

Exploring international migration and outsourcing through an institutional lens

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Introduction

The growth in outsourcing and offshoring, coupled with the upward trend in migration, is often interpreted as signalling an end to the institutional and geographically specific organisation of labour markets; as both jobs and labour become more mobile the conclusion, as promoted by a popular best-seller, is that “the world is flat” or at least flattening (Friedman (2005)). Institutional arrangements – hills or mountains in the “world is flat” metaphor (Leamer (2006)) – are being eroded and flattened by the twin processes of rapid technological diffusion and integration of factor markets, including that for labour. These developments are putting in question the survival of distinctive varieties of capitalism based on strong employment and welfare organisation and also leading to reassessments of what should constitute the core competences and internalised assets of organisations.

While there is nothing inherently new about international outsourcing or indeed migration, the recent phase of offshoring and international migration has attracted attention not only for its role in intensifying competition between high-wage and low-wage economies in manufacturing but also for its opening-up of new and previously closed areas of the labour market to such competition, particularly in services. Work that was regarded as protected by barriers to trade is now open to either inshoring of migrant workers or offshoring of service activities; this intensifies competition between geographically specific employment regimes based on different wage structures and social costs, employment protection and training arrangements. Regime competition, even in manufacturing activities, has always been controversial – witness the opposition to the formation of NAFTA and the unresolved debates over international trade negotiations. This new phase of offshoring and inshore migration is that much more visible as citizens communicate directly with the new hires on the telephone or meet them in the workplace or marketplace. The proposal that workers “posted” by foreign-owned companies could be employed under the sending and not the receiving country’s terms and conditions proved to be too controversial for the European Union, as those promoting the Services Directive within the region discovered.¹

This paper explores the development of outsourcing/offshoring and migration through an institutional lens, and focusing primarily on Europe. Migration and outsourcing may be challenging the survival of current institutional arrangements but these processes are themselves institutionally constituted. Their extent, form and impact is, we will argue, dependent on the institutional context. The contours of the hills and valleys – to use the “world is flat” metaphor – are shaping both the path taken and the speed and volume of movement. Thus these processes may be reshaping employment systems but in path-dependent, context-specific ways. Furthermore, the mediation of migration and outsourcing by institutional arrangements is far from either predictable or linear as the processes themselves may induce institutional change. For example, not only are the rules and regulations concerning migration frequently changed in direct response to pressures and concerns over migration but new labour market regulations may be introduced to protect

¹ The Services Directive was only passed once the principle that service workers could be employed in the host country under the legal regulations of the home or sending country was removed.

against new forms of low-wage competition, or welfare entitlements varied – sometimes with the aim of including, sometimes excluding new migrants, dependent upon the political context.

The overall argument here is thus that it would be too simplistic to assume that the opening-up of national borders will lead to a process of convergence in employment arrangements across countries in line with a liberal model of employment organisation. While these developments are playing a major role in the reconfiguration of the division of labour within and across societies, this process is itself very much dependent upon institutional factors and forces at the pan-national, national and meso/micro level. These institutional influences cannot or should not simply be treated as barriers or obstacles. There are strong efficiency as well as social arguments for the institutionalised and longer-term employment relationship (see Marsden (1999)). Moreover, labour is not a commodity and the movement of labour is not just an issue for employment and economic policy but has major implications for national political processes, including the definition of citizenship and national security as well as access to social protection.

The complexity of this issue is such that we certainly do not yet know how these current developments will work out. We thus start the paper by reviewing recent trends and the key concepts or frameworks used to explain both the spread and impact of outsourcing/offshoring and migration within OECD countries and to predict their impact on national employment systems. The main focus is on Europe, on the outsourcing rather than insourcing nations, as it is Europe where the key examples of strong employment and welfare regimes are to be found (apart from Japan). These overviews point to the need for a more complex and institutionally rooted approach that explores the ways in which outsourcing and migration patterns are not only reshaping institutional arrangements but at the same time being constituted by them. To illustrate the complexity of the issue at an empirical level, we provide examples from recent international research on three key but also diverse areas for this debate: the role of temporary staffing agencies (a major form of employment outsourcing) in the processes of both outsourcing and migration; the role of migrants in the elderly care sector in Europe; and the development of IT-related outsourcing, from low-end call centres to high-end IT software. We conclude by exploring some of the policy implications of these developments.

1. Outsourcing and migration through an institutional lens

Accounting for international outsourcing/offshoring

Offshoring has expanded rapidly in manufacturing but services is the fastest growth area.² Accounts of, or explanations for, the growth of international outsourcing have been offered at a macro and a micro level. At the macro level, offshoring or international outsourcing is considered to be growing due to reduced costs (technology reducing transaction costs), reduced barriers to capital and technology transfer (enabling sourcing at different wage and value levels), enhanced overseas capabilities and skill levels, domestic problems of labour turnover and/or skill shortage and weakened union resistance to organisational restructuring. The outcome at a macro level is interpreted by some as win-win, providing the basis for

² See the OECD (2007a) report on offshoring for a description of the complexities of definition and the range of different modes – subcontracting, establishment of affiliates in third countries, etc – through which it can occur. Data on the United States show that around half the increase in trade over the last two decades has been in intermediate goods and that trade in intermediate service inputs is growing even faster than for manufacturing, albeit from a lower base (Milberg and von Arnim (2006)).

countries to focus on their core competences and to move up the value chain, thereby allowing for high levels of specialisation and overall gains from trade. The main argument here is that offshoring leads to higher profits which in turn lead to higher investment and dynamic growth (Mann (2003, 2006)). Evidence that offshoring tends to be associated more with growing than declining sectors is cited in support (OECD (2007a)). These optimistic interpretations are disputed by others such as Milberg and von Arnim (2006), who point to the high costs of adjustment faced by displaced workers, argue that profits may be higher but investment benefits have yet to materialise, and point out that in many cases global production networks are not providing developing countries with fair rewards for their efforts. Furthermore, evidence that offshoring opportunities are creeping up the value chain suggests that even core competency jobs in developed countries may be in jeopardy of displacement. The pessimists are in fact divided over the inevitability of the growth of offshoring; for some it is in part the outcome of the over-hyping of its advantages to business by consultants³ and business schools. As emphasised in OECD (2007a), only a small share of companies even in the most affected sectors have actually adopted an offshoring policy. This evidence suggests that there is not an overwhelming economic argument in favour of offshoring. Companies may, however, believe that they are missing out unless they follow the trend, even if there are sound business arguments against this practice.

Explanations for the variety of practices at organisation level in relation to outsourcing and offshoring can be sought in the business and management literature and in particular in the resource-based view of the firm (Barney (1991), Penrose (1959)). Organisations may take a longer-term, more strategic perspective and seek to develop their own firm-specific comparative advantage through the fostering of firm-specific knowledge, routines and assets including the skills of their workforce. Decisions to outsource should, from this perspective, be primarily motivated by a view that the activity or process is not a core part of the firm's competences and thus not essential for the strategic development of the firm (Lepak and Snell (1999)). Much of the explanation of the growth of outsourcing is attributed to organisations acting strategically to move up the value chain, following the massive increase in new opportunities to outsource and offshore non-strategic activities. However, there is a danger of oversimplifying the problem of distinguishing between strategic and non-strategic activities. Rarely do such binaries hold firm in the context of organisational decision-making. Changes in either the internal or the external price of undertaking an activity may alter the assessment of where the dividing line should lie between strategic activities that need to be kept in house and those that can be outsourced; there may be no change in the nature of the tasks or their operational or strategic importance but these characteristics may be traded off against price (Priem and Butler (2001)). This change in price may open up opportunities to focus on strategic priorities but, on the other hand, may seduce organisations to experiment with outsourcing activities that for reputational and/or operational reasons should really be retained in house. It is these conflicting objectives that may account for variations in the rate of take-up of outsourcing/offshoring activities. Furthermore, there are tensions in inter-organisational contracting relations between the objectives of cooperation and cost minimisation. To use Streeck's (1987) terminology, there are choices between relations of contract, where the emphasis is on control and reducing costs, and status relations, where

³ The McKinsey Institute (Farrell (2005)) argues that offshoring is being inhibited in Europe because restrictive labour laws are limiting rehiring of displaced workers. Germany currently only recoups EUR 0.80 for every EUR 1 of corporate spending offshored because of a low rehiring rate of around 40%. This loss could be turned into a profit of EUR 1.05 of value per EUR 1 if it could match the 69% rehiring rate in the United States. The 5% increase in value would still be less than the benefits of offshoring to the United States, calculated at 13% due to higher costs, partly associated with language issues and the higher costs of using eastern Europe over India, where language problems are more easily overcome. The analysis presumes that problems related to language skills are reducible to additional cost factors, even for service sectors dealing directly with customers, and not to severe operational difficulties that may lead to complete loss of business.

the emphasis is on partnership and “going the extra mile”. This dilemma is not fully solved by the distinction between relational contracting and arm’s length or contractual outsourcing. Relational contracting is expected to develop in contexts where organisations need to work together as partners and over the long term to provide for mutual trust and the security for the subcontractor to invest in developing skills and production systems to meet the client’s needs. However, it is not clear that clients, particularly those with power in the marketplace, are willing to make a clear-cut choice between these two forms; they may be tempted to seek to “have their cake and eat it” (Purcell and Purcell (1999)), by expecting the subcontractor to act as a problem-solving partner during the course of the contract but insisting on putting the renewal of the contract out to competitive tender. In practice contractual relations between organisations may be based on both contract and status, resulting in confusion and tensions between these competing objectives, just as is found in the employment relationship itself.

