

Introduction

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Outsourcing, or a shift of activities performed within a company to its suppliers, has become widespread. This strategic choice has become increasingly available not only to large companies and multinationals but also to smaller ones. Production networks in many sectors have thus become increasingly fragmented. Outsourcing has also been pursued by public sector organizations. Cutting labour costs by lowering pay, increasing work intensity and/or shifting flexibility costs to workers are just some of the motivations for outsourcing. But it can also be used to circumvent employee representation and collective bargaining systems within companies, and labour market regulations in general. Though such intentions may not drive the bulk of outsourcing decisions, any change in company boundaries is likely to impact employment, working conditions and industrial relations in the value chain. This edited volume focuses on the dynamics of outsourcing in Europe from the perspective of employees. In particular, it considers one insufficiently studied aspect: the impact of outsourcing on working conditions and employment relations in companies. The book also collects lessons learned from the efforts of employees and trade unions to shape outsourcing decisions, processes and their impact on employment and working conditions.

Decisions to 'buy rather than make' may be motivated by a number of concerns. The advance of information and communication technologies (ICT) has enabled firms to coordinate and control interactions across markets and geographies to an extent that was previously impossible, too risky or prohibitively expensive. Management consultants have long advised firms to focus on 'core competences' and outsource other activities (e.g. Domberger 1998). Globalization and the creation of the Single European Market may have indeed made it more profitable for firms to specialize in what they can do best (e.g. Meyer 2006). Financialization, including executive compensation based on stock options, has put pressure on management to maximize short-term returns through cost savings (e.g. Milberg and Winkler 2013). Finally, as discussed in Chapter 5, liberalization and privatization have triggered cost competition and restructuring in previously protected sectors such as telecoms.

The advantages of outsourcing can, from a company perspective, include the pursuit of higher specialization, access to external expertise and other sources of strategic differentiation, quality improvements and operational cost savings. These gains, as discussed in Chapter 2, need to be weighed against the risks of losing strategic flexibility and control over knowledge critical to a company's strategic advantage. Outsourcing is also likely to generate additional coordination and monitoring costs. Moreover, many costs only become apparent in the implementation phase. These include a sub-optimal use of human resources and the need for new processes to monitor and coordinate suppliers.

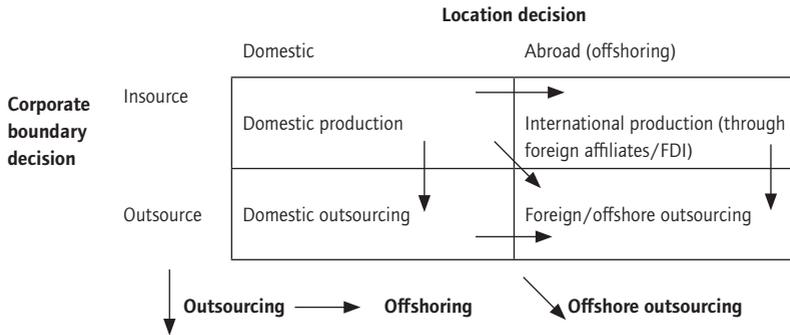
Outsourcing and a company's boundaries

The debate on the nature and impact of outsourcing is complicated by the fact that it refers to a number of related, yet distinct, processes affecting a company's boundaries. First, outsourcing may involve vertical disintegration of the value chain when a company focuses on a narrower segment of activities and transfers such activities as production or distribution to other companies. This book, however, focuses mainly on the outsourcing of primary value creation activities within core business areas (so-called strategic outsourcing). This also includes the unbundling of business support processes such as IT and customer services. It can also involve relying on workers hired through labour-market intermediaries (agency workers) or on the self-employed to perform core activities.

The second distinction is that between outsourcing and offshoring (see Table 1). Outsourcing refers to externalizing in-house activities to suppliers (the 'make or buy' decisions) who may be located in the same country (or even on the same production site) or abroad. Offshoring refers to the relocation of activities to other (lower-cost) countries, though the foreign suppliers may be part of the same company as the outsourcer.

Popular attention has for the most part been devoted to offshoring processes as they involve a direct transfer of jobs abroad. The impact of offshoring, or offshore outsourcing, on employment, inequality and productivity has been studied extensively, with most studies showing an inequality-enhancing effect, consistent with the theoretical expectation that trade will increase the relative wages of high-skilled workers. There is also overwhelming evidence from the United States (US) and Western Europe of the negative impact of offshoring on low-skilled workers in

Table 1 Outsourcing and offshoring



Source: adapted from Sako (2005) and Olsen (2006)

terms of pay and employment. Some recent papers also show a negative impact on high-skilled workers, especially in services,¹ while the evidence regarding the overall demand for labour remains inconclusive. The productivity effects of offshore outsourcing reveal no clear pattern, with somewhat greater positive effects in services (Olsen 2006).

