content of each interview.

Table 1 illustrates how I code each interviewee in reporting my findings, in order to explain the category of interview subject cited, while protecting anonymity.

**Table 1. Interview categories and codes<sup>11</sup>**

<b>Interviewee category</b>	<b>Reporting code</b>	<b>Number of interviewees</b>
Clients in higher education	C-E	3
Clients in the tech industry	C-T	5
Contractors in higher education	ConE	1
Contractors in the tech industry	ConT	2
Self-operators in higher education	SO-E	7

<sup>10</sup> The food services industry refers to firms that operate their own food services in-house, rather than via a contractor, as “self-operators.”

<sup>11</sup> In a few cases interviewees were or had recently been in roles in multiple roles. I identify the secondary role in parentheses in these citations.

Self-operators in tech industry	SO-T	0
Experts and consultants	E/C	3
Industry associations	IA	2
Organizers and industry advocates	O/A	10

The most challenging participants to recruit were those at tech companies and at private contractor companies. Many of these companies have explicit policies against participation in research, or require non-disclosure agreements that would prohibit the publication of research findings. Some simply did not respond to my requests for interviews. Nevertheless, through referrals I was able to obtain interviews with seven individuals in these categories – 2 employed by contractor firms and 5 employed by technology firms. Interviewees estimated that there are only a few, smaller tech companies that self-operate food services. I was unfortunately unable to interview anyone at these firms, but several of my interviewees had previously worked or were currently working at tech companies that previously self-operated food services, but now outsource their programs.

I targeted individuals involved with management and decision-making related to food services at their respective organizations, such as food program directors, facilities managers, client liaisons, regional managers, onsite leads, and head chefs. I refer to most of these interviewees as “managers” in my analysis, except when job title is pertinent information, in order to obscure participants’ identity.

Obtaining interviews with food program directors at universities was considerably easier. I interviewed 11 people from seven different institutions, some contracted and some self-

operated, and some public and some private. I also interviewed 10 representatives from advocacy organizations related to the food services industry. Most of these were researchers or organizers for labor unions representing food service workers, several were from community-based organizations, and several were from food justice advocacy organizations.

My research also targeted several other types of industry experts. This included academic experts on the food services industry, industry consultants, and representatives from key industry associations. In addition to five formal interviews in this category, I also attended national and regional conferences for food service and related industry associations,<sup>12</sup> where I observed workshops and panels, and engaged in informal communication with a wide range of industry stakeholders.<sup>13</sup>

### **Factors shaping the market for food services in the Bay Area**

In this section I identify some of the defining features of the food services industry, and factors shaping the Bay Area market for food services at tech companies and universities. Important differences exist between the tech and university markets for food services, but the group of companies competing for these contracts is more or less the same. The food services industry is dominated by several large, multinational firms that control over 80% of the market for contracted food services (Hyland, 2018: 8-9). In 2018, the largest four companies – Compass Group, Aramark Corporation, Sodexo, and Delaware North – took in 83.6% of \$47.9 billion of

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<sup>12</sup> Conferences attended (all in 2018) included: Society of Hospitality and Foodservice Management national conference (Dallas / Ft. Worth, TX); Institute for Supply Management national conference (Nashville, TN); Foodservice Industry Risk Management Association regional meeting (Fullerton, CA); Western Foodservice Expo (Los Angeles, CA).

<sup>13</sup> I did not record these informal conversations and do not quote any individuals in this study, as they were not asked to officially grant consent to participate in this research. However, I did communicate my role as a researcher and the nature of my work in these informal conversations in order to make transparent my interests.

industry revenue. According to industry analysts, this reflects “rapid consolidation” in the industry in recent years, and the dominance of corporate strategies based on major mergers to increase market share (Alvarez, A., 2017; Hyland, 2018).

Compass Group is the largest of the contractor companies, representing 32.9% of industry revenue (Hyland, 2018: 26). Compass subsidiaries include brands that contract with many Bay Area tech companies and Universities, such as Bon Appetit Management Company, Chartwells, Eurest, and Restaurant Associates. Aramark takes in the next largest portion of industry revenue, 25.1%, but it appears to be less common among Bay Area tech companies and universities in the Bay Area based on my interviews – some of Aramark’s large Bay Area clients include sports stadiums and government-run facilities (parks, jails, public administration offices). Sodexo represents 20.2% of industry revenue, and has a contract with San Francisco State University (and previously UC Davis and UC Santa Cruz). Compass, Sodexo, and Aramark are often referred to as “the big three” by industry stakeholders and activists. Guckenheimer is another company that has many contracts at Bay Area tech companies, but it is not part of any of the top four food service contractor companies. It was an independent, California-based company until 2017, when it was acquired by ISS Group, one of the largest integrated facilities management companies, based in Denmark (“ISS acquires leading U.S. food services company,” 2017).

