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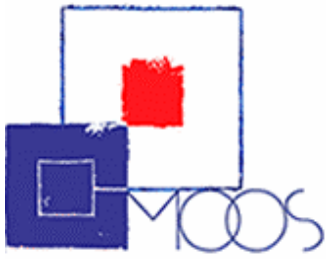
Highlights from the MOOS tracker

- **Emerson Energy Systems** in Sweden outsources 3,000 employees to Slovakia and China.
- Ukraine seems to be an interesting labour market for software programmers: two Danish companies from the city of Herning are moving IT jobs to Kiev. The IT services company, **Ciklum**, will move 90 jobs for software programmers and **Celenia** will move 130 jobs. Both companies choose Kiev as their destination.
- Obviously, **IBM** is launching an EU-wide restructuring. The company will lay off 825 jobs in France. Given the ongoing restructuring in the French subsidiary, in total almost 1,000 jobs are at stake this year. Also in Sweden IBM will lay off jobs, 500 in this case, related to the closing down of operations in five Swedish cities. It is not yet clear whether these Swedish jobs will be moved abroad; the company says that 'co-ordination of operations in view of profitability is the major objective and this does not exclude international locations'. Finally, in Germany, IBM closes down two sites (Hanover and Schweinfurt). This implies the layoff of 600 people.
- **McAfee International BV** is at the same time focusing on its core business, antivirus software and computer protection, and deploying cost saving restructurings. Since 2003 several offshore outsourcing operations have been set up. In total almost 100 jobs have already been eliminated in the Dutch subsidiary. Now the European department of Finances, Logistics and IT support (customer support) is moving from the Netherlands to Cork in Ireland, involving 80 jobs. Main reasons are favourable tax regulations and labour laws (including the social dialogue regulations) in Ireland. Unions are only involved to discuss the redundancy schemes after the decision was taken.
- **EDS** will close 21 call centres in US (17) and Europe (4) and delocalise the work to India by the end of 2006. It is not yet clear how many employees will lose their job: the company says the job losses will be realised through attrition.
- The bank **HSBC** in the UK earlier announced that 4,500 jobs will be delocalised. Two thousand jobs have already been offshored from the UK this year; a further 1,000 will be relocated next year. Now the union Amicus fears that even more jobs will be lost and moved to the bank's back-offices in Asia, where already 13,000 workers are employed, because the company announced the doubling of its back-office workforce in Asia in three years.

Why is it so difficult to define offshore outsourcing?

When do we speak about 'offshore outsourcing'? This problem of definition is important when interpreting statistics on the extent of the phenomenon. But a clear understanding is equally important for unions, when they are confronted with corporate strategies including 'offshore outsourcing'. There are several factors causing the definition trouble.

- 'Offshore' may for some people still refer to oil drilling platforms, but when related to outsourcing it suggests that there are two separate 'landmasses' involved with a sea in between. The origin of the term is related to the US and the UK where the current policy debate on relocation was launched. If businesses are relocated to Asia, they can indeed speak about 'offshoring'. Strictly spoken, relocations from Europe are only offshore when the activities are moved to the US or the UK and Ireland! Nevertheless, the term 'offshore' has gradually been taken over also when speaking about relocations from European firms to Asia and it is now usually associated with 'going abroad'. New terms related to 'offshoring' have meanwhile been introduced, such as 'nearshoring' referring to relocations within Europe and 'onshoring', meaning attracting foreign workforce in the company. Firms more and more speak about 'global sourcing' suggesting that the whole world has now become a marketplace for selling and buying goods and services.



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Although the term 'offshoring' is becoming common sense, it is more exact to speak about 'international' versus 'domestic' outsourcing. When a specific destination area is referred to, why not call it 'Asia sourcing' or 'EU sourcing'?

- The second term of the expression is **outsourcing**. As such, this is quite clear: outsourcing is when a third party is involved. However, several problems hamper an unambiguous understanding. First, the structure of firms, especially of MNEs, is more complex than ever: mergers and acquisitions, joint ventures, networking of firms, crossed ownerships, etc. do not make it easy to clearly understand what units are parts of the company or wider group and what are not. Hence, when do we define activities as being 'outsourced' to a third party? In general, control - ownership of a minimum percentage of the company shares - is the decisive criterion to use the term outsourcing versus 'selling from "in house"' or within the group, also called **insourcing**. When referring to the acquisition of services or goods both from outside and from within the company or wider group, the more general term '**sourcing**' is used. In view of developing union responses, it depends on the perspective you take whether the operation is 'felt' like outsourcing or not: the perspective of the local establishment may be different from the perspective of the whole group.

When measuring outsourcing, it is important to clarify the ownership and control structure. What is experienced as 'outsourcing' or not may differ from the perspective: establishment, company or group.

For the sake of measuring the extent of offshore outsourcing in a longitudinal and comparative perspective, the OECD has put forward different definitions related to offshore outsourcing.

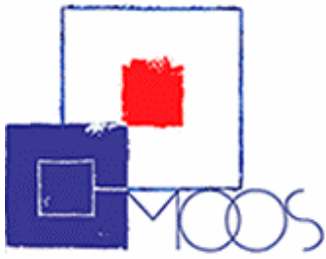
Figure 1. Offshoring, outsourcing and insourcing – An illustrative matrix

		Location	
		National	International
Control	Outsourced	Domestic outsourcing	International outsourcing Offshoring
	Insourced	Domestic supply	International insourcing Offshoring

Source: van Welsum D. & Vickery G., *Potential offshoring of ICT-intensive using occupations*, OECD, DSTI/ICCP/IE(2004)19/Final, p. 5

The OECD frame gives a clear overview: (goods and) services can be supplied internally (i.e. insourced) or by an external supplier (i.e. outsourced), and they can be supplied from within the country (nationally) or from another country (internationally).

