Outsourcing and the fragmentation of employment relations: the challenges ahead

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The past decade has seen a significant growth in organisational restructuring and, in particular, the use of outsourcing in both public and private sectors. The resulting fragmentation has created a complex set of challenges for existing employment relations frameworks and the management of workplace relations in the future. In the last of the future of workplace relations discussion paper series, the authors identify the interrelated factors driving this change and the impact on day-to-day relations in Britain’s workplaces.

The paper begins by exploring the growth of outsourcing and the factors that are driving it, including standardisation and the rise of telemulated work. It charts the growth of outsourcing: in the public sector; in business services; and in the HR function itself. It then considers the impact on job security, contractual terms and conditions, equality, autonomy and the experience of work, new skill requirements, the management of HR practices across organisational boundaries, employee voice and the role of trade unions. And finally, it asks what will be needed for the development of a coherent system of employment relations in the future.
**Introduction**

In recent years, most organisations, whether in the private or public sector, have undergone major organisational restructuring. This has been driven by several inter-related factors. These include the migration online of services that were previously delivered face-to-face, changing attitudes to customer service, an increasing use of standardised software and systems, rationalisation of processes, the internationalisation of business service delivery, global and national financial pressures, and government policy.

One outcome has been a growth in outsourcing of services as well as production activities, including the outsourcing of ‘core’ functions. In many sectors, value chains have become more complex and volatile, with activities being shifted both contractually and spatially as they are subjected to outsourcing to or from companies that may themselves be undergoing restructuring through mergers or acquisitions (M&A) or changes in global sourcing strategies.

As a result of these developments, growing proportions of the workforce may be subject to changes in employment. This may involve an outright change of employer through, for example, a transfer of personnel in an outsourcing or merger or acquisition situation; or a radical change in job description such as the conversion of a formerly face-to-face function to a call-centre model.

**Value chain definition**

The term ‘value chain’ is used to describe the relationship between the different processes required to produce a final product or service. Each step in the value chain involves receiving inputs, processing them, and then passing them on to the next unit in the chain, with value being added at each stage. Separate units of the value chain may be within the same organisation (in-house) or spread between different companies. When a firm is described as ‘moving up the value chain’ this means that it has succeeded in capturing some higher value-added processes, whilst outsourcing more routine activities, from which less profit can be made, to other companies lower down the chain.

These trends taken together mean that we can no longer take for granted a model of employment in which the workers at any given workplace are employees of the same employer, or have the same terms and conditions of employment.
These developments have significant effects on employment relations including the role of HR, employee experience of work, employee voice and the role of trade unions and collective bargaining. This paper summarises recent developments in this field before going on to outline current trends and highlight the issues that are likely to have the greatest impact on workplace relations in the coming years.

**The Growth of Outsourcing**

Outsourcing, or subcontracting, is of course nothing new. As production processes have become more complex, and companies larger and more international, supply chains in manufacturing have got longer. There has been a steady growth in outsourcing, including international outsourcing, in production industries since at least the 1960s. The outsourcing of services is rather newer. Indeed, for many functions it only became feasible when computer technology reached a stage in its development that allowed digitised information to be transmitted cheaply and instantaneously between different organisations.

The spread of information and communications technologies (ICTs) is thus an important precondition for outsourcing of any functions involving the processing of information. However this on its own is not the only precondition. Another important precondition for outsourcing is that tasks should be standardised or capable of being measured accurately by means of performance indicators, and this is something which affects all types of outsourced roles, from cleaning and catering to professional services.

**Standardisation – a precursor to outsourcing**

An important driver of the standardisation of processes, particularly in the service sector, has been the increasing use of generic software packages and systems. This has made the systems run by different organisations increasingly interoperable, making it possible to switch tasks seamlessly between locations. Standard systems require standard skill-sets and this development has been accompanied by a huge growth in skill certification, accredited by global corporations such as Sun, Oracle, Cisco, Microsoft, SAP or other IT companies, enabling workers to enter a transparent global job market in such a way that their skills are increasingly interchangeable with those of others and clearly understood by employers.

Agreed quality standards are another requirement and, at a formal level, there has been a dramatic growth in the
standardisation of business processes, tasks, skills and qualifications both nationally and internationally. For instance, in 2010 alone, the International Standardization Organization (ISO) published 1,313 new standards and had a further 1,900 new standards under development. Over 700,000 standards are registered on its WSSN database (ISO, 2010). Such standards play an increasingly important role in the development of specifications for service level agreements (SLAs) and remote management, by setting down clear, transparent protocols and expectations for all the processes involved.