Both outsourcing and offshoring impact the effectiveness of existing worker representation structures and collective bargaining institutions and hence the ability of workers to exert control over their working conditions. While outsourcing involves the transfer of activities and workers outside the scope of company-level employment relations institutions, offshoring may go one step further, involving a shift to a different regulatory regime. Moreover, transnational employment relations institutions, such as European works councils (EWCs) and transnational company agreements where they exist, become relevant in the case of offshoring to foreign subsidiaries. At the same time, the effects of outsourcing and offshoring in terms of their implications for industrial relations and the applicability of labour market regulations become blurred when the former is used to import workers from abroad (see Chapters 3, 7, 9, and 10). As discussed in Chapters 7 and 10, subcontracting to transnational labour market intermediaries has been used to contest host country employment regulations and to arbitrage between different regulatory

1. For a detailed overview, see Winkler (2013).

environments (on social dumping, see also Bernaciak, 2015). The challenges involved in integrating migrant workers into national industrial relations structures have impacted their relevance (see Chapters 3 and 9).

The impact of outsourcing and offshoring on working conditions and industrial relations has featured less prominently in outsourcing/offshoring research. In the US context, Weil (2014) recently demonstrated that businesses, and 'lead firms' in particular, have used subcontracting, franchising and supply chain management to cut labour costs by ridding themselves of the responsibilities inherent to managing their workforces (see also Kalleberg 2013; Warhurst *et al.* 2012, arrived at similar findings on the basis of evidence from across the world). In the European context, it has been argued that the negative impact of outsourcing and offshoring on working conditions may be exacerbated by a weakening of worker representation structures and by concession bargaining (e.g. Doellgast and Greer 2007; Flecker 2009). Indeed, as a number of chapters in this volume show, outsourcing decisions may be motivated by the attempt to circumvent company-level employment relations institutions and/or national labour market regulations.

The factors and processes that condition and mediate outsourcing and offshoring outcomes, including the role of institutions and actors, remain understudied, making it difficult to draw lessons for policymakers and practitioners (see also discussions of literature in Chapters 1 and 2). Milberg and Winkler's (2013: 190–204) analysis of OECD countries in 2000–2008 showed that public expenditure on labour market protection increased the positive impact of offshoring on share of employee compensation in gross value added (labour share), and that employment protection legislation had no effect in this context (but it had a negative impact when the period from 1991 onwards was included). Their analysis also showed that offshoring is associated with less economic insecurity (and a higher labour share) in countries with more supportive labour market institutions (i.e. the 'Rhineland model', including Belgium, German, Austria, and, Sweden and the 'flexicurity model', including Denmark, Finland, and the Netherlands). Union density had positive effects in all their models except for the Mediterranean countries. The positive effect of unions appeared stronger, the more flexible labour market intuitions were.

Finally, outsourcing and offshoring may directly impact working conditions and job quality by affecting the way labour processes are organized.

Table 2 Outsourcing and integration/transformation of the labour process

		Organization of the work process	
		Do not transform	Integrate/transform
Corporate boundary decision	Insource	In house, disintegrated	Integrated service provision (in-house service/activity centres)
	Outsource	Outsourced, disintegrated	Outsourced integrated services

Source: adapted from Gospel and Sako (2010)

In this context, a distinction between outsourcing and the integration of work processes is useful (see Table 2). It is particularly relevant for understanding the outsourcing of such business services as IT or the creation of shared service centres (business process outsourcing).² As shown in Chapter 4, profound transformation of the labour process is required to allow certain tasks to be separated from others in the sending location. However, in their aim to achieve economies of scale and/or specialization benefits, companies may decide to centralize some activities without actually outsourcing them. This can have a similar transformational impact on work processes and job quality as outsourcing itself, whereby activities remain in-house although possibly shifted to another location. At the same time, companies may outsource, and shift, activities such as HR-related processes without necessarily integrating them. Such separation is also likely to affect labour processes and job quality, and may represent a first step in creating an (external) integrated services centre (cf. Gospel and Sako 2010). However, some tasks are likely to remain fragmented even after an integrated service centre has been created (see Chapter 4).