### **Competitive strategies**

Food service contractors have several strategies for growing their businesses. First, they can enter into a contract with an organization that previously self-operated, or they can win an account from another contractor during a competitive bid. Their strategies for winning bids vary

depending on the contract and the market segment. Tech companies may be more attracted by quality and variety of options a contractor can offer, whereas a public institution may be more concerned with competitive pricing. While corporate clients are typically more lucrative in terms of revenue per person, food service contractors tend to prioritize opportunities to obtain long-term contracts with large institutions, like educational and health care facilities, and prisons (E/C.2). The scale of these contracts is typically much larger, and the contracts are longer-term (often 10-20 years versus 3-5). Thus, contractors are able to lock-in a greater portion of market share and secure more long-term earnings potential with an institutional contract than with a corporate contract.

Contractors can also grow their businesses by acquiring other companies (along with their clients). As the market for food service contracts has grown increasingly concentrated, this strategy has been an important component of expansion (Hyland, 2018). Compass has aggressively focused on acquisitions of smaller, regionally-based companies, such as the Bay Area-based Bon Appetit Management Company, and often retains the branding and name of these companies after acquisition. Bon Appetit started providing food services to universities and corporate offices in the region in the 1980s, and became known for local and sustainable sourcing (BAMCO: About, n.d.; E/C.1; O/A.4). In 2002 they were acquired by Compass, and they have since expanded nationally under the same company name and brand. Sodexo also focused aggressively on acquisitions, but the company absorbs the companies it acquires into the Sodexo brand. Aramark similarly absorbs acquired firms into its brand (Hyland, 2018: 27-28; E/C.3).

Another strategy to grow market share involves expanding the range of services that a company offers beyond food services. Each of the big three have expanded their reach into



integrated facilities management and “full-service contracts” (Hyland, 2018; IA.1; E/C.3; E/C.2). In some cases, food service contractors like Aramark also provide maintenance or security services as part of their contract. In other cases, an integrated facilities management company may acquire a food service provider to expand its reach into the food services market – such as ISS in its acquisition of Gukenheimer.

### **Indirect revenue streams**

In addition to expanding market share and services offered, food service contractors have also grown their businesses by increasing indirect streams of revenue. The traditional way that food service contractors have earned profits from their contracts is through a management fee, which is a fee charged on top of the costs of food, labor, and supplies. However, in order to appeal to clients and win bids, the typical management fee has been shrinking – one consultant estimates management fees were around 10% of contract costs in the 1980s, and now they are around 4%. Contractors have increasingly turned to indirect revenue streams to make up for the lost income and increase their profits while keeping management fees low (E/C.2).

There are several indirect streams of revenue that are of particular importance to this case study. One is the interest a contractor can earn from loans to a client. An important way that contractors compete for large institutional contracts, such as those with universities, is by offering financing for the organization to improve or build out new facilities. Offering financing not only generates a new revenue stream from the interest on the loan, but it also secures market share for a contractor and locks a client into a long-term financial arrangement.

Another important source of indirect revenue for contractors is rebates and commissions from food suppliers when contractors use their products. These are commonly referred to as “off-

invoice rebates” or “back-end rebates,” or “kickbacks” from suppliers, because the client doesn’t see these rebates or have an ability to track the extent to which they are reflected in the reported cost of food on the contractor’s invoice. It is difficult to estimate the total percentage of contractors’ revenue coming from rebates because they are reluctant to share this kind of information, but according to several of the program managers and consultants I spoke with, off-invoice rebates are in many cases the *most* important source of revenue for contractors (E/C.2, O/A.5, ConT.3 (E/C), IA.2 (SO-E)). Evidence from the New York state lawsuit with Sodexo also indicates that the revenue contractors receive from rebates is significant, and that the reductions in food cost resulting from supplier rebates are not always shared with the clients.

### **Client market: tech companies**

While not all tech companies in the Bay Area offer onsite food services, it has become increasingly the norm for large or growing tech companies to offer at least one meal per day for their employees, and frequently two or three. Workplace cafeterias are not a new idea – offices, factories, and other types of worksites have provided onsite dining options for many decades. However, as the Bay Area’s tech industry has grown it has become known for the extensive onsite dining options that it offers workers, often free or heavily subsidized (Bull, 2016). Google is credited as the first tech company to start the trend of extensive free food offerings over a decade ago, starting what has been described as an “arms race” among some tech companies to offer the most lavish employee dining experience (ConT.3 (E/C)).

According to my interviews with industry experts, almost all Bay Area tech firms that offer onsite food services contract with another firm to provide those services, and have always done so, with a few exceptions. There are several small to medium-sized firms (less than 1,000

employees) that self-operate their dining services, including Good Eggs, Asana, and Thumbtack, and at least one large firm (Tesla) that self-operates, but these appear to be the exception rather than the norm (ConT.3 (E/C), ConT.2 (SO-T)). At many companies it is not obvious to cafeteria patrons that a contractor runs the cafeteria<sup>14</sup> because client companies use their own branding for these sites. In some cases, head chefs and other high-level managers are employees of the client, while frontline food service workers are employed by a contractor firm, or a temporary services firm in some cases (O/A.9, C-T.2).