The development of international standards for processes has run in parallel with the growth in standard certification of skills. To give just one example, it can be noted that a single Microsoft certificate, the Microsoft Certified Professional (MCP) was held in Spring, 2011 by 2,296,561 workers around the world. The development of such international qualifications has proceeded in parallel with a more general trend towards certifying skills and increasing transparency in order to encourage the transferability of standards. This can be traced back in England and Wales at least to the establishment of NVQs in 1986, the number of which grew to 1263 before they began to be replaced by the newer QCF, Qualifications and Credit Framework.

**Growth of telemediated work**

Closely associated with the trend for standardisation is a trend for work to be restructured to take advantage of the potential of ICTs to substitute voice or email communication for face-to-face or paper-based transactions. This includes the ‘callcenterisation’ (Huws, 2009b) of many functions that previously involved communicating with business customers or the general public by more traditional means, and the pooling of disparate activities in shared service centres as well as the use of teleworking and the transfer of tasks to customers through self-service websites.

Such restructuring entails radical changes in the occupational identities and labour processes of the workers affected, who range from senior professionals giving legal, medical or tax advice over the phone or by email to desk-clerks transformed into call centre operators or back-office data processors. Because such functional restructuring is often carried out simultaneously with contractual restructuring (such as the introduction of outsourcing) or spatial reorganisation (such as shifting work from a London-based head office to a regional back office), it is extremely difficult to disentangle the separate
impacts of these changes. Nevertheless, their combined impact is substantial.

**Measuring the growth of outsourcing**

The widely-publicised growth of international outsourcing should perhaps be seen as the most visible tip of a very large iceberg. The vast majority of UK outsourcing still takes place nationally. But whilst it is generally acknowledged that there has been a dramatic growth in outsourcing, measuring its precise extent has been more difficult. Conventional economic statistics (using classifications based on categories such as ‘sectors’, ‘enterprises’, ‘establishments’, ‘occupations’ or the various categories of goods used in trade statistics) made it extremely difficult to measure the extent and nature of outsourcing (Huws et al, 2004). One reason for this is the proliferation of different legal forms that outsourcing can take, for instance via strategic partnerships, joint membership of supply consortiums, shared service centres, franchises, public-private partnerships etc.

In relation to employment, particular difficulties arise in determining the increasingly blurred boundary between labour-only subcontracting (through the use of temporary employment agencies), temporary transfers of personnel between one company and another (for instance through the use of staff secondments), and formal transfers of employees from one employer to another, as defined under the Transfer of Undertakings (Protection of Employment) regulations (TUPE). Here, a further distinction must be made between transfers that are, to all intents and purposes, open-ended and permanent, that take place in a situation of the merger or takeover of one company by another, and those which, whilst ostensibly permanent, are made in the context of a fixed-term contract for the supply of services, with a high chance that the employment might come to an end if that contract is not renewed.

To add still further to the complexity, many mergers, demergers and takeovers may in reality be more an effect of corporate restructuring than a reflection of any real change in who does what work for whom. This happens, for instance, when separate divisions of a company are spun off as independent cost or profit centres with their own legal identities, or when branches are regrouped into different companies whilst still under the control of the same holding company.

In 2006, a ‘business function’ approach was adopted by Eurostat for its European International Sourcing Survey generating data on outsourcing based on large sample sizes and comparable across Europe. These results provide,
for the first time, a detailed picture of international outsourcing in the UK across all sectors. They indicate that outsourcing has not only grown considerably in scale over the past decade but has also extended to an increasingly broad range of business functions.

These data reveal that over a third of all UK enterprises (34.7%) had sourced internationally during the period 2001-6. A surprisingly high proportion (27.2% of all enterprises) was sourcing ‘core’ functions (i.e. their main economic activities) abroad, whilst 23.2% were sourcing support functions internationally. Of those involved in international sourcing, the majority (57.3%) were manufacturing companies. A considerable proportion of this international sourcing can therefore be regarded as the use of foreign factories to produce goods for global markets. The most common support function to be outsourced abroad was distribution and logistics (13.9% of all enterprises involved in international sourcing) followed by administrative and management functions, and engineering and technical services (each at 8.7%), marketing, sales and after-sales services (8.2%), ICT services (8.1%) and research and development (6.3%), with other functions being outsourced by 2.3% of enterprises.

Public service outsourcing

Thanks to a report commissioned in 2008 by the then Department for Business Enterprise and Regulatory Reform (Julius, 2008) it is possible to get a more detailed impression of the scale and nature of outsourcing in public services. Given that many of the companies involved in this outsourcing are also supplying the same, or similar, services to other sectors of the economy, many of these patterns can be regarded as more broadly typical. According to this report, by 2008, outsourced public services accounted for nearly 6% of GDP in the UK, directly employing over 1.2 million people, with a turnover of £79 billion in 2007-8 – an increase of 126% over the estimated £31 billion in 1995-6.

