Theme 2: Industrial relations around Europe: What future in Europe for collective voices and responses to the employment crisis?

Outsourcing in public sector organisations.
Impacts on labour and employment relations in a comparative perspective

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Abstract
Over the past three decades, public sector organisations have been subject to a far-reaching restructuring towards outsourcing of tasks in a wide range of services. Under the pressure of increasing public debts, shifting consumer preferences and the demand for higher service quality, these organisations have differentiated the provision of services, adopting privatization policies and outsourcing to external providers. This process, leading to complex changes in the organisation of work and in the employment relations has been subject to growing scrutiny (Flecker et al. 2005, Marchington et al. 2005, Flecker 2009, Perraudin et al 2009). It has been assumed that the external restructuring of the companies, involving the dispersion of activities across organisational boundaries, has led to a degradation of working terms and conditions (Doellgast and Greer 2007, Flecker and Meil 2010), since it may trigger competition with a cheaper labour-supply, shifting work from highly unionized and better sheltered organisations to more vulnerable companies, subjects to market fluctuations, where trade union power is low or inexistent. The vertical disintegration presents substantial challenge to employment relation structure as well (Doellgast and Greer 2007), weakening the bargaining power of union while “the dependency relations between
companies along the value chain can be expected to translate into increased disparities” and instability in terms of employment and working conditions (Flecker 2009:251).

The issue drew wide attention from scholars, mostly interested in disentangling the impact of value chain restructuring and vertical disintegration within private firms (Appay 1998, Frede and Darmon 2005, Doellgast and Greer 2007, MacKenzie 2009). Nevertheless, there has been limited systematic comparative research within public sector organisations (Boyne 1998, Flecker et al. 2005, Huws et al. 2008, Macinati 2008, Young 2008). Thus, drawing on varying approaches in the literature, the paper aims to discuss the impact of outsourcing on working conditions and employment relations structure in the public sector at a comparative level. We explore these issues through a case-study analysis of public services outsourcing in health care sector and local government across two countries: England and Denmark. This research design, indeed, allows also to investigate whether the impacts of outsourcing process display convergent or divergent trajectories across different sectors within national framework and across different countries and to identify which factors do intervene in explaining these patterns.

Empirical evidence shows how national institutional arrangements and different employment relations models contributed in outlining some common trajectories between the health sector and local authorities within the two countries. Common trends in England include increased insecurity, growing flexibility, worsening of work terms and conditions and weakening of unions’ bargaining role. In the Danish cases instead, labour and working conditions remained generally more sheltered, also because of the strong voice of unions during competitive tendering processes.

But sector-level peculiarities intervened as well in characterizing similar patterns within the two sectors across national boundaries. Overall, health care sector seems working as a “buffer” during restructuring processes, compared to local authorities. The sensitivity of services provided, the high visibility in front of mass media and public opinion and the awareness of social partners involved in outsourcing explain part of the variance between health sector and local government.

**Key words**: outsourcing; restructuring; public sector organisations; health care; local authority; working conditions; employment relations; England; Denmark.
Introduction

Over the past three decades, public sector organisations have been subject to a far-reaching restructuring towards outsourcing in a wide range of services. Under the pressure of increasing public debts, shifting citizens preferences and the demand for higher service quality, these organisations have differentiated the provision of services, adopting privatization policies and outsourcing to external providers. This process, leading to complex changes in work organisation and employment relations, has been subject to growing scrutiny (Flecker et al. 2005, Marchington et al. 2005, Flecker 2009, Perraudin et al 2009). Research evidence assumed that the external restructuring of companies, involving the dispersion of activities across organisational boundaries, has led to a degradation of working terms and conditions (Doellgast and Greer 2007, Flecker and Meil 2010), since it may trigger competition with a cheaper labour-supply, shifting work from highly unionized and better sheltered organisations to more vulnerable companies, subjects to market fluctuations, where trade union power is low or inexistent. Vertical disintegration presents substantial challenge to employment relation structure as well (Doellgast and Greer 2007), weakening the bargaining power of union while “the dependency relations between companies along the value chain can be expected to translate into increased disparities” and instability in terms of employment and working conditions (Flecker 2009:251).