This volume starts by providing an overview of the extent and dynamics of outsourcing. The second part focuses on the impact of production network fragmentation on working conditions in a range of sectors characterized by a high prevalence of outsourcing. The third part considers experience with worker organizing in these fragmented production networks. Finally, the volume includes comments on the outsourcing

2. With the same logic and similar implications, one could also make a distinction between offshoring and the integration/transformation of the labour process.

challenges discussed in this book from trade unionists who took part in the project's final workshop.

The dynamics and nature of outsourcing

Outlining the outsourcing landscape in Europe, Stefan Kirchner in Chapter 1 compares differences in the extent of outsourcing in EU Member States and between individual economic sectors. The analysis draws on the 2013 European Company Survey, a data set that allows a unique comparison across all Member States. It shows that the extent of outsourcing is high in Nordic countries and the Baltic States and low in Central and Eastern Europe, whereby the latter seems to remain primarily a European offshoring destination. The differences between countries remain even when controlled for company size, skill content and industry composition. In fact, outsourcing levels across sectors in a given country are closely related. The manufacturing, ICT and construction sectors tend to outsource the most. The overall picture is thus of highly country-specific outcomes, apparently shaped by national institutions and regulations. These, for instance, structure incentives for companies in terms of access to alternative flexibility arrangements. The considerable differences in the extent of outsourcing between countries also provide opportunities for trade unions to learn from the experience of countries more exposed to the outsourcing challenge.

What are the implications of outsourcing decisions for company performance? Chapter 2 by Luca Giustiniano, Lucia Marchegiani, Enzo Peruffo and Luca Pirolo reviews management research addressing this question, paying particular attention to the impact of outsourcing on a company's human resources, a key aspect conditioning the success or failure of outsourcing decisions. The authors point to a management paradox in which organizational change, including restructuring and outsourcing, is typically assessed by considering short-term financial and economic performance. However, outsourcing decisions are usually motivated by structural and strategic gains that can only be assessed in the long term. Moreover, any such gains can be cancelled out by strategic and organizational problems, again only assessable over a longer timeframe. Financial market reactions to outsourcing decisions tend to reflect the perceived transaction risks involved. However, transactions risks related to longer-term organizational effects are difficult to estimate *ex ante*. The costs related to organizational change and human resource utilization

are particularly difficult to anticipate and are, in the short run, *de facto* hidden. The organizational and human resource risks involved in outsourcing can be addressed through participating employees and their representatives in restructuring decisions. The authors conclude that effective employee involvement can create the conditions necessary for achieving satisfactory outsourcing outcomes in terms of enhancing company competitiveness.

The last chapter in the first part offering a birds-eye view of the dynamics and implications of outsourcing across sectors looks at the 'double mobility' phenomenon where mobile capital employs mobile workers. The chapter by Carina Altreiter, Theresa Fibich and Jörg Flecker argues that 'double mobility' is a particular challenge for employment relations. In this context, the threat of relocation gives employers the upper hand. At the same time, labour mobility solves access to skills and hence undermines the 'power of the place', leaving workers divided and willing to accept inferior conditions and pay. Such a configuration facilitates 'hyper-Taylorist' work practices, extensive working hours, extended control over workers and extreme numerical flexibility. As also discussed in Chapter 7, 'double mobility' is enabled by outsourcing to labour-market intermediaries providing access to workers from outside the location. These also 'immobilize' foreign labour through specific accommodation arrangements. The author concludes by discussing the difficulties in organizing mobile workers, pointing to their power in exercising the exit option and linking organizing opportunities to their settling in the locality. Chapters 9 and 10 focus specifically on organizing migrant workers.

The impact of outsourcing on workers

Opening the part on the impact of production network fragmentation on working conditions, Monique Ramioul and Geert Van Hootegem analyze the impact of relocation on labour processes and job quality in both sending and destination locations. Their sample presents a variety of labour processes, ranging from highly-skilled knowledge work to semi-skilled administrative work. These were relocated and integrated to improve efficiency and productivity. The analyzed functions include order processing, customer service and IT. However, in none of the cases were entire functions relocated. Instead, workflows had to be redesigned to allow decoupling. Additional functions then had to be introduced to

deal with co-ordination problems. Few individuals in the sending location were unaffected. Relocations negatively impacted job quality and increased the risk of stress in both the sending and destination locations. The new labour processes entailed less satisfying job content with fewer opportunities for learning.