- However not all problems are solved with the OECD definition. The next trouble is that the actual operation is seldom a single, isolated event. In practice, outsourcing of activities can be part of a more comprehensive company restructuring. It can for instance be preceded by the establishment of profit units or Shared Service Centres, specialised profit units that serve the whole firm and may eventually provide the same services to external companies. Outsourcing of certain activities may also be combined with insourcing of other activities, both moves being part of the same corporate strategy of focusing on core businesses or on the spatial concentration of activities. For the purpose of business statistics it may be sufficient to limit the outsourcing definition to the trade of goods and services. In view of fully understanding of both the drivers and the impact of outsourcing events and in view of developing adequate responses, it is important to look at the wider corporate strategy. The problem here is the difficulty to track insourcing in trade statistics.



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Given the impact on the workforce of corporate restructuring accompanying or preceding outsourcing, it is a risk to consider only outsourcing in the strict sense and not taking into account the wider corporate strategy.

- Finally there is a time perspective involved in outsourcing. It is not always easy to identify at what exact moment in time activities are effectively outsourced to a third party. The word suggests that activities have been in house before and are now being provided by a third company. In addition, outsourcing is mostly a gradual process: it starts with the outsourcing of a limited package of delineated tasks, and gradually more activities can be added to the service package until a full business process is outsourced. Thirdly, activities may be moved again by the provider to other subcontractors in a second or third step. The question is: when does the outsourcing actually stop? This dynamic aspect of corporate strategies hampers a clear delineation of the outsourcing process.

Outsourcing suggests a move of activities when comparing two different points in time. It is important to clarify this time frame. Once a long-term relationship between outsourcer and provider is established, outsourcing becomes trade.

An illustrative offshore outsourcing case: ABN AMRO bank

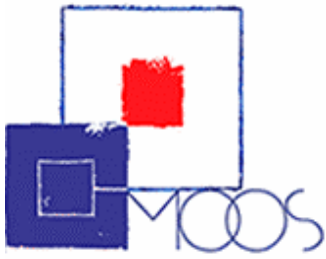
Our Dutch [MOOS](#) reporter provided detailed information in the [MOOS](#) questionnaire about the on going outsourcing in [ABN AMRO](#) bank in the Netherlands.

The ABN AMRO bank has started to speed up the outsourcing of IT operations. Whilst the IT function was long regarded as being part of the core business, now the management has a more restricted vision of what is core for the bank and what not, what activities provide competitive advantage and what not. All non-banking functions will sooner or later be outsourced. Also cost reduction and improvement of the quality of the service are major objectives of the ongoing restructuring.

Outsourcing of IT began in 2003, when the IT jobs of the Business Unit Wholesale have been outsourced to EDS. Now, there are two further projects targeting IT functions: the Infrastructure Unit and in Development and Maintenance. Here, 1,200 of the 1,600 jobs from the Dutch IT departments are affected. The 400 remaining employees will partly be transferred to different business units. From the 1,200 jobs that are lost, 800 will be offshored to India directly; the other 400 will be outsourced. Both operational employees and management staff of the departments will have to look for another job. All affected employees are high-skilled IT professionals.

In the Netherlands, the involvement of the trade unions and the works council in corporate restructuring, such as outsourcing is a legal condition. In a so-called '[employability agreement](#)', covering the period 2004-2008, the social partners of ABN AMRO have agreed on how to manage the impact of outsourcing. The agreement includes several strategies, such as redeployment to other jobs in the establishment after retraining in the internal 'employability centre'. Next, it is agreed that employees will be moved to the new outsourcer company. The conditions of this workforce transfer are also part of the criteria for the final choice of outsourcer. The employability agreement involves a right for an outsourced employee to return two years after the transfer to the destination company. Experiences with the first outsourcing operations, initiated in 2003, showed that approximately ten percent of the employees returned to the bank, mostly older workers. For the current outsourcing plans the unions fear that it will be difficult to find sufficient new jobs for the affected workforce.

The involvement of the unions in outsourcing and offshoring projects is regarded by the management as an important dimension in the whole operation, provided they are represented in the affected units.



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Read for you: Networks and the social dialogue

Multinationals **concentrate** business activities in specialised sites all over the globe and at the same time they **decentralise** other activities to be close to the market. For other business functions permanent relationships with third partners are established, both with large internationally organised **service providers** and with small **local subcontractors**. The company finally trades with still other companies, acting as **flexible buffers** for balancing changes in the production volumes. At the end, the global picture of the company's structure is becoming very complex.

A recent European research project, called **RE-LIER**, has tried to describe different forms of **company clusters and networks** and has investigated the impact on the social dialogue. One of the main messages is that the actual economic power at the level of the global network remains untouched while at the level of each individual component of the network, it is harder than ever to have impact on the decision making processes. Because of the use of ICT, even the factual power and control of the local production processes is no longer automatically in the hands of the local hierarchy. While the economic power is location independent, the legal power, in particular with respect to the labour regulations, is still location dependent.

The RE-LIER project identified the problems for a sustainable social dialogue system in this '**networked economy**'. With case studies they illustrate how sometimes new and innovative modes for social partnership may try to overcome the problems for the local workforce. More information on <http://www.relier.org>.

Monique Ramioul