The report dubbed this rapidly-expanding sector ‘the public services industry’ (PSI) and noted that, in terms of value added, it ‘is significantly larger than “food, beverages and tobacco” (£23bn in 2006), “communications” (£28bn), “electricity, gas and water supply” (£32bn) and “hotels and catering” (£36bn)’. In absolute terms, the UK PSI market, at £79.4bn, was second only to that of the USA (at £393bn). If a somewhat broader definition were to be applied, encompassing former public utilities like post, telecommunications, water and energy, these figures would be considerably larger.
The largest category, estimated to account for 44% of all UK PSI, is ‘managed services’. This covers a wide range of services delivered directly to the public, from nursing to prisons, and from running employment services to training airline pilots. Five other functions are identified in the report: ‘ICT services’, ‘business process outsourcing’, ‘construction services’, ‘facilities management’ and ‘professional services’. The latter, according to the report, ‘cover a vast range of consultancy or advisory service activities in the areas of human resources, financial, legal and general management consultancy’. The fastest growing customer sectors for these services in 2008 were education (growing at 8.1% per annum), environmental protection (7.9%) and health (7.0%). Education and health were also seen as the areas with the greatest potential for future expansion (Julius, 2009).

Following the financial crisis in 2008, both the Labour and the incoming Coalition Government set out plans to significantly reduce public spending. The Health and Social Care Bill and the Open Public Services White Paper both signal the government’s intention to open up public services to further outsourcing, in part based on the assumption that outsourcing is accompanied by cost savings. It seems likely, therefore, that the move towards such outsourced services can only accelerate.

**Growth of business services outsourcing**

The UK has the most highly developed business services sector in Europe in terms of value added, accounting for 18.3% of value added in the non-financial business economy. By 2005, this sector also accounted for 15.8% of employment in these sectors, a proportion only surpassed in the Netherlands and Luxembourg. In that year, the UK accounted for 28% of the entire value added in the EU 27 in business services. The largest number of employees in the sector was in ‘labour recruitment and provision of personnel’, an indicator of the scale of temporary employment in the UK, followed by ‘legal, accounting and financial services’ and ‘computer services’ (Alajääskö, 2008).

One strong trend in business services outsourcing has been a tendency for supplier companies to ‘move up the value chain’ by offering more and more complex packages of services. Instead of supplying one-off services (eg developing a particular software application), these companies seek to capture a greater share of value added by offering to manage a range of inter-related ones (eg managing the entire IT development and support function for
Companies that successfully move up their clients’ value chain in turn develop their own internal value chains, outsourcing lower value-added activities to other companies further down the chain (Huws, 2009). Another trend related to this is the integration of a number of different back-office functions into shared service centres, which may or may not be shared with other organisations (Herbert & Seal, 2009). The use of in-house shared service centres is often seen as a stepping stone to full outsourcing (Hesketh, 2006). There is every indication that this business services sector will continue to grow, and that the trend for it to be dominated by large multinational companies will continue.

**New breed of multinational companies**

One aspect of the expansion of outsourcing of business services has been a dramatic growth in global companies supplying these outsourced services, described by the United Nations Conference on Trade and Development (UNCTAD) as a ‘new breed of multinationals’ (UNCTAD, 2004). By 2006, one in five (20%) of the 100 largest non-financial Trans National Corporations (TNCs) listed by UNCTAD was a company providing services, compared with only 7% in 1997 (UNCTAD, 2010).

The increasing size of such companies, both in terms of market share and in terms of employment, makes it possible for them to offer economies of scale that are difficult for smaller competitors to match, thus encouraging a trend of continuing outsourcing, as their customers look for the most economical solutions. As the services they offer become more generic, they are increasingly offered to customers right across the economy. For instance the same cleaning company may be providing its services to private offices, schools and hospitals; the same high-street coffee chain might be providing snacks for the staff and clients of universities, hospitals, airports or office complexes with multiple tenants; the same IT company might be providing technical support to national government bodies, retail chains and manufacturing companies.