There have also been several tech firms that at one point self-operated their cafeterias, but have since outsourced to a food services contractor. Notable among these are Google, AirBnB, Zynga, and a handful of others that have changed from self-operated to contracted cafeterias within the last several decades (ConT.3 (E/C), C-T.2; Bull, 2016). These firms offer instructive examples of company decision-making around food services outsourcing, which I will discuss more in the following section. Several interviewees pointed out that tech companies might consider self-operating food services when they are still relatively small, but this is uncommon and unlikely to last as the company grows (ConT.3 (E/C), ConT.2 (SO-T), C-T.2). Once outsourced, a tech company is very unlikely to bring its food services back in house – I found no examples of this in the Bay Area (E/C.3, C-T.4).

The high prevalence of outsourcing at tech company cafeterias in the Bay Area tracks with the corporate food service market nationally. Across the U.S., the share of corporate onsite food services that is contracted has been rising steadily since the late 1970s. One consultant who

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<sup>14</sup> It is common for tech companies (and some universities) to avoid use of the word “cafeteria”, instead favoring terms like “dining commons” or specifically-branded sites like Dropbox’s “Tuck Stop”, which they feel reduces negative connotations that people might have with the word cafeteria. I use the term here for clarity.

analyzes private industry data estimates that around 50% of corporate cafeterias were outsourced in the 1990s, and today 90-95% are outsourced (E/C.2). Another indication of this trend is in the membership data of the Society of Hospitality and Foodservice Management (SHFM), the largest industry association for managers in the corporate foodservice and workplace hospitality industries (“SHFM,” n.d.). SHFM began in 1979 (as “SFM”) as the merger of two associations, one that allowed contractors in and one that did not. Since that time, the number of members from self-operator sites has dwindled. In 2000 (the earliest year of their membership data) they had 30 members from self-operated corporate dining programs, and in 2018 they had 5, out of a total of 650 members (IA.1). Some older firms had self-operated cafeterias that were outsourced to a contractor at some point since the 1970s. However, firms that began in the 1990s or later, including most firms in tech, are unlikely to ever have had self-operated dining programs.

The most important distinction in the market for tech company cafeterias is whether or not the food offered to tech company employees is subsidized, in whole or in part. Free, lavish food at tech companies has received a lot of popular attention, but many technology companies offering onsite food require employees to pay for the food. Often the price for employees is subsidized, but not always. The distinction between subsidized and unsubsidized cafeterias matters because it shapes the contractual relationship between the food service contractor and the tech company client. Free and heavily subsidized food programs are more costly to the client and more profitable for the contractor. However, contractors typically retain more control over pricing, operations, and the scope of work in an unsubsidized program (E/C.2).

According to several interviewees, newer firms may be more likely to offer free or subsidized meals (O/A.9). At these firms, it is increasingly common to offer one if not more free meals to employees per day. New tech companies prioritize recruitment and retention of young,

skilled workers by offering extensive benefits and onsite amenities, including free, high-quality food. They also use these amenities to signify to potential investors and recruits that they have sizeable financial resources, and/or to signal something about their company brand (Bull 2016, C-T.2, C-T.4, E/C.2). Free food may serve another purpose as well: encouraging employees to work longer hours. When lunch is offered free in the office, workers are much less likely to leave the office and eat lunch off site. Additionally, some offices offer free breakfast and dinner as well – as long as you arrive before 9am and stay at the office until dinner is served at 7pm. Free food is still relatively rare in the corporate food service market nationally, according to industry experts, but it is increasingly common in the tech industry, especially in the Bay Area.

#### **Client market: universities**

Higher education institutions<sup>15</sup> typically offer multiple on-campus dining options for students, faculty and staff. These may include traditional cafeterias as well as a wide range of food and beverage retail sites (e.g. coffee shops, fast food franchises, delis, pubs). Most institutions offer a combination of cafeterias plus other types of retail, especially if they have students living on campus in residence halls. Unlike at some tech firms, universities rarely provide food for free. Students may choose to purchase (or be required to purchase) a pre-paid meal plan, but the cost of the meals is generally not subsidized.

University cafeterias in the Bay Area are a mix of self-operated and outsourced. All the University of California (UC) campuses in and around the Bay Area<sup>16</sup> self-operate their main dining halls, although they all have contracts for other types of food retail (cafes and

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<sup>15</sup> I focused on 4-year colleges and universities for my field research, but many of the same findings would likely apply to other types of higher education institutions.

<sup>16</sup> I include UC Davis and UC Santa Cruz in this investigation even though they are, by some definitions, outside of the Bay Area. I included these schools from neighboring regions in order to increase my pool of interviewees.

concessions). Two of these schools, UC Santa Cruz and UC Davis, had contracted with the firm Sodexo for their cafeterias for over forty years (“since day one” according to one interviewee) but transitioned their programs to self-operated in 2004 and 2017, respectively, as a result of student and labor union organizing to bring these programs and their employees in-house. Stanford University is also self-operated, but most other local schools use a contractor to run their cafeterias, according to my interviewees. One school, San Jose State University, previously self-operated their dining program, but switched to a contract with Chartwells (a division of Compass Group) in 2018.