In a context where there are significant differences in wage costs, currency exchange rates or available social subsidies, organisations may be tempted to seek a low-cost solution even for an activity or process of significant strategic and operational importance to them. Because of these conflicting pressures, decisions to outsource should be regarded as contingent and not necessarily made in the same direction even by similar firms. In practice even areas that are relatively commonly outsourced are still not universally outsourced and it is usually still a minority of firms that engage in outsourcing (OECD (2007a)). Nor will a decision to outsource necessarily be sustainable if the judgment with respect to the costs versus benefits proves unwarranted. A fashion for outsourcing does not necessarily mean the end of the integrated firm; the longer-term trend will depend upon the proven capacities of the outsourcers to deliver on quality as well as on price, and on the incentives either to reintegrate or to change processes and practices to automate/reduce the scale of the outsourced operation (or conversely to expand the scale of offshoring through further externalisation). This approach suggests scope for varying speeds and even for non-linear developments in outsourcing and offshoring. However, the reversal of outsourcing critically depends upon whether the client firms/offshoring countries retain the capacity and knowledge to reabsorb the outsourced processes and activities. Likewise, the ability of the subcontractor and indeed the offshoring host country to develop their capacities and capabilities will influence whether the process is cumulative, attracting more and more firms into outsourcing/offshoring or expanding the activities that are outsourced or offshored.

Accounting for international migration

Migration shows a strong upward trend (OECD (2007b)) with the last two years for which we have data showing increases of above 10% per annum even in permanent migration (11% for 2005, 16% for 2004). Trends in international migration – not allowing for movements primarily motivated by political events and conditions – have normally been analysed by economists using distinctions between push/pull factors to identify motivation. The effects of migration are often analysed with respect to employment and wage levels for the native population and overall growth rates. Mixed effects may be found, with migration acting to moderate pressure on wage levels particularly at the bottom of the labour market but also facilitating expansion, such that the impacts on growth in the economy may be positive (Home Office/DWP (2007)).

This approach tends to oversimplify multifaceted and complex relocation decisions and to downplay the importance of institutional factors in shaping both flows and outcomes. While the specific regulations affecting the flow of migrants and their rights to remain are clearly taken into account in standard migration studies, less attention is paid either to the institutional processes that lead to migration and the placement of migrants in jobs or to the impact of institutions in shaping outcomes.

For example, migration is often identified as filling a labour market gap or skill shortage but an important issue to identify is the institutional factors associated with the creation of the gap or the skill shortage in the first place. It is these differences in institutional structures and

practices that may account for significant variations among countries or sectors. In the postwar reconstruction some European countries largely used migrant labour to fill a labour gap (Castles and Kosack (1973)), while others such as Sweden mobilised female labour. These differences in strategy were linked to different paths of development of welfare and family systems (Esping-Andersen (1990)). These differences still exist today; it is notable that in southern European countries, particularly Spain, the employment rate of migrant women is higher than that of native women while the opposite applies in, for example, Scandinavian countries (OECD (2007b)). Yet given the low employment rate of women in the southern European countries it might be expected that there would be more difficulties for migrant labour to find work. A particularly important issue is whether migrants are used to fill public sector jobs in sectors such as health and care because of an unwillingness of public authorities, as quasi-monopsonistic employers, either to raise pay or invest in the training necessary to fill the gap (Nowak and Preston (2001)). Identifying a skill or labour supply shortage is thus the beginning, not the end of the explanation; the more interesting questions are those aimed towards reaching an understanding of how that gap or shortage arose and what the obstacles are to these being filled internally by domestic labour.

The peculiarities of skill development systems are also critical in understanding the use of migrants on both the supply and the demand side. For example, when Germany made a big push to recruit migrant labour for the IT industry to fill a gap in 2000 ahead of the planned expansion of trainees in the sector, one factor in its need to use external recruitment was undoubtedly the importance attached to formal qualifications in recruiting labour to posts in the German system (Hart and Shipman (1991)). In the United Kingdom, for example, it is easier to deal with a skill shortage in IT by informal company-specific or brand-specific training at the workplace. The role that India has assumed in supplying migrants in the IT industry is in turn rooted in its particular development of higher education and training, which was not specifically planned with the IT revolution in mind but instead reflected political factors in post-independence India and the difficulty of agreeing upon another national language of instruction.⁴ The supply of qualified Filipino health professionals is clearly again predicated on the institutional arrangements and policy decisions in the sending country that generate an oversupply of such professionals with a view to promoting and maintaining a continuing supply of remittances to the Philippine economy (Lorenzo et al (2007)).⁵

Furthermore, the ability of migrants to fill skill shortages depends above all else on the recognition or accreditation of skills acquired outside a national institutional framework. This recognition is primarily promoted again by institutional regulation at the pan-national level and without such intervention, migration to fill skill shortages can be expected to be either restricted or delayed by the need to complete further training. Alternatively, the migrants are likely to be concentrated in job areas below their level of qualification. It may indeed be the opportunity to recruit overqualified staff that acts as a primary incentive for employers to recruit migrants. In addition to such incentives, there may also need to be active intermediaries to bring about a matching of potential migrants with potential job vacancies. Organisations that screen and manage new entrants to the labour market play a particularly important role in shaping the level and form of flows into employment. If these organisations primarily channel migrants to existing vacancies in firms paying the current going rate, the impact may be to reduce pressure to raise wages in such sectors, but migration is not

⁴ The intention post independence was to choose a new language but the attempt to introduce Hindi led to protests in 1963 and even Gandhi became persuaded of the need to maintain instruction in English: <http://www.bl.uk/learning/langlit/sounds/case-studies/minority-ethnic/asian/>.

⁵ Although policymakers are having to revisit the strategy as, despite the high level of training, a labour shortage is developing within the Philippines' own health service (Lorenzo et al (2007)). Another factor is the way western employers construct certain groups of workers as possessing innate "caring" qualities based on gender and racial characteristics (Pratt (2007)).

necessarily associated with the setting of new and lower terms and conditions. However, where, for example, temporary staffing agencies work together with new employing organisations that are dominated by migrant workers – for example gangmasters in food processing – it is more likely that the employing organisation will base its competitive position on paying wages below the current going wage rate in the sector, thereby undercutting existing organisations on labour-intensive processes. The opportunities for such new organisations to develop and capture part of the market will vary both between countries and between sectors, dependent in part on the presence of labour-market-wide regulations and the effectiveness of enforcement mechanisms.

This brings us to a further very important institutional role in shaping outcomes, and that is the form and effectiveness of product, market and labour regulation in the economy or sector. Work by Abowd and Freeman (1991) demonstrated that migration under different regulatory regimes – for example the United States compared to Canada – could result in very different outcomes for employment opportunities, wages and careers for migrant workers. However, there is no simple way to classify regulatory regimes; where regulations are strict and standards high, the opportunities for informal work may be greater than in more open economies where migrants can be employed on poor terms and conditions within the legal or formal economy. It is in the liberal or open economies that there may be more difficulties in using migrant labour specifically to fill a particular labour market role/alleviate a specific skill shortage as the openness of the labour market may in fact allow migrants to use their first employment position more as a jumping-off point for entry into other parts of the economy. Where labour markets are more regulated, migrants may be more trapped in informal work or specific sectors.

Migration and outsourcing and the varieties of capitalism

This brief overview of institutional influences therefore suggests that there is a need for a much more detailed understanding of the factors behind the flows and their impacts than is included within a general labour market model focusing on employment and wage effects, assuming non-segmented markets. Moreover, in both the case of outsourcing and that of migration there is a clear need to consider these developments within the context of different modes of organising both employment and welfare systems.