Since some of these services continue to be supplied on the same sites as the in-house services they replaced, this trend is leading to a situation where the same establishment, in the sense of the same building or group of buildings at the same address, may be the workplace of employees of many different firms working alongside each other. Conversely, the same employer might have employees working on many different sites. Because of the global spread of many outsourcing companies,
these employees may not necessarily be in the same country. Indeed, in the case of tasks involving the processing of digitised information capable of being transmitted over telecommunications links, such as software development, call centre work, editorial work or research and development, the work is increasingly likely to be carried out using ‘global sourcing’ in a fluid manner in which work is seamlessly shifted across national boundaries in response to particular client demands for specialist skills, urgency or cheapness (Ramioul & Huws, 2009).

**Outsourcing of the HR function**

The outsourcing trend has been particularly marked in the previously ‘core’ function of HR itself. The supply of outsourced HR is strongly dominated by a relatively small number of large international companies. In 2005, it was estimated that two companies – Hewitt and Accenture – held half the world market, with seven other companies taking a further 40% of it and only 10% supplied by other companies. It was estimated that in that year the market leader, Hewitt, processed the pay cheques of some 18 million employees (Hesketh, 2006). Now absorbed into Aon Hewitt, the company currently claims that it ‘handles more than 240 million HR-related customer interactions a year for more than 21 million employees and retirees’. The services it offers include among others: ‘Workforce Administration; Payroll; Total Rewards; Learning and Development Services; Performance Management Services; Recruitment Process and Staffing Outsourcing; and Retirement and Financial Services’ (Aon, 2011).

Whilst over 90% of Fortune 1000 and FTSE 100 companies are estimated to outsource at least part of their back office transactional services, there are still large variations between organisations, both public and private, in the extent to which they have moved towards outsourcing the entire HR function. At one extreme are organisations like the BBC and BT which engaged in ‘HRO megadeals’, outsourcing their entire HR function, to Capita and Accenture respectively (Hesketh, 2006). Then there are companies such as Procter and Gamble, that outsource transactional processes but retain more specialist areas such as ‘the management of senior managers; the development of strategy and programs; recruitment; non-routine employee relations; and industrial relations issues’ (Gospel and Sako, 2010). At the other extreme are companies that outsource only routine data entry functions related to payroll processing. However there is an undoubted trend towards outsourcing higher value HR processes including
recruitment and training, coupled with a growth in shared service centres and an increasing use of ‘e-HR’.

Taken together, these trends do not only suggest that workers employed in HR-related functions are increasingly likely to find themselves based in shared service centres and/or employed by global companies using global sourcing strategies; there are also likely to be general changes in the way that the HR function is carried out, with a potential impact on all employees. The US practice of outsourcing the entire employment function to an external company whose only purpose is to act as the legal ‘employer of record’ (Benner, 2002) does not appear to have been adopted yet in the UK but, given the global nature of the HR outsourcing sector, it seems possible that it might be in the future.

**Outsourcing and Employment Relations**

The developments above are cumulatively bringing about radical changes to the structure of employment in the UK, in particular in the form of a sectoral shift from traditional sectors (including manufacturing and the public sector) to business services sectors as service activities are disembedded from their original settings and transferred to companies in other parts of the economy. This, coupled with the distancing of the client further up the value chain from the employees of the supplier companies, is having a profound effect on employment relations both qualitatively and quantitatively. It is the implications of these complexities that we turn to in the following sections as we consider the impact on job security, contractual terms and conditions, equality, autonomy and control, new skill requirements, the management of HR practices across organisational boundaries and employee voice.

**Job security**

An important outcome of the dynamics described above is the change in security of the workers involved. This includes a shift from ‘insider’ positions in large companies with internal labour markets (Doeringer & Piore, 1971) to more contingent forms of employment in outsourcing companies where job security may be linked to a fixed-term contract. Although employees who are transferred directly from public to private employment, or indeed from one private sector employer to another, have their terms and conditions protected by TUPE, second-generation employees in outsourced services may be employed on different terms and conditions. Moreover, there is often pressure in an organisation
for the harmonisation of workforce terms and conditions, including those transferred under TUPE.

There are numerous reasons why employers choose to outsource services including the ability to focus on core functions and to access specialist services, but the desire to reduce costs is often a key consideration. This demand for lower cost services is passed on to the successful supplier who must satisfy service quality targets within the agreed contract price, whilst ensuring that their business model remains profitable. There are various strategies which suppliers use to achieve this, including: wage restraint; reducing the size of the workforce and providing the same service but with fewer employees; or employing fewer permanent employees and using agency workers instead.

Once a particular service has been outsourced, it then becomes more vulnerable to further business transfers. Suppliers will secure a contract for a fixed period, say three or four years. If at the end of that period they find that it is unprofitable or margins are too narrow, they may decide not to tender for renewal of the contract, or they may be undercut by another supplier.