While there has been a clear trend toward self-operating at the UC schools, I did not find strong evidence that this is a widespread trend outside of UC. I also did not find evidence of a widespread trend of universities switching to contracted cafeterias. Interviewees held differing views on this. One consultant estimated that the portion of the higher education market that is contracted is currently at around 50% and growing (E/C.2). Other experts estimated that around 70-80% of schools used to be outsourced but that this number had dropped to around 50% (O/A.5, E/C.2).

There is also no comprehensive, public data tracking contracted or self-operated university cafeterias over time. However, the National Association of College and University Food Services (NACUFS) was willing to provide me with their current membership data. NACUFS is the industry association for managers of food service programs at colleges and universities. In 2016, 63% of the 454 NACUFS member institutions were self-operated, 35% were contracted, and the rest were a combination of the two (IA.1).

Several interviewees observed that smaller, private institutions tend to have outsourced cafeterias, while larger and public institutions tend to self-operate. Most large schools (over 15,000 enrollment) in the Bay Area are public, but they have a mix of outsourced and self-operated dining facilities. The Bay Area UC schools' cafeterias, as noted, are all now self-operated, and the California State University (CSU) schools' cafeterias are all now outsourced, according to local experts and stakeholders. Stanford University is the outlier in the group, as a large, private university that self-operates its dining facilities. Among NACUFS members nationally, public schools are equally likely to have self-operated cafeterias compared to private schools, but schools with self-operated cafeterias have a higher average enrollment than private schools (IA.1).

All universities charge for food, but the structure of student meal plans varies, from simple debit systems to pre-paid meal plans. Most universities that have contracted cafeterias do not subsidize the contracts – that is, contractors are responsible for covering all of their costs via the revenue from food sales (E/C.3). Schools are very concerned with cost containment because food is a highly visible part of the student experience, so competitive pricing is a factor in how schools select and manage contracts (E/C.3). Obviously the food has to be appealing enough for there to be sufficient sales revenue to cover costs, but low customer pricing is arguably a higher priority for universities than for unsubsidized tech companies, who may value quality more than keeping costs down, and have a much greater ability to pay (SO-E.6).

Cost containment is also a concern at universities with self-operated cafeterias, who similarly want to keep meal plans affordable for students. The most important difference in the cost structure is that excess revenue in a self-operated model is returned directly to the university, instead of to the contractor company. Several interviewees from self-operated dining

programs described how the university increasingly relies on excess revenue from dining programs and other revenue-generating programs like housing to fund non-revenue generating activities on campus, as public funding for public higher education has failed to keep up with rising costs. This can pose challenges for dining program managers when they need to invest in things like major facilities upgrade or expensive new equipment, because that money also has to come from dining program revenue (SO-E.2, O/A.1).

### **Motivations for outsourcing**

My research revealed two motivations for organizations to outsource food services rather than self-operate, both of which are distinct from considerations of the cost or efficiency of food services:

- For tech companies, an important reason to outsource rather than self-operate food services was to limit or reduce employee headcount in order to bolster their financial metrics.
- For universities, an important reason to outsource rather than self-operate food services was to obtain financing for capital upgrades from food service contractors.

There were certainly other factors involved in firms' decision-making process, and important distinctions between different types of organizations. There was also variation in organizations' decision-making practices and perspectives on outsourcing within each market segment.

However, across the tech companies and universities I studied, financial considerations – metrics in the case of the former and financing in the case of the latter – clearly were near the top of the list of factors driving the decision to outsource versus self-operate food services. These financial motives were more important, in some cases, than the actual cost of providing food services or



the quality of those services. In this section, I describe these and other findings from my interviews.

### **Efficiency and cost reduction: weighing the costs and benefits**

Many program managers at universities and tech companies believed that outsourcing typically costs more than self-operating, overall. However, there was some dispute among my interviewees about the specific costs and benefits associated with contracting food services. Several believed that there were no real benefits to outsourcing, and that self-operating was a better option in most cases. Others thought that outsourcing offered specific benefits that make it an appealing choice, despite overall higher costs. Beliefs about the benefits of contracting coalesced around three main ideas:

- Food service contractors have greater expertise than in-house food service program managers, and therefore they are able to run a more efficient and effective program.
- Food service contractors are able to source food at a lower cost because the scale of the businesses offers them bulk discounts on pricing from suppliers.
- Food service contractors are able to source labor at a lower cost, because they are not beholden to the wage and benefits practices of the clients.

However, my research suggest that these perceptions may be based more on belief in the accepted industry best practices than in a rigorous analysis of costs and benefits of contracting food services. In most cases, there was not clear evidence that outsourcing food services delivered any of these perceived benefits compared to self-operating, and in some cases there was evidence to the contrary.