Much recent literature focuses on a two-way classification of national models – between coordinated capitalism and liberal market capitalism as described in the varieties of capitalism literature (Hall and Soskice (2001)). In principle the main prediction is that increased openness to the international economy through both migration and international outsourcing may be most likely to challenge the coordinated capitalism models that are reliant on strong national systems of regulation and coordination. To the extent that the coordinated models are able – at least in the short term – to protect their internal markets through, for example, high and common labour standards, the advantages of both hiring migrants and domestic outsourcing may be modified. However, it is more difficult in principle to extend such control of labour standards to offshored activities. Labour market regulation may thus affect the division between internal and external outsourcing, rendering the predicted overall effect on the extent of outsourcing unclear. Not only is there considerable variety within both categories of national models, linked to different welfare and family systems (as we discuss further in the case study example of elderly care below), but there are also differences in the modes and mechanisms deployed to regulate labour markets, which are influencing the outcomes with respect to the terms and conditions under which migrant workers are employed. For example, Germany is faced with particular problems of maintaining a strong floor to labour standards in the face of greater use of posted workers on the one hand and the development of new areas outside collective regulation on the other, in part associated with outsourcing (Bosch et al (2007)). These problems arise because of the absence of a minimum wage, coupled with the reluctance of the government to fix minimum wages even in vulnerable sectors due to the continuing influence of the postwar settlement

where collective bargaining was to remain independent of the state. In contrast, Scandinavian countries – also included under the coordinated capitalism label – have been able to use trade union blockades and industry-wide bargaining to maintain labour standards, despite the absence of a formal minimum wage. Thus, the development of international migration, fostered by EU internal mobility laws, is challenging national models but the outcomes are by no means uniform or fully predictable. These varying outcomes are explored further in the case studies below.

2. Outsourcing and migration: some case study evidence from temporary staffing agencies and the care and IT/call centre sectors

The three case studies explore the following issues: patterns of growth in outsourcing/offshoring and/or migration and evidence on the institutional forms through which this growth has taken place; the impact of national-level institutions on the extent and form of outsourcing/offshoring and/or the use of migrants; the impact of these developments on forms of work organisation and conditions of employment; and the efficiency and equity implications of these developments.

Case study 1: temporary staffing agencies

Agencies, the growth of outsourcing/offshoring and the use of migrant workers

Temporary staffing agencies (TSAs) play a critical role in the growth of both outsourcing and migration.⁶ Their intermediary role enables employers to tap into an external source of labour without incurring the costs and risks of direct international recruitment and enables workers to locate a source of employment. These intermediary roles may be performed in many cases by family or word of mouth networks. However, agencies extend the opportunities beyond those employers and migrants who are likely to participate in informal networks. Opportunities for migrants may therefore be dependent in part on the extent to which TSAs operate in a country and are used by employing organisations to recruit and screen staff.

The temporary staffing industry has experienced sustained growth since the mid-1970s (Coe et al (2007), Theodore and Peck (2002), Ward (2003)), with rates of growth becoming particularly high over the past decade; global turnover was estimated to be USD 83.2 billion in 1996 and USD 228 billion in 2006, a rise of 274% in nominal terms (CIETT (2007)). Furthermore, TSAs have been active in developing new markets, by varying the groups that they recruit (Coe et al (2007)), the source of recruitment (from local to national and international) and the services they offer – from direct labour supply to HR functions and executive search. Larger agencies in particular have expanded the segments in which they place workers and have widened their service offerings – placing managers at client workplaces and handling recruitment activities – as part of corporate “value adding” strategies (Peck and Theodore (2002), Theodore and Peck (2002), Ward (2003, 2004)).

However, although the sector has become both more international in scope and more concentrated, with an elite group of 20 American, western European and Japanese agencies now accounting for some 40% of the global market, the main markets for many agencies remain national or local. It is the small to medium-sized agencies that are more likely to be

⁶ There is limited data on the role of agencies in migration but in the United Kingdom, of those registered migrants entering the country in the period 2004–07, 52% were in temporary employment, and many of these are likely to be employed by TSAs (Home Office (2007)).

involved in the direct mobilisation of migrant workers across borders. A recent study of international staffing agencies by one of this paper's authors found that the transnational agencies were generally wary of the costs (financial, legal, social, etc) of mobilising staff across borders, except in some highly skilled areas such as engineering. Even in the case of "global agreements" signed with transnational corporate clients, agencies still tended to recruit workers locally. The effect of this policy has been to leave this part of the trade primarily to smaller players, of which there are plenty in operation. Over 85% of the recruitment agencies in the United Kingdom are said (by the relevant employers' association) to be small and medium-sized enterprises (SMEs). And the same goes for the United States. So both of the world's largest national temporary staffing markets are highly fragmented, dominated by small and medium-sized agencies. Table 1 shows that the United Kingdom and Germany have many more agencies in operation than most European countries,⁷ suggesting a strong role for SMEs in the sector. All types of agency, from transnational to SMEs, are, however, involved in placing migrant workers when they arrive at their final destination (for the UK example see McDowell et al (2007)). A major question for the future is thus how the staffing agency sector will evolve, whether there will continue to be a division of labour between the large and small agencies or whether there will be more convergence, brought about either by greater mobilisation of non-national labour through the transnational companies or by more regularisation of the agencies operating at the more informal end of the market.

National-level institutions and the role of TSAs

TSAs are highly dependent on nationally specific labour market regulations of two kinds: first, those that apply to the activities of the agencies themselves, and second, those that apply to flexible forms of working across the economy as a whole. Their capacity to expand is also shaped by path-dependent societal factors related to the degree to which placement into a job through a TSA is deemed "socially acceptable". This "national" employment framework structures the operation of agencies in relation to the migration of workers. It also has a significant influence on the effect of introducing migrant workers into the national system, as these regulations influence the extent to which temporary workers – and migrants employed through these agencies – can be employed on different terms and conditions of employment to those of the client's direct employees (Ward et al (2001)). Overall variations in the TSA sector according to size, internal structure, rates of growth and indeed its impact on the "mainstream" economy are the outcomes of differences in the institutional settlement that is constituted by the regulation of both the industry itself and of the labour market. These settlements are of course still evolving in many countries as there has been, and continues to be, considerable change in both the regulation of the industry and the wider regulation of the labour market.

Table 1 indicates the wide differences in both the scale and structure of the sector across Europe and elsewhere. Not only are there differences in the overall penetration of the market – with the United Kingdom having the highest rate of usage – but there are also significant differences in the nature of the usage; in Germany, for example, most work is in manufacturing and concerns men, while in the United Kingdom most work is in services and uses more female labour. Many EU countries have adopted the regulatory principle that temporary workers should be covered by the same terms and conditions as in the collective agreements for the sector or firm in which they are working, although this may only provide them with parity in minimum earnings, not in actual wage levels. Where there are provisions

⁷ There is no agreement over the number of agencies in the United Kingdom. According to CIETT (2005) there are around 6,000, which is more than for the whole of the United States. On the other hand, as Ward (2003) reports, there are a number of other estimates that put the number considerably lower. This is symptomatic of the lack of reliable data on many aspects of the temporary staffing industry.

for industry-specific collective agreements for temporary work agencies, the impact may still be to allow for differences in terms and conditions of employment. Thus the outcome of apparently similar forms of legal regulation may still differ due to the characteristics of the systems of collective bargaining regulation across countries.

Table 1
Agency work statistics 2005 (selected countries)

Country	Number of active private employment agencies ¹	Number of agency workers ¹	Agency workers as a percentage of total workforce
Belgium	130	78,066	1.9
Denmark	809	16,000	0.6
France	1,000	585,687	2.4
Germany	4,776	375,331	1.0
Greece	7	3,503 ²	0.1
Hungary	505	54,000	1.4
Italy	83	157,000	1.3
Japan	23,700	1,020,000	1.6
Netherlands	1,250	176,000	2.2
Poland	550	27,000	0.2
South Korea	1,153	380,000	0.3
Spain	346	130,000	0.7
Sweden	550	32,000	0.7
United Kingdom	5,991	1,219,000	4.3
United States	5,500	2,910,000	2.1

¹ Includes both members of the CIETT (International Confederation of Private Employment Agencies) National Federation and non-members. ² Estimate from Eurociett members.

Source: CIETT (2005).

Table 2 provides details on five case studies of countries chosen as illustrative of neo-liberal, social democratic, corporatist and post-socialist economies. The reality, however, is more complex than the classifications would suggest. For example, Australia, which is now regarded as a deregulated and liberal economy, like the United States and United Kingdom, shares the tendency found in these two states for the sector to be highly fragmented and competitive but, unlike in the United Kingdom and United States, the continuing differences between Australian states in their industrial relations frameworks create an additional barrier to firms achieving significant market share (Coe et al (2009a)). Considerable adaptation is required to regulation at a sub-national as well as national level. Sweden and Japan provide examples of traditionally highly regulated labour markets, Sweden following the social democratic and Japan the corporatist form. Their TSA sectors, however, are following very different development paths. In Sweden the number of agencies is very small, reflecting the impact of a requirement for agencies to employ workers long-term (Coe et al (2009b)). In Japan, following progressive rounds of deregulation, the sector is showing strong growth, despite the tradition of lifetime employment. However the growth has been achieved through the emergence of a large number of domestic agencies. In the Czech Republic and Poland,

in contrast to Japan, it is the transnational agencies that are key players in these embryonic markets, often initially serving the needs of foreign investors in the region, as the domestic market is weak due to previous restrictions on agencies and to strong social norms against agency work. However, as in Japan, there are ongoing processes of sociocultural adjustment to new ways of working (Coe et al (2008)).