Alternatively the client may decide that the service could be provided more cheaply by offshoring the contract to low wage economies such as India or China – a phenomenon once associated largely with the private sector but increasingly on the agenda for public services (see for example Cabinet Office, 2011).

**Contractual terms and conditions**

A major trend associated with outsourcing is an increasing diversification of contractual forms and working hours. Outsourcing is bringing about a reconfiguration of employment, with colleagues who used to share the same employer being split amongst different employers even while they may find themselves simultaneously brought together with workers from other industries under new employment arrangements.

Acas recently dealt with a dispute in the transport sector that arose as a result of a contract originally managed by one supplier being taken over by two different companies. As a result workers performing the same role on the same site, who were previously colleagues, found themselves on differing terms and conditions.

On the one hand, outsourcing companies that have grown through transfers of personnel from their client companies may contain within them, doing similar work, employees with inherited terms and conditions of employment from a variety of different former employers
from many different parts of the private and public sectors as well as directly appointed staff, whose terms and conditions may again be different.

On the other hand, large establishments (such as hospitals, universities or airports) may contain within them employees of many different companies, employed under quite different terms and conditions. Indeed even where, as is the case in parts of the NHS, there is a degree of parity between employees directly employed by a hospital and those who are outsourced, the picture can be complex, and parity in terms and conditions can have unintended consequences for other aspects of employment relations.

In a recently published Acas report on the diffusion of good HR practices across the supply chain (Holman et al, 2012), ‘ContractCo’, a multinational company that provided services including catering, cleaning and estates management, had a contract with Midland Hospital, where it managed three groups of workers on quite distinct terms and conditions. They included:

- Ancillary staff, managed under Retention of Employment Regulations\(^2\) employed by the NHS under Agenda for Change terms and conditions but managed by ‘ContractCo’ according to hospital HR policies;
- Hard facilities management employees, supervisory and managerial staff transferred under TUPE, employed by ‘ContractCo’, with Agenda for Change terms and conditions but managed according to ‘ContractCo’ HR policies;
- Supervisory and managerial staff whose contractual terms and conditions were set by ‘ContractCo’ and who were managed according to ‘ContractCo’ HR policies.

The research found that, despite the intention of the Hospital to ensure dissemination of good employment practices to its suppliers, the lack of control that ‘ContractCo’ had over key areas of HR policy which prevented them from lowering wages and other benefits, resulted in them pursuing low road strategies to increase profits by reducing staffing levels; being less flexible on shift patterns and working hours; altering work organisation (eg standardising tasks in catering); and outsourcing work to suppliers not covered by TUPE regulations (eg moving the laundry service to an external provider).

Equality, fairness and social cohesion

Many of the key concepts in the Equality Act, 2010, inherited from earlier legislation such as the Equal Pay, Sex
Discrimination, Race Relations, and Disability Discrimination Acts, rely on the principle of comparison to establish the parameters of equality. In situations where the workforce is increasingly fragmented, spatially and contractually, with changing employers and different inherited terms and conditions, these principles are becoming difficult to apply. Moreover, Wright highlights the dangers for social cohesion of perceptions of fairness in a recent paper on collective bargaining and supply chain coordination. For instance, the decision of a meat processing plant in South Wales to use large numbers of agency workers from Poland on lower wages, inferior conditions and zero hours contracts resulted in conflict within the predominantly Welsh permanent workforce (Wright, 2011a).

In 2009, Unite made an application to the EHRC requesting it to set up an inquiry to identify the underlying causes of differential and inferior treatment of agency workers in the meat industry supply chain compared to permanent staff. Among other findings, the EHRC report noted that ‘the relatively high concentration of migrants working as agency workers created perceptions among directly employed workers that agency workers were used to undermine employment security and labour standards, thereby fuelling social tensions and negative views towards migrants’ (cited in Wright, 2011a).

The East Lindsey Refinery disputes, where a mainly Italian workforce was brought in by an Italian subcontractor also provoked anger from the local workforce who perceived the employment of posted workers as undermining nationally negotiated terms and conditions of ‘British jobs’. The use of social media facilitated the spread of wildcat strikes to over 20 other construction sites across the country overnight. Local businesses added their voices to the internet campaign because the foreign workers were largely confined to barges where they were housed, clothed and fed, and therefore did not provide the boost to the local economy that the influx of temporary workers to the site would usually bring (see for example Mckay, 2012, Smith and Harwood, 2011, Podro, 2010).