## *Efficiency*

For tech companies and smaller universities, the expertise and organizational infrastructure of a large food service contractor was described as advantageous for the client, compared to self-operating. The major contractor companies have a clearly-defined set of resources for building and running a food service program, informed by years of experience across a wide range of clients and locations. These resources include, for example, programs and materials for staff training, planning and management software, and menus and recipes. One consultant observed, “The tangible, practical aspects of running a business are very challenging when you don’t know anything about food, so that’s when you call in the experts, and Bon Appetit has thousands of accounts. They’ve been doing it ‘cookie cutter’ so it’s easy for them to install” (ConT.3 (E/C)). In addition, they have their own systems for HR, accounting, etc., so outsourcing doesn’t require the company to expand these departments to accommodate additional food service staff, like in-house operations do (C-T.2, SO-E.7).

The large organizational infrastructure and pre-existing systems of contractor companies can also be a downside to outsourcing, however. Some interviewees who have worked with contractors complained that the size of the companies, plus their extensive internal policies and systems, resulted in cumbersome bureaucratic processes. This made it difficult to customize and adjust food program offerings based on clients’ and customers’ demands, and in some cases reduced the quality of the cafeterias’ offerings (C-T.2, C-T.3, C-E.3).

The size and complexity of the contractor companies was partly to blame for clients’ frustrations, but there was another important reason why clients experienced frustration about the lack of flexibility in working with contractors: because supplier rebates are a significant (and

perhaps in many cases the most significant) source of revenue for contractors, they have a strong incentive to use certain brands and products for which they receive kickbacks. As a result of their contracts with suppliers, food service contractors are often reluctant to deviate from their preferred sourcing model and menu items. They can and frequently do deviate to accommodate clients' requests (especially for large or high-value accounts), but the process may be slow (C-E.3). Many program managers who work or have worked with contractors reported feeling constrained by contractors' sourcing agreements, and expressed frustration with the "red tape" involved in requesting changes to the contractors' menus (C-T.2, C-T.3, C-E.3, Con.E-1).

### *Cost of food*

The rebates contribute to a contractor's ability to lower the cost of food services, relative to self-operating. Because most rebates are based on bulk purchasing, large contractor companies with many clients have a distinct advantage in purchasing power compared to tech companies and universities. Several food program managers at outsourced universities cited this as an important advantage of contracting, despite added challenges (C-E.3, ConE.1).

However, interviewees also reported that it is nearly impossible to track the extent to which the full cost savings that contractors receive for bulk purchasing discounts are passed on to clients. While some volume-based discounts (known as "deviated pricing") are reflected in the prices that the client sees, the rebates that the contractor receives from suppliers for bulk purchases typically are not (E/C.2, O/A.5, ConT.3 (E/C), IA.2 (SO-E)). The off-invoice rebates obscure the contractors' true food cost structure from the client, which makes it difficult to ascertain whether they are getting a good deal.

The client can see the contractor's on-site EBIT (earnings before interest and taxes), which includes a breakout for the direct costs of food, labor, supplies, and the contractors' management fee, along with any revenues from the sale of food (if applicable). However, the client cannot see the contractor's off-site EBIT (E/C.2). As the relationship between contractors and clients grew increasingly acrimonious over the years, one consultant described, the contractors "shifted revenue streams around so it would be less transparent to the client" (E/C.2). This involved reducing management fees and other costs that made the contractors appear more competitive, while they raised costs to the client and increased their own revenue in other ways. Contractors "say that rebates are factored in pricing but it's spread across all accounts so it's pretty impossible to track across the units. It's part of the EBIT that you don't see" (E/C.2).

The importance of rebates to the contractors' business model means that their decisions about suppliers are strongly influenced by the ability of a supplier to offer substantial rebates. As one industry expert on university food services noted, the ability to offer large rebates is not intrinsically tied to lower prices for commodities. "There is no reason to think that a food service management company is going to the cheapest supplier here. They are going to the one that can give them the biggest kickback. And that will probably be the biggest company," said an advocate from a food justice organization (O/A.5).

### *Cost of labor*

Similar to ideas about food costs, some interviewees believe that outsourcing food services reduces the cost of labor relative to self-operating. While it does appear to be true that contractors are able to reduce their own labor costs in a variety of ways relative to self-operators, it is not clear that all of these cost reductions translate into lower costs to clients.

Contractors may in some cases reduce labor costs by offering less in wages and benefits compared to a self-operator. One consultant I interviewed cited a proprietary study that found that, although food service contractors typically do not spend less on food compared to self-operators, they do spend less on labor, because wages and benefits are lower for workers employed by a contractor (E/C.2). The main reason for this, according to several interviewees, is that the contractor isn't held to the same standards and expectations for wage and benefits as the client, and therefore it is easier for them to pay workers less than a client would for self-operated food services (C-T.2, E/C.2). In the eyes of tech company management, one interviewee said, "An engineer is worth the health insurance you're paying for them every year. All of the benefits: the travel stipends, a desk, a computer," but a food service worker is not. Even if it costs the company more overall to outsource food services than self-operate, the interviewee noted, the company managers believe that it is the correct thing to do on principle (C-T.2).