Table 2
Temporary staffing in different national institutional systems

	Australia	Sweden	Japan	Czech Republic / Poland
State/labour regime	Neo-liberal	Social democratic	Corporatist	Post-socialist
Penetration rate (2005)	1.4% ¹	1.0%	1.6%	... / 0.4%
Number of agencies	3,404	350	23,700	... / 550
Market share, top 10	35%	90%	55%	...
Share of global industry	3%	< 1%	15%	< 1%
Largest player	Skilled Engineering (Aus)	Manpower (US)	Staff Service (Japan)	...
Domestic sector	Strong	Medium	Very strong	Weak
Industry regulation	Liberal	Liberal	Strong, but liberalising	Liberalising
Labour market regulation	Light	Strong	Strong	Strong, but liberalising
Profit margins	Low	Low	High	Low
Territorial embeddedness	High	High	Very high	Medium
Key shaping factor	State-level industrial relations	Widespread collective agreements	Strong preference to use domestic firms	Societal adaptation to new working norms
Dominant sectors	Government, professional, manufacturing	Professional	Office workers	Manufacturing
“Typical” duration of contracts	Weekly	Monthly ²	Daily	Daily
Level of domestic innovation	Medium	Low	High	Low
Extent of domestic firm internationalisation	Medium	Medium	Low	Low

... = not available.

¹ Estimate based on total number of “on-hire” workers placed in 2005 (309,663). ² Workers are employed permanently with agencies, and placements tend to be long-term.

Source: Based on research by N Coe, K Ward and J Johns under the ESRC project on Globalization of the temporary staffing industry, www.sed.manchester.ac.uk/geography/research/tempingindustry/.

Overall, it is difficult to overstate the importance of highly variable and nationally specific labour regimes in shaping the development of the temporary staffing industry.

The role of agencies in the international mobilisation of labour depends upon country-specific and culture-specific factors. For example, in the Opole area of Poland, agencies are not significant in mobilising the most common form of migration, by Polish German passport holders to Germany, as this movement is based on and facilitated by strong cultural ties (Coe et al (2008)). In contrast, the migration into the neighbouring Netherlands is facilitated by agencies, and indeed by Dutch agencies, in part due to the underdevelopment of the Polish industry. The mobility in this case tends to be oriented to low-skilled jobs for blue-collar workers due to language barriers. The 45 Dutch agencies operating in the area are in fact doing more than acting as an employment exchange; they also train the staff in Poland before sending them to the Netherlands for spells of eight weeks, followed by home visits of three weeks. Agencies are also beginning to actively develop high-end markets which have traditionally been driven more by individual job search. For example, an agency in the Czech Republic has begun diversifying from low-skilled to higher-skilled areas, including IT and health professionals, as its contacts with the United Kingdom have become more firmly established and it has become aware of potential new markets. The long-term need for agencies to mobilise migrants is, however, difficult to predict; their role in promoting flows may decline if strong informal word of mouth networks develop. However, formal agencies may still be required when the receiving employer relies on them for ensuring compliance with regulations or suitability of skills, including language competence. The outcome is likely to be highly varied dependent on the specific groups, the characteristics of the home and host countries and the strategies of the agencies themselves in promoting their abilities to take on additional outsourced roles for client companies.

The impact on work organisation and terms and conditions of employment

The motivations to utilise TSAs include opportunities to offer lower terms and conditions, to fill posts that are not easily filled at current terms and conditions, to hire labour for very specific and short-term assignments including cover for absence, to screen for potential permanent recruits by using periods of working for the TSA as a trial employment period, etc and to mobilise additional staff for short-term or cyclical changes in demand. National regulations will be important in determining whether the outcome of using TSAs is reduced terms and conditions or simply the filling of hard to fill vacancies at current terms and conditions. Migrant workers are particularly likely to fulfil both roles; for example in the United Kingdom health professionals tend to come in to fill unpopular shifts or locum work, while working under NHS terms and conditions; in some cases qualified and skilled workers are employed in jobs below the level appropriate for their abilities/qualifications, thereby providing employers with opportunities to tap into a higher-quality labour force for the same rate of pay. In many jobs, however, less skilled workers will be employed on lower terms and conditions than directly employed staff. Floors may be placed on this downgrading of terms and conditions by the existence of legal minimum wage regulations at national or sector level – to the extent that immigrant workers are employed legally and under legal employment conditions. Migrant workers are particularly likely to be used to reduce the costs associated with long and flexible hours of work, that is by being excluded from unsocial hours premia.

The scope for TSAs to offer lower terms and conditions is again highly context-specific. In the United Kingdom there are few barriers – other than the impact on the motivation of the directly employed staff – to doing so, except with respect to the country's minimum floor of

legal rights.⁸ In other countries there are both legal minima and, more importantly, company- or sector-specific collective agreements that may be enforceable, dependent upon the context. The enforceability of terms and conditions is not fully explained by reference to standard typologies of countries. Germany and Sweden are often classified together as coordinated or regulated economies but a major divide has opened up between them. Sweden has been able, by and large, to retain control over labour standards through the use of union blockades where necessary. Moreover, Sweden guarantees a salary of 80% of the monthly wage irrespective of the availability of work (Bergström (2003)), similar to the situation in place in the Netherlands (Fagan and Ward (2003)). In contrast, the German corporatist regime has been found to have a large number of holes in its protection systems, associated with the absence of legal minimum wages and enforceable extended collective agreements. There have been some attempts to plug these gaps in employment protection – to gain acceptance for further deregulation of other aspects of temporary work such as duration. Since 2005, rules have been in place specifying that temporary agency workers are to be paid at the rates prevailing in the client firm – except where there is a collective agreement covering the TSAs themselves. The result has been that now most agency workers come under a specific collective agreement that was introduced because of this opt-out in the law (Mitlacher (2007)). Wages for temporary workers have apparently risen, but not to the level in the client firms, and data still suggest that, according to a study by Nienhüser and Matiaske (2006) quoted in Mitlacher (2007), there is a wage differential between temporary agency workers and core employees in Germany of between 22 and 40%, compared to a 24% average differential in the United States.

There is limited empirical data on actual pay rates for temporary agency workers although there is copious anecdotal/case study evidence of temporary workers being brought in to workplaces at wage rates well below the prevailing rates and with only minimum paid holidays and no unsocial hours premia. In addition to this legalised downgrading of terms and conditions, both the agency and the client may reduce conditions below legal minima by charging fees for finding a placement (either in the home or the host country) even when this is not permitted, by charging above the odds for accommodation and other costs and by colluding with employers in payment below legal minima or in the employment of illegal immigrants. However, it is also clear that the practices of agencies in these respects vary considerably between firms and it is the stigma of association with these practices that may deter the multinational corporations from engaging in direct mobilisation of migrant workers across their own networks.

Research also points to the impact of the use of temporary agency workers on work organisation and work intensity. The temporary nature of assignments and the tendency towards high turnover rates encourages employers to design jobs and systems of work organisation that minimise training requirements and limit the scope for discretion of the employee. In addition, frequent changes of personnel associated with the use of temporary agency workers place increased burdens on the permanent staff as they have to take time to assist new staff to familiarise themselves with organisational and work routines and furthermore take on a higher share of the responsibility for problem solving and supervising work due to the reduced share of experienced workers in the work group (Beynon et al (2002)). While this approach applies generally to the use of temporary agency workers (Ward et al (2001)), the impact on work organisation may be different where agencies are used to mobilise foreign labour to fill skill gaps. The migrant staff employed may have higher skills than the local staff, such that it may be the temporary staff who are required to take on the higher-discretion jobs – for example where qualified nurses are employed as care assistants

⁸ There are ongoing discussions nationally about the introduction of new legislation for temporary agency workers to offer them better protection, more in keeping with their continental European counterparts.

as happens frequently in the United Kingdom (Guardian (2005)). The use of TSAs may also encourage employers to extend operating hours and to schedule work more flexibly; this may over time require permanent staff to engage in more flexible working, although temporary staff may continue to work a higher share of the unsocial hours.