**Control, autonomy and experience of work**

Another dimension of standardisation in some sectors has been the increasing propensity to manage workers by results, for instance through requirements to meet productivity targets or performance indicators. Such targets may be set internally, but they may also arise from terms set by external customers’ companies (laid down in Service
Level Agreements) or, in the case of public sector work, by government-set efficiency targets. These new requirements make it increasingly likely that work processes are standardised, whether they are carried out internally or outsourced. In the case of supply chain companies, however, the scope for adapting working methods and making autonomous decisions can be severely curtailed by such targets.

In the Acas report, a case study of ‘Market Grocer’, a food retailer, and two of its meat suppliers, found that the financial terms of the supply chain contract which demanded low product prices and the ability to vary the orders at short notice led to the use of relatively low skilled jobs with little variety and discretion (Holman et al, 2012). This lack of control by HR, supervisors and individual workers, is something often experienced by suppliers further down the value chain, and can lead to lower levels of job satisfaction, higher stress, and greater absence and turnover amongst the workforce (see, for example, Donaldson-Feilder, 2012, Parker and Bevan, 2011).

New skill requirements
The developments discussed above have profound implications for skills. In particular, they suggest that there will be a greatly increased demand on the labour market for generic skills, certified to readily-understood international standards; a need for continuous updating of skills; the development of knowledge management abilities alongside more traditional team building and teamworking skills; and a growing demand for skills related to managing the increasingly complex value chains that will characterise the public, as well as the private sector to a greater extent in the future. These include skills in project management, quality control, languages, project documentation, marketing, and specialist legal skills related to such functions as contract development, due diligence and compliance.

Linked to these requirements is an increasing need for good communications skills, on both sides of the outsourcing relationship. There is both a growing requirement for communication with employees of other organisations (who may be in different countries and time zones, with varying command of English) and – in a situation where more and more business services are delivered remotely by voice or email – with external service users or customers.

This demand to acquire new ‘side’ skills may exist alongside a routinisation and downskilling of ‘core’ skills. Thus upskilling and deskilling can be found in conjunction with each other. In a situation where the introduction of
outsourcing is also linked with an intensification of work, upskilling may be experienced by workers more as a pressure to understand and combine many different types of knowledge in a short space of time than as a source of job satisfaction or enhanced employability (Ramioul and De Vroom, 2009). In general, it is likely that the lower down the subcontracting hierarchy they find themselves, the more likely it is the workers will experience deskilling.

Since training itself is a function that is increasingly likely to be outsourced, it is probable that there will be changes in the way that it is delivered. There will be shifts in the proportions supplied by public and private organisations and in the proportions paid for by employers, the state and individuals. However, there is also the additional question of who will take responsibility for ensuring that employees have access to training. An organisation that contracts out services which it previously provided training and professional development for, is likely to divest itself of this responsibility, expecting the supplier to take it on. There is a possibility that individuals will find themselves taking on a greater responsibility for their own training and the associated costs if this is not forthcoming from their direct employer. In some cases they may turn to unions or professional associations for support.

Managing HR practices across organisational boundaries

The challenges presented by the increase in outsourcing for HR are numerous and increasingly complex. As discussed above, suppliers lower down the value chain may often find themselves less able to control many aspects of the terms and conditions of their staff, and there is a danger that the potential for good employment relations practice is progressively weakened down the value chain. However, supplier companies with specialist skills, in the IT sector for instance, may in fact have more control as a result of restructuring, but may face the challenge of managing employees who spend more time on a client’s premises than that of their direct employer.

What then can clients do to influence good employment relations practice by their suppliers? And how can suppliers influence client companies to take responsibility for terms and conditions where they are exerting a degree of arms-length control?

The Acas study, referred to above, found that client companies had a significant degree of control over HR practices in supplier companies. ‘Market Company’, for instance, insisted on adherence to the Ethical Trading Initiative (ETI) base code for its suppliers, and, although both
case study organisations were compliant in most areas already, the condition did lead to a change of practices including imposing maximum weekly hours and reinstatement of an employee forum after it had been withdrawn by management. Moreover some of these requirements were then passed on to the temporary staffing agencies which were used by the company. The auditing of the base code, by the ETI, also meant that HR departments from the client and the suppliers had to work more closely together, thereby developing boundary-spanning skills which included building sustainable relationships, negotiating with others and understanding the suppliers’ business.

**Arms-length HR**

The outsourcing of HR itself reinforces a trend towards an increasing standardisation and streamlining of HR operations such as recruitment, training and absence management. Services such as advice to employees or first-stage screening of potential recruits are more likely to be delivered by email or telephone than in face-to-face sessions, leading to a ‘callcenterisation’ of the routine work of HR departments as well as a change in the experience of employees and job-seekers. Training courses are more likely to be broken down into bite-sized modules, some of which will be followed by employees individually, using web-based learning materials.