Additionally, as is the case with contractors' bulk purchasing discounts, the size of large contractors means that they are in some cases able to get better rates on health insurance compared to clients, and that they have a large pool of resources available to cover liabilities like workers' compensation (E/C.2, C-T.4). However (as with bulk purchasing discounts) it is not clear that the benefits of contractors' reduced labor costs are passed through to clients. According to several interviewees, some contractors charge the client more for labor than it actually costs them. Two long-time industry consultants independently described how contractors can earn additional revenue from labor charges to clients through benefits markups and through unused accruals. They described it as common practice among large contractors to charge clients for premium-rate insurance or other benefits, without applying the discounted rate that they get as a group. Similarly, large contractors may often charge clients for the total accrual

of vacation, holiday, and sick leave, rather than the amount that was actually used (ConT.3 (E/C), E/C.2).

Clients' limited ability to track and analyze the costs and benefits of a contracted cafeteria suggests that the cost of operations is not the most important factor shaping the decision-making for the companies and institutions that choose to hire a contractor rather than self-operate. Many of my client interviewees acknowledged that they had an incomplete picture of the contractors' cost structure, and while they had no way of knowing precisely what information they were missing, most were clear that outsourcing food services is generally a more costly option than self-operating, overall, for programs of comparable quality. Yet, for almost all tech companies and around half of universities I identified they choose to outsource food services anyway. Why?

### **Tech companies' motivations to outsource food services**

At most tech companies in the Bay Area that are considering offering onsite food services, the question of whether or not to contract for those services may never come up: it is assumed from the outset that they will use a contractor, despite the widespread acknowledgement that it costs more. To some extent the norm of outsourcing is self-reinforcing, but the most clearly-stated, commonly-cited rationale for contracting tech company cafeterias that I heard was tech companies outsource food services in order to minimize employee headcount – the number of employees on the company's payroll (C-T.2, C-T.4, Cont.1, ConT.3 (E/C)).

This is of particular importance for companies that are publicly-traded or that are planning to soon become so, because the primary way that most shareholders and investors assess a company's value is based on their profit and loss (P&L) statement, which is a financial

statement that summarizes the revenues, costs and expenses incurred during a specified period (Reiff, 2019). One metric that they consider based on the P&L is the balance of a company's revenue to its headcount, which is understood to be an indication of a company's productive use of its resources (Kenton, 2018). Because food service workers at a free or subsidized food program don't directly contribute to the company's revenue, having food service employees can hurt this metric.

My interviews confirmed the importance of this metric to company decision-making around sourcing food services. In most cases it meant that food services were outsourced from the outset of offering them; in the few cases of companies with in-house programs it meant that they eventually faced pressure from other factions within the company to outsource. At one company that switched from a self-operated to an outsourced cafeteria, the manager I interviewed cited reducing headcount as a deciding factor in making the change. The company was preparing to issue its initial public offering (IPO) at the time, and it was growing rapidly. As overall employment at the company increased, so too did the need to grow the cafeteria staff. "One of the markers of a financially successful company is your revenue versus your employee headcount. If you're looking at a hundred employees that could easily be outsourced – that's business I guess" (C-T.2).

At the same time, the company was fully aware that outsourcing food services was likely to increase the costs of the program. "They did this analysis and they came in with their eyes open, knowing it would cost more [to outsource food services]. And they made that decision purely on headcount" (C-T.2).

The decision to outsource to improve financial metrics is, of course, a financially-motivated decision to improve stock value and increase investment, but it is not one that is based on reducing the costs of service provision. According to several interviewees, productivity metrics are much more important than the total amount that a company spends on food services. Interviewees told me that shareholders don't typically consider the total cost of something like food services, which is a relatively small portion of a tech company's overall costs and revenue. They care much more about the company's productivity metrics (C-T.4, C-T.2, ConT.3 (E/C)).

### **Universities' motivations to outsource food services**

For universities in the Bay Area, the choice of whether or not to outsource is less of a foregone conclusion, because there is a mix of self-operated and contracted cafeterias in operation. There may be in many cases institutional preference to stick with whatever the existing model is out of convenience and a desire for stability, but the last two decades have also seen several universities in the region switch from one model to the other. Based on my interviews with university food programs and experts on the industry, an important motivation for universities to outsource their food program or renew a food services contract is to obtain financing from contractor companies for capital investment, such as major renovations or new construction of residence or dining halls.

A consultant with expertise in higher education food services estimated that this trend began 20 or more years ago, as contractors' competition for large institutional contracts grew fiercer. At the same time, contractors started consolidating ownership as a strategy to expand their control of the market and accumulate resources. "Contractors started seeing that their advantages were being diluted, so they started pouring money into capital investment, acting as a



bank for clients to expand or upgrade their facilities. At the same time, students' expectations about food were rising, and the schools faced pressure to expand and modernize both quickly and affordably. It was addictive. Contractors started spending tons of money up front to lock in the contracts" (E/C.3).