Efficiency and equity issues

TSAs are clearly filling a need within contemporary labour markets, facilitating employers' access to additional sources of labour and smoothing access to employment for many diverse groups of individuals, particularly those newly arrived in the labour market or seeking work from afar. There is a wealth of historical and current literature that suggests that migration can be an extremely important and positive development for both home and host countries; experience in the European Union clearly suggests that migration may be important in the integration of new member states and in their development process. However, TSAs are not only engaged in the operation of flexible labour markets; they are also playing a significant role in changing the structure and operation of labour markets. They have an institutional presence. For example, transnational agencies are actively involved in industry associations and in lobbying activities aimed at expanding the remit of the industry and publicising the role it can play in promoting flexible employment practices. In the case of Japan, lobbying has centred on seeking to expand the range of occupations in which workers can be placed and to loosen the contractual conditions of such placements, while in eastern Europe lobbying has been associated with creating legitimacy and market awareness. TSAs appear to have higher penetration rates where there are more opportunities to change the terms and conditions of employment. This provides some a priori evidence that employers are motivated to use TSAs to reduce labour cost not through smarter working but through reduced rewards for work. As such, the availability of cheap labour provided through TSAs may in some cases allow employers to postpone the search for higher productivity through modernising of technology and work systems. Opportunities to reduce labour costs within the formal sector tend to be greater in more liberal labour market regimes and where employers can tap into external supplies of labour whose reference points with regard to a fair wage are lower than prevailing local norms. These lower wages for temporary workers, however, also generate indirect costs that in the end may limit the recourse to such agencies under even the most open regimes; these indirect costs are manifest, for example, in higher than planned rates of turnover, causing employers to face either higher training costs or promoting work design that may minimise training costs but put quality standards in jeopardy (Ward et al (2001)).

Case study 2: the elderly care sector

The growth of outsourcing and the use of migrant workers in the elderly care sector

Migrant workers are proving to be an important source of labour supply in some countries to meet the ever growing demand for care workers to look after the ageing population. Furthermore, these migrant workers may be employed by the public sector, by private sector firms or agencies or alternatively directly by families. Where provision is both primarily state-funded and directly provided, the share of migrant workers tends to be lower (Simonazzi (2008)).⁹ To understand the increasing role for migrant workers, and the variations in their

⁹ This section draws on Simonazzi (2008) except where otherwise specified. Simonazzi's paper synthesises a European investigation into the variety of responses of national models to the challenge of the ageing population and the implications of the different responses – particularly for employment organisation. The project covered eight countries, including the United Kingdom (Urwin and Rubery (2007)). For full details see <http://www.dynamoproject.eu>.

roles between societies, there is thus a need to engage with the specifics of the organisation of elderly care in particular societies.

Despite the variation in outcomes that we demonstrate below, there are some common trends or issues that are affecting the elderly care sector. Labour demand in this sector in Europe is being affected by five main trends; the ageing of the European population; the changing role of the family – and in particular the decrease in an available and largely female family labour supply for informal care work; the pressure on public budgets; the opening-up of options for public service provision (to include private providers and the use of cash transfers); and the opening-up of European labour markets to migrant care workers.

While these are fairly common trends across all societies, the extent to which each of them impacts on current practice depends on the particular care regime in each society – and in particular the mix between family and state provision – as well as on the openness of the society to new developments such as migration or the use of private sector providers. Table 3 shows that there are very strong differences between European societies in both the current provision of formal care and recent trends. While there are some definitional problems in measuring the provision of services, it is clear that the southern European countries make much less use of either residential care or home domiciliary care for the elderly than the northern European countries. These differences are to a large extent to be explained by differences in approaches towards family obligations to care. These differences arise out of legal and customary norms and may be reinforced by actual service provisions. In southern Europe families are still legally bound to take care of elderly people; in continental Europe family responsibilities are regulated implicitly; in the United Kingdom and Scandinavian countries there is no family obligation specified by legislation and there is a more explicit individual entitlement to a minimum level of service.

Table 3
Percentage of elderly people (65+) in residential and home care

Country	Residential			Recipients of home care services		
	% mid-1990s	Year	%	% mid-1990s	Year	%
Sweden	5.4	2005	6.0	13.0	2005	9.0
United Kingdom	5.1	2000	5.1	13.0	2002	20.3
France	3.0	2002	7.9	7.0	1998	7.9
Austria	4.7	2000	3.6	3.0	2000	14.8
Germany	5.0	2003	3.9	3.0	2003	7.1
Spain	2.8	2004	3.7	1.0	2004	3.1
Italy	2.0	2000	2.1	1.3	1999	3.0
Greece	0.5	2001	0.6	...	2005	4.1

Source: Simonazzi (2008), based on OECD and national data.

There are also differences in the type of formal care provided. While some countries have increased the share using residential homes (such as France), by and large it is home care services that are rising – particularly in the United Kingdom, Germany and Austria. This trend is associated with attempts to reduce costs by minimising time spent in both hospitals and residential care, with the consequence that the dependent population in the community is increasing.

There are also widely varying modes of providing both funding and services. Where care is funded either directly by the family or from cash payments paid directly to the elderly person, there is indirect encouragement for the development of informal markets and the employment of migrant workers on low wages. However, where the cash payments are tied to the employment of the long-term unemployed, as in France, there is less scope for the development of informal markets based on temporary migrants. Where care is provided through publicly funded service provision, there are variations between countries in the use of private and not-for-profit providers as well as, or instead of, public providers. The United Kingdom and Germany make least use of public providers. However, while in the United Kingdom the main providers are private, in Germany there is significant use of both not-for-profit and private providers. Sweden, Spain, Italy, Austria and France still make significant use of direct public provision in residential care. Private sector companies and agencies may be particularly likely to overcome labour shortages and budget pressures by sourcing labour from lower-wage countries. In contexts where services are provided by the public sector, migrants may still be used to fill labour shortages but will normally be employed on standard public sector terms and conditions.

National-level institutions and the role of migrant workers

So what is the outcome of these various dimensions of the care regime on both the use of outsourcing (not offshoring in this case)¹⁰ and the use of migrant workers?

To simplify the comparison we focus primarily on three main examples – Sweden, the United Kingdom and Italy – that represent some forms of ideal type care models: primarily formal and public provision in Sweden, primarily publicly funded but private provision in the United Kingdom and primarily family-driven and informal care in Italy.

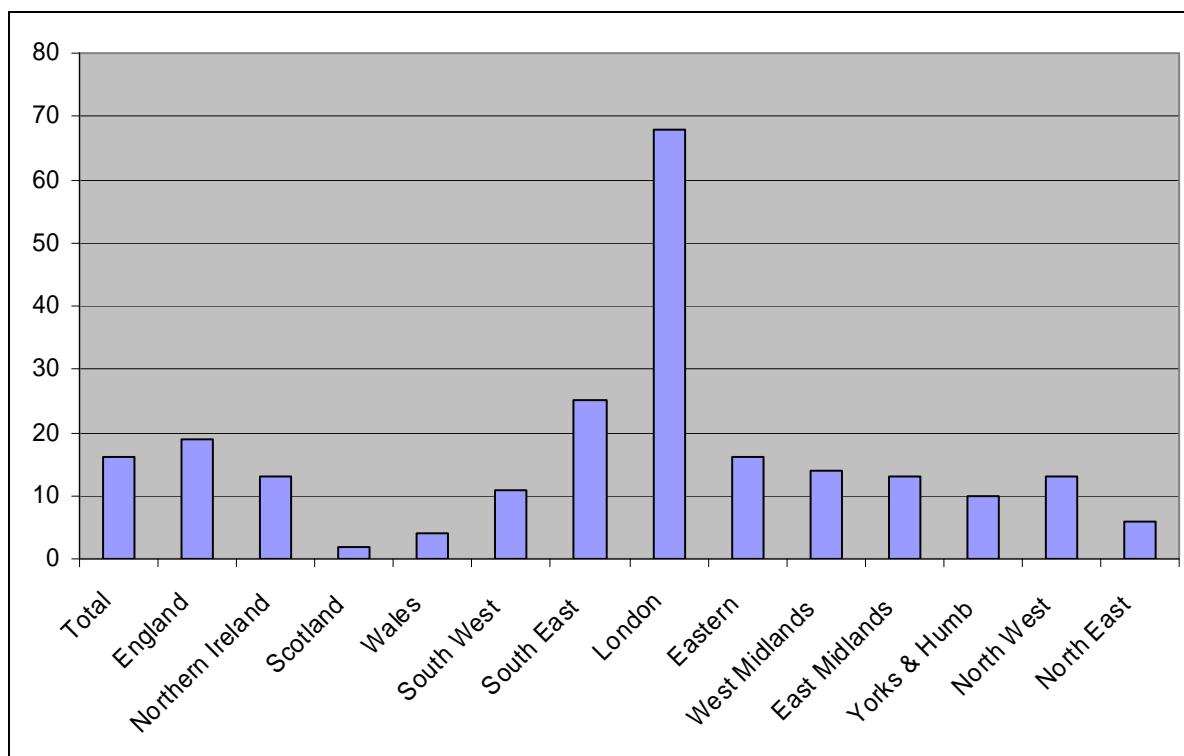
Sweden provides a high level of formal care services but the supply is mainly from native workers. There is an explicit policy of avoiding the development of a low-skilled, low-paid market for irregular eldercare workers. The 10-year action plan for long-term care, launched in 2006, aims to improve employment and working conditions in order to recruit and sustain a stable long-term care workforce. Thus Sweden is aiming to resolve the current labour shortage problems by upgrading the value, status and training associated with care work.