Although many components of these HR services may be regarded as individually tailored to the needs of particular employees, there is a general tendency for them to be experienced as more ‘arms-length’ and depersonalised. The result is a loss of direct interpersonal relationships between employees and individual HR managers that characterised many traditional organisations. This seems likely to lead to a loss of employee voice, particularly where more specialised HR functions are outsourced abroad, and there is a lack of understanding of the British context and the cultures of specific workplaces.

**Employee voice**

At the heart of good employment relations is the role of employee voice. Where channels for voice are two way, they can be used to improve work organisation, increase job satisfaction and levels of engagement. Voice arrangements can also improve the ability of employers to tackle the root causes of conflict by listening to the concerns of their employees and addressing those concerns in a transparent and constructive way. Without those channels, conflict is expressed more obliquely, for example through absence due to stress, or disengagement and lower productivity levels, which are much harder to resolve (Podro, 2010).
The fragmentation of the workforce and the outsourcing of HR functions have major implications for the role of voice in the workplace whether that is via trade unions or non-union representative structures or via direct communication channels. Research indicates that an engaged workforce is most likely to be in a workplace where there are both direct and indirect channels of employee voice (Purcell and Georgiadis, 2007).

Capgemini is a global IT services company providing management consulting, outsourcing and professional services. The nature of its business means that winning outsourcing contracts and acquiring new groups of staff is a constant activity for the company. The organisation has employee forums based on a works council model developed by Capgemini in the Netherlands, with both union and non-union representatives. Effective consultation, at both a collective and an individual level, is seen as essential to allay the anxieties and fears of new staff groups transferring in, to address significant changes to terms and conditions such as the winding up of the defined benefit pension scheme, and as part of managing day-to-day relationships with staff. As HR Director, Ann Brown is quoted as saying: ‘Why wouldn’t we want to consult our employees? We don’t actually make anything: people skills are all we have. Having a highly engaged, motivated and enthusiastic workforce is critical to our business’. Good employment relations, including relations with existing unions, are also seen as fundamental to the organisation’s wider reputation and its ability to win contracts and attract talent (Emmott, CIPD).

For organisations that have no formal channels for employee voice, whether by direct communication or employee representation, there is a risk that individual employees will become isolated and disengaged, unable to raise concerns at an early stage when they could be more easily dealt with, and ultimately impacting on performance and productivity.

The growing trend for outsourcing of HR functions also suggests that traditional forms of company-level negotiation, in which HR departments have played an important historical role, may become replaced by new forms, perhaps with a growing role for external employment relations consultants. However, it is also likely that other players who are closer to the workforce will increasingly take over the mantle for managing employment relations at both an individual and a collective level.

The distancing of the HR function from the employees they are responsible for and the distancing of the client, in many ways the ‘de facto’ employer,
from the employees of the supplier have implications for both unionised and non unionised workplaces. Voice is not just the ability of employees to voice concerns but also their opportunity to be listened to by those in a position to make a difference. If in-house HR, or senior management have little control over pay and terms and conditions then the impact of, and opportunities for, employee voice will be highly restricted. If the HR function is outsourced and separated by national and cultural boundaries, the ability to understand the day-to-day concerns of the employees involved may be severely weakened unless alternative channels for communication are put into place at local level.

**Trade unions**

The impact of fragmentation of the employment relationship is perhaps most starkly illustrated in the changing relationship between trade unions and their members, and the unions’ ability to recruit, represent, organise and bargain collectively. The spread of subcontracting has resulted in the growth of smaller workplaces, which has made single-employer bargaining far more difficult for trade unions.

Where collective bargaining exists, trade unions increasingly find themselves representing a workforce whose terms and conditions are determined to a large extent not by their direct employer but by the client company who, as discussed earlier, is dictating the pace of work, and the targets to be met. And the value of the contract leaves little room for significant negotiations over rates of pay. Certainly Acas experience suggests that disputes are far more drawn out in such situations, since not only do the trade union and direct employers need to negotiate, but often the employer also has to go back to the client to renegotiate the terms of the contract.

An increasing number of industrial disputes have been directly related to this issue, beginning most notably with Gate Gourmet, catering subcontractors for BA, in the 2005 dispute at Heathrow Airport (BBC, 26 August 2005). More recently there has been the 2011 fuel tanker drivers’ dispute (BBC, 13 April 2012), and the London bus workers’ dispute over Olympic payments, involving more than 20 bus companies subcontracted by Transport for London, (TfL, 18 July 2012).