One program manager at an outsourced university program said it is no secret that schools' food service contracts are often built around facilities financing agreements. "The contracts are based on capital investment, so no matter who you are, no matter what contactor you are, you're always going to be asked to come in and invest in a facility, and with that you base your contract on the capitalization you're putting into it" (C-E.3).

Capital investment may have been a core motivation for SJSU's transition from a self-operated, non-profit auxiliary food services program to the food service contractor Chartwells, a Compass subsidiary. I spoke with current and former staff with the program, who indicated that administrative leadership at SJSU was not explicit about their decision-making process to switch to a contractor, but that facilities investment seemed to be a factor (C-E.1, SO-E.1). "One of the issues was that we only had one res [residential dining] facility, built in 1968, that hadn't been updated ... The larger contract companies have a large checking account and they offered to finance the rebuild, and other places on campus," said a former manager (SO-E.1).

The decision to contract food services coincided with a change in top-level administrative leadership at SJSU. The new administration had previously worked with schools that had food service contracts, which may have influenced their preference for contracted food services (C-E.1, SO-E.1). A NACUFS officer I interviewed observed that new administrators often want to make their mark on a school, and reconfiguring the dining program can be a highly-visible way

to raise funds for new facilities and demonstrate leadership. “If you get a new chancellor who wants to make an impact, dining is high visibility and there is a lot of money in dining, so that lends itself to people in power seeing opportunities to make their mark. [The decision to outsource is] less about the actual operations than about leadership’s objectives” (IA.2 (SO-E)).

Are these financing agreements with contractors a good deal for the university, in the long run? Opinions on this differ. Surely some schools are in desperate need of capital improvements that they may not have been able to raise funds for elsewhere. However, there are important strings attached to contractors’ offers of capital investments. First, they require the university to sign a long-term contract with the food service contractor, typically a 10–20-year commitment. Over the course of the contract, the contractor will recoup its investment (and more) through the interest the university pays on the capital investment, and through other cost structure adjustments in the food services contract itself over time.

The benefits seem more likely to outweigh the cost for smaller schools because their financial resources may be more limited. According to a food program manager at a self-operated university, “For smaller campuses it is very attractive to have a contractor invest in your facilities. [They may offer] \$30 to 50 million into new dining halls and this and that, but the reality is that money’s not free. There will be a 10-20 year contract and the contractor will make it up through rates and recharges over those years. The contractor will never lose money” (SO-E.6). Several other interviewees echoed this sentiment.

### **Why some universities self-operate food services**

Several Bay Area universities continue to have self-operated cafeterias, or have switched to a self-operated model in recent decades. The managers at the UC programs that I interviewed

cited many benefits of self-operating food services, compared to outsourcing. In general, they felt that self-operating allowed them to achieve better outcomes in terms of quality at a reduced cost.<sup>17</sup>

Managers at the schools that have switched from outsourced to self-operated food services in recent years reported that costs have decreased and program satisfaction and participation has increased (SO-E.4, SO-E.6). One of the motivating factors for bringing the UC dining programs in house was union organizing among cafeteria workers and student activism. Cafeteria workers gained representation with the union representing UC service workers – American Federal State County and Municipal Employees union (AFSCME) 3299 – when the programs were brought in house. One manager reported that labor costs initially went up when the programs were brought in house, because wages and benefits increased, but these costs were outweighed in the long run by the cost savings of running a more efficient and effective program, and they were able to avoid any layoffs (SO-E.6).

Managers at the self-operated programs were able to reduce the cost of food by reducing waste and tailoring menus and sourcing to more closely meet students' demands. In addition to reducing waste and increasing revenue by increasing sales, the school also benefited from the elimination of management fees and reducing the red tape surrounding sourcing. "We were trying to offer a range to meet students' needs," one manager said. "I don't think the contract managers think this way. Their motivation is aggregating purchases and making them the same

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<sup>17</sup> These assessments are self-flattering, of course, but program managers from campuses that had switched models have data on costs and participation to validate these perspectives. Additionally, several of the program managers from contracted programs or clients of contractors were far more critical of their own programs.

across the country. Because of the rebates, they have an incentive to homogenize and standardize, not specialize and tailor to a specific student body” (SO-E.1).

Another important advantage to self-operating, interviewees observed, is that the revenue from food sales stays on campus. Many program managers described their programs as “a non-profit, but also a business” (SO-E.6, SO-E.2). This allows them the freedom to design programs that serve the needs of the campus community, while investing excess revenue back into the university system. For example, in one school’s meal plan: “30 cents of every dollar of your meal plan goes to buying food; 50 cents of every dollar goes to paying staff; another 10-15 for paper products, [cleaning] chemicals, keeping the lights on; and then 3-5% goes back into replacement of equipment, or into reserves to build a future dining hall” (SO-E.6).