In contrast the United Kingdom has moved down a path of subcontracting most of its residential and domiciliary care work to the private sector, primarily as a means to reduce labour costs. Private sector agencies are reducing pay levels compared to the public sector, ending unsocial hours payments and requiring workers to work flexibly across the day and the week including weekends. Again the United Kingdom provides relatively comprehensive access to care, much of which is state-funded even if not state-provided (72% state-funded). The agencies and residential care providers thus primarily work for the state and it is the state's low budgets that are driving these deteriorating terms and conditions. Nevertheless, the majority of migrant workers engaged in care work are employed in the formal sector in the United Kingdom. In this context the private sector providers and agencies often face chronic labour shortages and high turnover rates, particularly in high-wage areas such as London and the South East (see Graph 1). In these areas there is increasing resort to migrant care workers, particularly for residential homes, where it is easier for those without fluent English to be integrated than in domiciliary care, where the workers have to deal directly with elderly clients on their own. Overall some 16% of care workers are non-UK born but this rises to a staggering 66% in London, with the next highest share at 25% in the South East, but falling to 6% in the North East, 4% in Wales and 2% in Scotland (Experian (2007)). Thus the role of migrant workers is primarily to plug a labour shortage gap that cannot be adjusted through changes in wage rates due to the dominance of the state in setting the

¹⁰ Although the migration of retirees can lead to an international redistribution of responsibilities for care.

available budgets. Qualified migrant workers – for example qualified nurses from the Philippines, Pakistan and India (*Guardian* (2005)) and eastern Europe – who are only able to find employment in care homes may also be helping the system cope with ever more dependent clients as they bring additional nursing qualifications to the task, even if being paid as unqualified care assistants.

Graph 1
Percentage of care workers born abroad



In Italy there is limited provision of public services for the elderly although the provision is increasing. The expectation is that the family should provide the necessary care. Most of the limited public funds spent on elderly care have been directed at compensating the family carer, but they have been mostly redirected to pay migrant workers in the underground economy. The attendance allowance for dependent persons with severe disabilities is not “tied”. It amounted to EUR 450 per month in 2006, and is not means-tested or conditional on the family structure of the person in need. This means it can still be used to employ irregular or illegal migrant workers, often as live-in workers working very long hours. In contrast, the care allowance is means-tested and is granted by local authorities to elderly people at risk of institutionalisation. It is usually lower and much less widespread than the attendance allowance, but the local authorities can more easily subject its payment to observance of rules, such that payment of the care allowance has been increasingly made conditional upon the hiring of regular immigrant carers. Nevertheless the scale of the informal irregular economy remains large. A recent report on care in Europe (European Foundation for the Improvement of Living and Working Conditions (2006)) made the following comment:

“In Italy, a high profile legalisation campaign carried out by the government in 2002–2003 identified 341,000 undeclared foreign immigrants working in the domestic services sector ... A further estimated 500,000 domestic helpers (*badanti*) work in Italy, providing support to dependants and their families ... Their presence enables many families at all socioeconomic levels to care for their elderly relatives, often substituting for the role traditionally played by wives and daughters ...” (op cit 40)

Thus of the three regimes that we have considered in detail we have one, Sweden, that makes limited use of migrant workers, another (the United Kingdom) that makes increasing use of migrant workers, particularly in the private sector and in London, but primarily within the formal economy as the private sector firms provide services paid for by the state, and a third, Italy, where the main purchaser of services for the elderly is the family, either from their own funds or from direct cash payments, with the result that there has been a large flow of migrants absorbed into the informal economy. However, there are moves to regularise migrant workers' status and some forms of care payments require the employment of native workers or regular migrants.

In other European countries there are more mixed models: in Germany there is a highly regulated formal sector, where staff are required to hold specific qualifications to undertake care work, operating alongside an informal sector, often involving migrant workers, paid for by the family and funded by the direct cash payment system. Austria also makes use of migrant workers, many illegal, but primarily in residential care because of the language problems associated with home care. In France the government has introduced direct cash payments but has regulated these payments to ensure that they are used to hire the long-term unemployed. By switching to cash payments it has effectively casualised the market so that agencies now act as intermediaries for the families rather than as direct suppliers of services but it has restricted the source of labour to resident long-term unemployed. The underground economy covers one third of the market in Spain, where language problems are less of a problem, since workers migrate from Latin America. Spain, however, has recently taken an important step in moving away from the family-based welfare system that characterises southern European social models by now giving elderly people the right to receive care services even when they are co-resident with other family members. The implications of this recent change are not yet clear but could lead to a regularisation of the family-driven informal care provision and thereby to changes in the scale and form of the use of migrant labour. Much will be dependent on the resources for care made available by the state.

The impact on work organisation and terms and conditions of employment

The terms and conditions under which migrants are employed depend to a considerable extent on whether or not they are employed as informal and irregular workers or through more formal systems. However, there are also differences between countries in the ways in which formal sector workers are rewarded. In those countries where the underground economy is widespread, the shortage of care workers has been filled by undocumented/irregular immigrant workers. Their pay is often extremely low compared with the pay earned by a regular worker, but much higher than what they could earn in their home country.

However, the Italian experience seems to indicate that wages tend to increase with public policies aimed at favouring the regularisation of foreign workers in order to reduce discrimination, or to upgrade the skills of foreign carers and reduce segmentation. By 2003 (Bettio et al (2006)) the average all-inclusive cost to families of a live-in elderly minder on a regular contract in Modena had risen to EUR 987 per month (amounting to some EUR 800–850 in net earnings) compared with an estimate of EUR 979 for average net female earnings in industry in Modena in 2002. This trend towards rising costs has intensified since March 2007, when a new national contract for domestic workers established the cost to a family for a live-in elderly minder on a regular contract at between EUR 1,000 and 1,300 per month (in addition to board and lodging costs although social contributions can be deducted from tax). This compares with average net earnings in industry and services between EUR 950 and 1,250. At the new wages, the regular minder solution is no longer competitive with residential care, especially if the costs of the latter are subject to subsidy by the state. The risk is, therefore, that this form of work will be pushed back into the black market.

It was after the collapse of eastern European socialist regimes that there was the first huge flow of illegal migrants towards the southern European countries, attracted by the size of their underground economies. This flow fuelled the development of the “Mediterranean model of care”. However after EU enlargement, most migration from eastern Europe has become “internal” (although with large differences in receiving countries’ migration policies). Legal immigrants can now choose between remaining as “irregular” workers, as in the Mediterranean countries and in Austria, or they can fuel the supply of cheap but mainly formal labour (as in the United Kingdom). Eastern European workers are now moving in large numbers towards the richer labour markets of the northern European countries. Their legal status as migrants influences their migratory projects: they can now move more easily on a short-term basis. In turn, the pattern of migratory projects can affect the degree of competition with domestic workers. This regularisation of the position of eastern European migrants has led to a reshuffling of migratory flows by origin and destination. In Portugal for instance the share of immigrants from eastern Europe, which had been extremely high because of the relatively low cost of a visa, has dropped in favour of immigrants from Latin America.

The terms and conditions in the formal sectors of the care economy in European economies tend to reflect the characteristics of the overall employment and social regime rather than the specific impact of migrants. Thus higher pay in Sweden reflects greater gender equality in pay structures and the promotion of decent work within the public sector, while in Germany higher pay in the formal sector is more associated with the greater focus on skill formation and accreditation in the German economy, such that care workers are expected, by and large, to complete an apprenticeship. The low pay prevalent in the United Kingdom reflects the opportunities to outsource to tap into labour market segments at lower wages but still within the formal economy. However, access to migrant workers is allowing the UK government to provide care services based on wage rates that are not sufficient to generate a sufficient supply of UK-based labour, particularly in areas such as London, but also for more difficult to fill posts such as night work.