In the telecommunication sector, outsourcing followed the introduction of market competition and the privatization of the incumbent firms. In Chapter 5, Virginia Doellgast and Elisa Pannini analyse the impact of outsourcing call centres in major telecommunications firms in Denmark, Sweden and Germany. The outcome was declining pay and working conditions for lower-skilled workers and ones who were more easily outsourceable. The chapter links the decline in job quality to two related trends: first, jobs were shifted to subcontractors with weaker collective bargaining institutions; second, benchmarking and concession bargaining exerted downward pressure on pay and working conditions in the incumbent firms.

Outsourcing has affected not only the private sector but also public administration. As Anna Mori argues in her study of outsourcing by local governments in Italy, the United Kingdom (UK) and Denmark, while decisions to outsource were driven by different factors, they shared the underlying rationale of trying to circumvent public sector collective agreements and job protections. As a consequence, those transferred experienced a deterioration of employment terms and conditions. Encompassing employment relations institutions (social dialogue and collective bargaining) and strong legislative protection for public employment cushioned working conditions in Denmark and Italy, though did not prevent increased workload. The transposition of the EU Business Transfers Directive (Council Directive 2001/23/EC) was particularly important in the UK where domestic institutions proved to be weak. The directive helped maintain working conditions during restructuring.

Hiring workers through subcontractors has become the way construction, shipbuilding and the meat industry operate. These sectors are also characterized by a reliance on posted and migrant workers. Based on evidence from Germany, the Netherlands, Finland and the UK, Nathan Lillie and Ines Wagner argue in Chapter 7 that subcontracting to transnational service providers has been used to contest host country employment regulation and to arbitrage between regulatory environments. Though the posting of workers is regulated by EU legislation

(Directive 96/71/EC), it has become controversial following a series of decisions by the European Court of Justice which, among others, effectively limit the right to strike at foreign service providers. The respective regulations, de jure, confine regulatory arbitrage to exploiting differences in social insurance costs. However, as documented by Lillie and Wagner, enforcement of rules is hindered by the complicated mix of home and host country legal standards. Violation is thus hard to detect and the enforcement options of labour inspectorates are limited. Posting, as well as other forms of migrant worker employment, thus commonly involves circumvention of the Posted Workers Directive.

Lessons from organizing peripheral workers

What can be learned from the efforts to establish employee voice mechanisms to tackle the negative impacts of outsourcing on working conditions and job quality? Virginia Doellgast, Katja Sarmiento-Mirwaldt and Chiara Benassi provide lessons from the telecommunications industry in the UK, Italy, Sweden and Poland. Their chapter focuses on trade union campaigns to improve or maintain the pay and working conditions of workers – including those employed through temporary agency and freelance contracts – involved in the restructuring of call centres and technician and IT services in incumbent operators. Successful organizing involved creative campaigns across the whole production network. The historic bargaining power of unions could be relied on in the telecom incumbents to negotiate limits on externalizations. Strategies included partnerships to improve productivity as well as protests and organizing to generate additional externalization costs through negative publicity and labour conflict. Successful campaigns extended collective representation and legal protection to externalized groups. This required mobilizations to organize the peripheral workers and campaigns to close loopholes in national legislation. In the end, some campaigns proved to be more effective than others. However, variation in outcomes could not be attributed to any choice of unions to represent peripheral workers (or not). Successes could be explained by the possibility of accessing encompassing labour market institutions (i.e. regulations on equal pay and working conditions for peripheral workers) and the ability to develop member mobilization across the production network.

Parcel delivery is a particularly challenging environment for worker organizing, with fragmented collective agreement coverage, the prevalence

of practices circumventing existing regulations on self-employment, and a reliance of workers who are difficult to reach through traditional means of trade-union organizing. Chapter 9 by Bettina Haidinger analyses these challenges in a number of European countries, revealing cases of resistance even in what might seem as most unlikely contexts. To succeed, targeted organizing had to be developed to reach migrant workers, the long-term unemployed and cross-border commuters. The self-employed workers seemed indeed sceptical, at least initially, about trade union organizing, though they were interested in collective action. There was thus potential for trade unions to get involved in their (self-)organizing, but they had to adjust their standard agendas and articulate the actual demands of the peripheral workers. Public campaigns also proved to be an effective strategy. The successful solutions included the use of collective agreements to re-regulate employment relations by insourcing (albeit at the cost of concessions) and public policies such as minimum standards, rigorous checks on self-employment, and extended contractor liability for offences against national insurance/labour law as found in the construction or cleaning sectors.