“We are the stewards of the students’ money,” said an interviewee at another self-operated school. “We take that very seriously and work to put together a program that meets the needs of students and covers the expenses and funds reserves, covers our debt service, and contributes to the rest of campus. We’re in a good position to do that. A contractor would have to make sure they have a profit at the end of the day” (SO-E.2).

### **Synthesis**

The tech company market for food services differs in important ways from the university market for food services, in particular in program budgets and cost structures. Tech companies with free food programs spend considerable amounts of money on non-revenue generating programs in order to attract and satisfy their workforce. Even those that do not subsidize employees’ meals rely on their employees’ higher ability to pay for food that their higher salaries allow. Schools are also concerned with customer satisfaction, of course, but there is much greater

pressure to keep costs low in order to accommodate students' tighter budgets. Nevertheless, tech companies and universities that decide to outsource food services both are motivated (at least in part) by financial incentives that are not related to the cost or efficiency of outsourcing.

The findings of this case study challenge existing theories about why organizations may decide to outsource non-core services. Specifically, they suggest that financialization has reshaped core motivations related to cost and efficiency. For both tech companies and universities, interviewees cited several reasons why outsourcing food services is frequently *more* costly and *less* efficient than self-operating. One reason outsourcing may cost more is because the contractor firms do not necessarily pass along cost savings on food and labor to the client. Outsourcing food services may be less efficient compared to self-operating because the contractor firms may not be willing or able to easily adapt their programs to adjust to clients' specific needs.

To be sure, the widespread beliefs perpetuated by the business literature that outsourcing non-core support services (not just food services) *is* efficient and cost effective is to some extent a factor in the prevalence of outsourced food services. This seems to be an important factor at tech companies in particular, where most food service programs are outsourced from the outset. Still, that this practice has persisted – despite an awareness among many program managers and consultants that outsourcing food services was not necessarily more cost-effective than self-operating – suggests that there are other incentives at work.

My interviews pointed to specific financial incentives that act as an important motivation for organizations to outsource food services. Many of the clients at outsourced universities and tech companies that I spoke to were well aware of the added costs and inefficiencies of working

with a contractor; some found them to be frustrating but others were less concerned. All seemed to agree, however, that financial incentives made it worthwhile to continue outsourcing.

Financialization refers to the growing importance of the financial industry and the growing importance of financial tools and processes across the economy (Arrighi, 1994; Fligstein, 1993; Fligstein & Shin, 2005; Krippner, 2005; Mader et al., 2020; van der Zwan, 2014). A growing volume of research has documented the rise of financialization's influence over firms' production decisions, and its consequences for labor market outcomes (Appelbaum, 2017; Bernhardt et al., 2016; Denk & Cournède, 2015; Dünhaupt, 2014; Eaton et al., 2016; Fligstein & Goldstein, 2015; Godechot, 2016; Huber et al., 2020; Lazonick, 2014; Lin & Tomaskovic-Devey, 2013; A. Roberts & Kwon, 2017; Zorn, 2004). Several management studies have identified a link between financial metrics and outsourcing as well (Brandel, 2005; Bryce & Useem, 1998; Calantone & Stanko, 2007; Espino-Rodríguez & Padrón Robaina, 2005; Lynch, 2004; Madigan & Mandel, 2003).

In this case study, we can see the role of financialization in shaping the market for outsourced food services in two distinct ways. Tech companies are choosing to contract their cafeterias because of the financial metrics by which financial stakeholders assess their performance, despite the real possibility that contracting results in increased costs and reduced quality and efficiency for the client. This suggests that shareholder conceptions of value and financial sources of income are important factors for production decisions related to food services (and perhaps other services) in the tech industry. Universities that choose to contract their cafeterias are often doing so because the large food service contractors are able to act as a financier to the school. The client is making its production decisions around food services based on their need for expanded access to capital investment, and the contractor earns revenue on the

interest from the loans it provides to clients, in addition to the revenues earned from the contract itself.<sup>18</sup>

## **Conclusion**

The conclusions I've drawn from this case study should not be interpreted as a portrait of an industry in which contractors offer low-quality products and services at an extensive markup, across the board. While some clients that I interviewed are dissatisfied with their food service provider, many feel satisfied with – and some are very proud of – their contracted cafeterias. Additionally, I spoke with clients and consultants who had worked successfully with contractors to improve programs that clients felt were under-performing. The purpose of this case study is to interrogate the way that the market for food services works, and explore the factors that influence decision-making by clients, contractors, and self-operators. Doing so helps to shine light on the business models that are used by different actors and the kinds of financial incentives that are guiding operational practices. The findings of this research enrich our understanding of the process of domestic outsourcing by demonstrating the importance of financial incentives in driving and shaping the market for outsourced food services, and showing how these incentives can play out differently in different client markets. These findings expand our theoretical framework for understanding domestic outsourcing by considering the way that it intersects with another important trend in the U.S. economy: the increasing role of the financial sector and financial tools in shaping organizations' decision-making.

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<sup>18</sup> It is important to note that production decisions of the contractors are in driven in large part by the interests of the financial stakeholders of these companies, as well.

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