Efficiency and equity issues

There are efficiency as well as the obvious equity issues associated with the irregular and informal employment of migrants for the provision of care. The efficiency issues relate not only to problems of quality assurance in care for the vulnerable (including, for example, the ability to run criminal records checks on care workers) but also to the costs associated with failures to integrate migrant groups. Ultimately the growth of the informal sector in many countries can be related to a failure to adjust to the two main demographic challenges facing Europe – the ageing of the population on the one hand and the changing gender and family relations on the other that is reducing the supply of unpaid family labour for the care tasks. Even where migrant labour is employed in the formal sector, the resort to such labour may reflect a failure to adjust the employment model to new social norms and behaviour. The care model, for example in the United Kingdom, has depended upon a ready supply of female labour for a monopsonistic labour market where wages are kept down well below the level that might be expected, given the skills required and the stress factors associated with care work. As women now have more options in the labour market, the domestic supply of workers is drying up and the model is being maintained through opening borders to migrant workers. While this is assisting in the delivery of care services, it is far from a panacea. Use of non-native speakers for domiciliary care is more difficult in the United Kingdom due to the frequent lack of family members to oversee the care work (while in the Mediterranean countries it is family members other than the elderly person who often hire and supervise the care person). Furthermore, migrant workers may not solve the problems of high turnover if they use their positions as jumping-off points to enter the wider labour market and obtain jobs more appropriate to their skills and qualifications. One interesting twist to the use of migrant workers to fill labour shortages in the United Kingdom is that the recent tightening of rules for visas is threatening the flow of, for example, qualified Filipino nurses to staff residential and

nursing homes as these jobs cannot be classified as skilled jobs because they are too low-paid (*Guardian* (2007a)).¹¹ Thus the visa rules do not recognise the reality of gender-segmented markets where pay reflects gender discrimination rather than skill levels.

Case study 3: IT-related outsourcing/offshoring and use of migrant workers

The growth of outsourcing/offshoring in IT-related sectors

The main debate around offshoring and outsourcing in Europe has focused recently on IT-related outsourcing/offshoring, including both call centres and IT software.¹² The outsourcing of business processes and the spread of “delocalisation” from manufacturing to services has created considerable concern over future job prospects within Europe, in relation to both quantity and quality of jobs. Furthermore the inshoring of IT services – that is the deployment of temporary migrant IT workers within Europe – has further added to fears that even knowledge work areas will be increasingly vulnerable to displacement. Despite these concerns and recent rapid growth in some offshoring/inshoring activities, the actual size of job losses directly attributed to international subcontracting and outsourcing abroad between 2002 and 2004 was under 7.5% (European Monitoring Centre on Change, Dublin, quoted in OECD (2007a)). Moreover, there are debates as to whether much of the offshored activity – particularly call centres – is in fact destined to become rapidly obsolete with the growth of, for example, voice recognition technology.

However, as is the case with temporary work agencies, the development of offshoring of IT work and call centres is also related to institutional development and in particular to the form of the development of the IT sector in countries such as India. One reason for the continued expansion of the scope and scale of offshoring has been the advances made by the IT industry in India in developing management expertise across a range of IT functions instead of simply relying on the low cost of Indian skilled labour. The initial success of the software industry was dependent upon developing a reputation for being able to deliver bespoke but technically efficient software (Athreye (2005)) and not simply on the availability of low-wage labour. Furthermore, Athreye (2005) has argued that the Indian software industry has in fact been propelled into a stronger high road development approach by labour shortages in the 1990s as Indian engineers were being sought for both domestic assignments and short-term assignments overseas.

Call centre offshoring, however, is more strongly associated with a low-cost and more routinised approach than that found in developed economies (although there is a paradoxical tendency to focus both on the availability of highly skilled graduates for call centre work in India and for companies to outsource the most routinised operations (Taylor and Bain (2005, 2006)). However, suppliers of the relatively low-skilled call centre and data processing activities are also adopting strategies to move their activities further up the value chain, based on their established relationships with external clients. Thus the expansion of offshoring may be taking place not so much through the development of simple market opportunities but through the establishment of trust relationships between organisations across advanced and developing economies.

The growth of higher-end IT outsourcing and offshoring may also be related to the emerging market structure in IT outsourcing in developed countries, dominated as it has become by a

¹¹ The government has now decided that only those paid above GBP 7.02 an hour can be considered skilled but many skilled workers, including qualified nurses in this sector, are paid less than this (*Guardian* (2007b)).

¹² According to Milberg and von Arnim (2006): “Intra-firm imports of computer- and information-related services, a subcategory of business, professional and technical services exceeded the arm’s length import growth rate by 50%”.

small number of multinational corporations (MNCs). These companies are well placed to develop relations with external suppliers of software and other activities, due to their specialist knowledge and expertise. They are also part of the process of promoting an internationally mobile industry that may become increasingly disconnected from the domestic sector. For example, studies of the operation of US MNCs in the IT sector in Latin America revealed a tendency to move staff across countries according to flows of work and the landing of large projects, thereby effectively reducing the size of the domestically rooted IT skilled labour force (as many of these workers had been transferred from domestic companies to the MNCs through mergers and takeovers). These processes of internationalising skilled staff may have implications for the diffusion of IT expertise in the domestic economy of these semi-industrialised countries (Miozzo and Grimshaw (2007)).

National-level institutions and the outsourcing/offshoring of IT-related activities

Propensities to offshore IT-related activities may reflect practices with respect to outsourcing in the domestic market. It has been suggested that German companies were reluctant to offshore their activities to India because this involved too large a change to arm's length contracting for companies used to either in-house arrangements or outsourcing with local providers based on close inter-organisational relations including joint venture arrangements. It was thus first necessary for international IT companies to set up offices in Germany with which the German companies could develop closer working relations. Over time these MNCs have increasingly taken on the management of outsourcing, including the offshoring of projects (Amberg (2006)). In contrast, the United Kingdom is considered to be more used to arm's length outsourcing and in addition does not face the same language barriers either to IT software offshoring or more specifically to offshoring of front of office work to countries where there are supplies of labour educated to a high level in English. Differences in the take-up of outsourcing and offshoring opportunities are thus related both to the dominant national model and to colonial legacies including language competences. However, it should be noted that Germany has recently seen a major expansion in outsourcing and offshoring, suggesting that these differences between countries will not necessarily persist and that models do change as companies adjust to new ways of operating.

A recently completed global call centre project covering 40 countries has reported that there are differences in the organisation of call centres that relate to the characteristics of the particular country concerned (Holman et al (2007)). Thus, the coordinated capitalism countries have tended to design call centres that provide more scope for job discretion and better terms and conditions than those in the more liberal developed economies and newly industrialising countries. However, these characteristics are more noticeable in in-house than in subcontracted operations; for example in Germany works councils are three times more likely to be found in in-house than subcontracted call centres and the latter pay wages on average 25% less than the in-house operations. Thus, national characteristics that favour better terms and conditions also provide more financial incentives towards subcontracting (which may be modified by more difficulties in downsizing when operations are outsourced (Farrell (2005))).

The impact on work organisation and terms and conditions of employment

There is clear evidence from the global call centre project and from direct comparisons of Indian call centres with other call centre models that both outsourcing and offshoring are associated with more restrictive and narrow job designs, offering lower levels of discretion to employees and involving more intensive monitoring. Less training is provided by subcontractors than by in-house operations. Pay levels are also lower in subcontracted operations, particularly where there are big differences in the extent of collective bargaining coverage between in-house and subcontracting operations. Both domestic contractors and offshored operations are more often engaged in extending operating hours, a further incentive for outsourcing and offshoring in addition to low wage costs. Offshoring of call centre work has been argued by Taylor and Bain (2006) to be a further stage in the search

for low costs. The first stage in the United Kingdom involved setting up call centres in areas of high unemployment, but over time the cost advantages decreased as the workforces became mobile between the different call centre operations. The second stage has been offshoring but, again as we discuss below, problems of turnover have been encountered so that there has been no simple geographical fix to the search for efficient and low-cost operations (Taylor and Bain (2005, 2006)). Until now, European laws on transfers of undertakings have not tended to cover offshoring decisions but recent amendments to the laws may make it more difficult for companies to offshore and avoid the barriers to downsizing simply to cut labour costs that arise out of the European legislation.

Where trade unions (or works councils) have a voice, as for example in Germany, alternative structures for managing fragmentation may be devised that support employment stability, as in the use of joint ventures to manage IT outsourcing in Germany (Grimshaw and Miozzo (2006)). Outsourcing of IT operations is not so clearly linked to reducing wage costs, at least for the original client organisation; the large MNCs operating in IT outsourcing often pay higher wages than are earned by IT staff employed in non-specialist organisations, but transfer to a specialist IT firm on higher pay may require staff to accept more flexible pay, location and hours of work (Marchington et al (2005)). It is these large MNCs, primarily from the United States but also now from India, that are responsible for the offshoring of work aimed in part at reducing labour costs.