The theme of organizing migrant workers is developed further in the study by Sonila Danaj and Markku Sippola. Drawing on extensive evidence from Northern Europe and the US, the chapter takes stock of the lessons learned by trade unions successfully organizing migrant and posted workers in the construction sector. The repertoire of successful strategies targeting migrant workers found in the chapter is similar to that of organizing non-migrant workers, though the strategies need to appreciate their particular culture, interests and work situation. In turn, strategies towards posted workers are similar to those towards long-term migrants. However, to function effectively, this mobile and transnational sector requires a transnational organization to be developed for protecting posted workers' rights.

Beyond the dilemmas of concession bargaining

Outsourcing and offshoring have often allowed management to obtain concessions in collective bargaining by threatening job losses. In this context, trade unions chose to protect core workers by allowing the use of peripheral workers, typically employed at inferior conditions with lower employment protection. With the use of agency workers as a flexibility buffer now widespread in the automotive sector, the chapter by

Chiara Benassi evaluates experience with the use of peripheral workers in the German automotive sector, an institutional context that should be relatively favourable to protecting core workforce. Benassi, however, argues that the concessions ultimately backfired on core workers because of the introduction of cheap and flexible labour in the companies. In the long run, the presence of workers employed on inferior terms threatens agreed standards and the future existence of the permanent workforce. The alternative strategy is to recruit agency workers and bargain on their behalf. The German experience shows that a public shaming strategy can be helpful in this context. To be effective, the inclusive strategy also requires stronger sectoral bargaining, international representation bodies such as the EWCs, and international company agreements. These transnational institutions need to be used to set common standards and limit the room for concessions related to workplace competition.

The theme of concession bargaining is further developed in the final chapter by Nadja Doerflinger and Valeria Pulignano. It compares crisis-related collective bargaining and its effects on individual groups of workers – including core, fixed-term and agency workers – in MNC subsidiaries in the metal sector in Belgium and Germany. The outcomes were mediated by the skill levels of the workforce, with concessions more likely where low- and medium-skilled workers were involved. Agency workers were protected in Belgium by strong sectoral bargaining institutions (including a lack of opening clauses). Moreover, the study highlights the importance of European Framework Agreements empowering works councils at company level to negotiate on more security for the workforce. The agreement in question also helped develop transnational bargaining coordination, ensuring communications between union and employee representatives.

Concluding remarks

The evidence presented in this volume emphasizes that effective worker involvement in outsourcing decisions, planning and implementation is a key precondition for satisfactory outcomes for workers. Moreover, their involvement is crucial for the success of the outsourcing processes from the perspective of the company. Effective worker voice would also help prevent abuse of the Single Market institutions and would also help tackle social inequalities related to social dumping. Worker voice thus in many respects represents a collective good. However, as this volume

shows, effective worker involvement institutions cannot be taken for granted in the context of changing company boundaries and increasing production network fragmentation. Trade unions thus have a key role to play in ensuring that the institutional base for effective worker representation remains relevant. While strategies focusing on protecting core workers have had only limited success, integrating peripheral workers into effective organizing has been a challenge. The lessons from the chapters in this volume highlight the importance of innovative strategies targeting peripheral workers.

At the same time, the successes discussed in this book typically combine effective organizing with a reliance on supportive institutions and regulations at national and European levels. For instance, strong sectoral bargaining institutions proved effective in mitigating the effects of workplace competition. Ultimately, however, effective European worker participation institutions are needed to address such competition, as it commonly happens in a cross-border manner. The increase in outsourcing also makes the effective regulation of agency work, self-employment and the transfer of undertakings particularly relevant. Such regulations are an important resource for trade unions and employee representatives. Experience has also revealed that the effective enforcement of such legal standards often requires well-oiled worker voice institutions. Though agency work and the transfer of undertaking are regulated at EU level, the evidence presented in this volume shows that these regulations have failed to consistently guarantee worker rights. The degree to which the principles of the directives have been transposed in individual Member States varies significantly. At the same time, UK experience with the transposition of the Transfer of Undertakings Directive, discussed in Chapter 6, shows that the directives may have made a positive difference in some more liberal countries.

An important aspect of outsourcing discussed in this volume is that it facilitates the employment of migrant labour. Employment through labour market intermediaries has become a standard in many sectors, most notably construction. However, the formation of the pan-European labour market has not been matched by equal regulatory and enforcement mechanisms able to effectively protect workers' rights. Extension of chain liability provisions could address some of these regulatory failures. Moreover, effective worker voice in the sectors with the most mobile labour markets requires the establishment of a transnational trade union organization.

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