As value chains become longer and more complex, and outsourcing penetrates more ‘core’ areas of the economy that have been historically highly-unionised and covered by strong collective agreements, it seems likely that there will be more such disputes in the future.
The union response in some areas has been to organise hierarchically along the supply chain, as well as horizontally. So, for example, unions such as the RMT, Unison and Unite engaged in London Living Wage campaigns in the cleaning sector, have worked alongside community organisations to organise cleaners at their place of work whilst at the same time pressuring large client firms engaging cleaning contractors to pay for improved pay and conditions (Wright, 2011a).

A Coherent System for Employee Relations in Britain?

Organisational restructuring and fragmentation present a complex set of challenges for the development of a coherent system of employment relations over the coming decade.

The trend in outsourcing shows no sign of abating, driven as it is by standardisation and rationalisation of services, internationalisation, globally competitive markets, the current economic crisis, governmental choices and a much greater fluidity in the way organisations can relocate business functions, and source their workforce.

In the context of extended value chains there is a growing disconnect between decision-making and control by ‘de facto’ employers on the one hand and responsibility and accountability for employees on the other. Furthermore, the fluidity that allows businesses to seek the most cost effective means of production is, in many cases, impacting on job security, terms and conditions, autonomy and job satisfaction, levels of engagement and employee voice amongst the workforce.

HR and trade unions, once the key players in the management of the employment relationship, are increasingly finding themselves detached from a relationship with the key decision makers. Although there are organisations that are collaborating across supply chains to seek ways to promote good employment relations, this is by no means the norm. Trade unions are beginning to pursue new strategies to organise horizontally and vertically along value chains, joining forces with customers and community groups, and successfully changing practices by highlighting reputational risk for big name brands at the top of the supply chain. But, frustration with the inability to speak directly to those who hold the purse strings and perceptions of unfairness have, on occasion, resulted in wild-cat strikes and civil unrest.

The traditional model of employment relations no longer meets the needs of many modern workplaces, and a
new model that addresses the current challenges is yet to emerge. Will it be shaped by increased regulation, and a statutory floor of minimum standards? Should those at the top of the value chain take more responsibility for standards further down?

There currently seems to be little appetite in Britain, at least, for greater regulation of the employment relationship. The two tier code, which extended coverage of public sector bargaining arrangements for new starters on public sector contracts, was removed in 2010 (Bach, 2011). Furthermore, recent government proposals have called for a relaxing of TUPE regulations to allow for easier harmonisation of terms and conditions (BIS, 2011). Moreover, the growing openness of the UK economy and the increased share of employment by large global companies suggest that any future regulation might need to be at an international as well as a national level. This raises the question of who would enforce such legislation?

One possibility is that voluntary codes and guidance, such as those produced by the Ethical Trading Initiative, International Labour Organisation, OECD, or the EU might play a greater role. There is already voluntary regulation by some large corporations (see Wright, 2011b, Mayer and Pickles, 2010) and commentators suggest that an effective system needs both a mix of public and private regulation, with external monitoring by unions and other bodies. If those at the top of the value chain are regulated or encouraged to sign up to voluntary codes, what safeguards can be put in place to ensure that there are no unintended consequences further down the chain?

If HR is outsourced, and enterprises become smaller, with direct representation increasingly less common, there will be a number of key issues to be addressed, in particular, how new expertise in good employment relations can be built in. If contract managers and line managers/supervisors are the new standard bearers for good employment relations, employers will need to support them in gaining the expertise and knowledge they need to be effective. There will also be a need to ensure that channels for employee voice are valued and that they are effective in picking up on concerns of employees on a day-to-day basis, allowing those concerns to be addressed before they become the basis for conflict, whether they take the form of grievances, tribunal claims, higher stress levels, long term absence, or collective disputes.

And what role will social media and virtual communication play in supporting key individuals with knowledge and skills? Alongside the standardised ‘one
size fits all’ outsourced HR provision, will there be a growth in services providing sectoral expertise with an understanding of the culture and context of specific workplaces? What external expertise will be needed for smaller firms? And will resources to support good employment relations be publicly or privately funded?

This paper, the last in the current series of Acas papers on the future of workplace relations, has sought to highlight the impact of organisational restructuring on the workplace. In so doing it has perhaps raised more questions than answers about the future model for good employment relations. The intention is for this paper and others in the series to stimulate debate about the future direction of travel, and we hope that the papers will elicit views and comments, clarify the key policy questions and perhaps even identify some solutions to the challenges raised.

Notes

1 Company names were removed from the report for reasons of confidentiality

2 Retention of Employment Regulations were introduced in 2001 by the NHS in negotiation with trade unions. For more information see Davies 2004, and Unison 2003.
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