Efficiency and equity issues

The model of outsourcing/offshoring of call centre work is not universally regarded as providing efficient outcomes. It is notable that firms working in financial services, one of the main and the first sectors to engage in offshoring, have also begun to use home-based call centres as a mark of quality in their advertising campaigns. The problems of working at a distance have pushed the Indian call centres into adopting routinised systems of work organisation that have caused service quality problems in the West. These are exacerbated by problems of high turnover among the Indian workforce that intensify the general problem of overcoming linguistic and cultural differences. Taylor and Bain (2005, p 278) summarise the dilemmas of workforce management in India.

“Januslike, Indian employers face two ways, appealing to overseas clients that its Indian workforce is inexpensive, well-educated and more than capable of handling the routinized services they might wish to migrate, while simultaneously promising to Indian workers high wages, interesting work on behalf of prestigious clients and career opportunities. Managerial rhetoric conflicts with agents’ experiences, as the realities of work – relentless call-handling, extensive monitoring and strict conformance to clients’ SLAs, long nocturnal working hours and travelling times – can take their toll on health and domestic life, leading to disengagement and exit.”

There are much clearer indications that the development of IT outsourcing and offshoring to India has facilitated the independent and dynamic growth of not only the IT sector but also the Indian economy. While there appear to be tangible gains for the country’s economy, there are risks that developed and industrialising economies may become too reliant on the dominant IT MNCs to deliver their IT solutions and in practice thereby neglect the development, regeneration and diffusion of a skill base in these areas.

3. Conclusions and policy considerations

The cases we have discussed provide an at best time-limited and partial assessment of the consequences of migration and outsourcing processes. In particular the focus has been on the impact on Western economies and little has been said about the consequences for the receiving countries, in the case of offshoring, or the sending countries, in the case of

migration. The purpose here is not to attempt a full and long-term cost benefit analysis of prospects for economic and social development with or without offshoring or international migration; not only do we not have the information for this exercise but it is also clear that the internationalising of markets and production systems and the development of international migration is a long-term trend that is not only likely to continue but is also part of the path to development for developing countries. Instead, the objective has been to demonstrate the importance of institutional arrangements in the shaping of these developments and their impact on advanced economies. Moreover, these institutional arrangements are not simply temporary distortions to the long-term inevitable working-through of independent market forces; migration has always been a politically and institutionally controlled process and will continue to be so. Likewise labour markets are not simple price clearing markets; both employers and employees place value on long-term codified relationships as a platform both for delivering high-productivity work systems and for providing the employment and income security that is vital for social cohesion and political stability. Institutional arrangements are likely to have a long-term impact on the extent to which migrant workers are effectively integrated into the economy and society and thus on whether or not the outcome of migration is a more fragmented and less cohesive society or a richer multicultural society, less divided along ethnic or other lines. Negative outcomes for social cohesion may occur in both deregulated and regulated economies, with the former risking the further development of wide inequalities within the core labour market, including reduced security at the bottom of the labour market, while the latter may risk more the emergence of strongly segmented labour markets between the included, the core, and the excluded, in an informal or illegal periphery.

Thus this focus on institutions is not a disguised plea for inertia in labour market institutions; in fact, as the case studies illustrate in various ways, there is a need for institutional arrangements to adapt and change to respond to processes of globalisation and opening-up of markets. Our first conclusion, or policy principle, is that the increasing permeability of national borders does not mean that national institutions will become unimportant but this opening-up will require institutional innovation, particularly for some variants of national models where these developments are challenging the current arrangements. There needs to be a process of rethinking appropriate forms of regulation in this new context, if national models are to provide a basis both for social cohesion and for long-term economic development. Here we can for example cite the case of Germany, where the growth of outsourcing and migrant workers has been undermining established labour standards as the country does not have mechanisms to extend protection across the labour market, unlike the case in most coordinated economies. In the interests of maintaining social cohesion – by limiting the range of wage levels – and limiting the destabilising impact of companies competing on the basis of employing workers from outside the society on much lower wage rates, Germany may well need to consider introducing new forms of regulation such as a national minimum wage. Likewise the southern European countries may need to consider regularising their migrant workforces to reduce risks of long-term segmentation.

Our second conclusion or policy principle applies both at the level of public policy and societal systems and at the organisational level; that is, that offshoring or migration should not be used as quick fixes where more fundamental changes are required. New forms of working may be used by countries and indeed organisations to postpone much needed changes – eg in welfare systems, education and training systems, wage structures, work organisation or product and service quality. This argument relates to that of Harvey (1982), who suggested that the more the world is open to geographical restructuring, the more easily temporary resolutions can and are likely to be found. One example from the case studies is the resort to migrant workers to provide for care in response to the ageing of the population and the changes in family systems and gender relations. It is not clear, however, that the recipients of care will receive both continuity and quality of care until the more fundamental problems of valuing care work as a profession are resolved. It may still be the case that care workers will include migrant workers, but without professionalising the work, the problems of

casualisation and insecurity in the quality of the delivery of care are likely to continue. A second example of public policy relates to the use of IT offshoring or insourcing to fill skill shortages; here the question is why these shortages occur in societies with ample educational facilities. The danger here is that companies in the host country will actually cut back on their provision of training unless required by public policy to invest in skills due to the apparent ready supply of skilled labour from other countries, but skills are a produced good in which Western societies need to continue to have a comparative advantage. A third example relates again to IT but is more an issue at the organisational level, where organisations decide to offshore call centres because they are not able to deal with the problems of high turnover in their existing plants, a problem which may relate to, for example, their system of work organisation, the quality of their products and services or their HR policies. Offshoring may not be a panacea, however, as these problems may continue or re-emerge in the new setting, alongside new problems associated with working at a distance. Organisations need to be certain that offshoring is the appropriate solution to their problems and not simply a means of evading more fundamental changes to their services and products, their HR practices or their customer relationship strategy.

So far we have been considering organisations that may not be acting strategically and not facing up to the need for more fundamental change. However, many organisations are in fact using and developing offshoring and migrant workers in highly strategic and purposeful ways. Organisations are important actors in developing new markets and opportunities – for example opening up eastern European labour markets to TSAs or encouraging client firms to extend their outsourcing in IT and HR areas. Our third policy issue is the need to identify areas and contexts where there is a need for greater control or influence over the activities of these organisational actors. Two prime contexts can be suggested: first there need to be new regulations or tighter enforcement of regulations where organisations are operating below the radar of legality – or where legal regulations are so weak that they are facilitating the development of highly segmented labour markets even without explicit breaches. Many examples of these problems were found in the case studies on TSAs and care workers. The second context is where there are major imbalances in power relations between clients and subcontractors (Milberg and von Arnim (2006)). Weaker organisational actors along the supply chain need to be given support in negotiating their rewards within supply chains and ensuring that outsourcing and offshoring is based on productivity and development enhancement.

The final policy conclusion is that the pursuit of the opportunities arising from the opening-up of national borders should not result in the treatment of labour as a disposable commodity. Stable employment relationships provide for the development of skills and capacities and for the delivery of quality services in both public and private settings. This need to foster open-ended, rather than spot employment relationships applies also to developing countries, who will gain the most from the processes of outsourcing if they establish longer-term relations with suppliers and are in a position to promote quality and efficiency improvements that do not rely on the simple exploitation of labour. More attention needs to be paid to the welfare and efficiency losses that may arise from the development of fragmented and short-term employment relations in either host or home countries. Of course the division of labour between organisations and countries is constantly changing and developments that may appear to be fragmenting operations and reducing quality and efficiency may lead in the longer term to new/smarter ways of working under the new forms of specialisation. However, while change is inevitable, it should not be constant, such that spot rather than long-term employment relations become the norm. As Leamer (2006, p 53) comments on the desirability of a “flat earth” uninterrupted by frictions:

“Frictions are our friends. Frictions give us the peace of mind that we will still have our jobs when we wake up tomorrow. Frictions reduce the chances that one party will try to “hold-up” the other, absconding with the lion’s share of the mutual benefits. Frictions thus give us the confidence to make the relationship-specific investments from which great returns can flow. It’s the friction we call “falling in

love” that allows the human species to flourish. I am not endorsing the French solution of permanent jobs for all, which creates a forced one-sided “marriage” between a willing worker and an unwilling employer, without even the benefit of a first “date”. That makes French employers reluctant to marry workers and leaves the French unemployment level unnaturally high. But we should be thinking long and hard about how we can make our “single” workers more “lovable” and what we can do to maintain the “marriages” between employers and employees that are working”.

Another metaphor may be relevant here. Just as has been the case with the war in Iraq, the pursuit of regime change is not sufficient to bring about a new stable employment regime or social order. The task of reconstituting and reinstitutionalising a new social order is much harder than tearing down the old one. This example should suggest both caution in the claims that should be made for benefits that come from the opening-up of labour market borders per se and that attention and effort at the international and national level should be focused not on dismantling institutional orders but on rebuilding them in innovative and imaginative ways.

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