Thus, drawing on varying approaches in the literature, the paper aims to fill this gap, discussing the impact of outsourcing on labour and the employment relations structure in the public sector in a comparative perspective. The goal of this contribution is twofold. Firstly it aims to disentangle the interplay of restructuring towards outsourcing in public services, employees’ job terms and conditions and the dynamics of employment relations systems in different sectors and across countries. The research question follows directly: How does outsourcing of public services impact work organisations and employment relations structure in different sectors across countries? The
underlying argument is that structural and process-related impacts could vary depending on the role played by different national institutional arrangements and legislative set-up, various national or sectorial industrial relations traditions, specific political and budgetary constraints to face in different public sub-sectors (Flecker 2010, Vraengbæk Petersen and Hjelmar 2013, Jaehrling 2014). Accordingly, the second theoretical question framing the present study is focused on whether impacts of outsourcing cluster to form discernable convergent trajectories in a given sector or country or, conversely, whether they follow divergent logics. Finally the paper tries to give an account of national and sectorial variables intervening for explaining the emerging patterns. I explore these issues through a case study analysis of outsourcing across two different sectors – health care and local government – across two countries – Denmark and England –. Before moving on, it is fruitful to unfold more closely the concept of convergence adopted in the present research. Within the industrial relations context, earlier categorizations by Hay (2000) and Marginson and Sisson (2002) differentiate between four different senses of convergence: convergence in the pressures and constraints placed upon a particular political economy (input convergence); convergence in the policies pursued by particular states (policy convergence); convergence in the consequences, effects and outcomes of particular policies (output convergence); convergence in the processes sustaining the developmental trajectories of particular states (process convergence). Translated into this specific domain, the theoretical question researched in the paper refers to the third meaning, namely output convergence following restructuring policies towards outsourcing. After the introduction, the remainder of the article is structured as follows. The article begins with a brief overview seeking to link the debate on restructuring and outsourcing with labour and employment relations issues. After having unfolded the methodological section, I present the empirical findings and discuss them. Finally the paper is summarized in a brief concluding section.

Value chain, restructuring process towards outsourcing and labour issues

The starting point put forward in this section is defining the scope of what is exactly meant by restructuring within public sector organisations in the present paper. The focus is on outsourcing, described as a form of restructuring where “one organisation contracts with another for the provision of a particular good or service” (Asher 1987), instead of providing it directly in-house. Hence, it implies “an internal process of redefinition of production activities, what is to understood
as the core activity, what activities are considered to be subcontractable and what network of relationship is established with the external suppliers” (Caprile 2000:1). More importantly, along this supply chain, public sector organisations keep on retaining the financing of the activity and bearing the overall responsibility for performing the function (OECD 1993, Gramatikov 2002, Jensen and Stonecash 2005).

Increasing literature streams give an account of how these inter-firms relationships impact directly on work organisation and employment conditions, mainly in private sector companies (Flecker et al. 2005, Flecker and Meil 2010). The value-chain analysis (Gereffi and Korzeniewicz 1994, Gereffi et al. 2005) represents a useful analytical tool for disentangling how external restructuring processes impact on employment relations and on the quality of work. The position of the organisation in a value chain, the degree of dependence between organisations in the production network and the power direction operating within the contractual relations directly influence job terms and conditions. Indeed, different forms of dependence and power relations between core organisations and their external providers emerge according to different types of value chain governance and different inter-firm relationship (Flecker 2009). The concept has received extensive application in manufacturing industry, where power was located within the core units of the chain, while new peripheral tasks were extended to outsourced company providing low-level work under precarious conditions (Flecker and Meil 2010). Recently, the value chain debate has been shifted from production to services activities, become meanwhile increasingly disintegrated through outsourcing strategies (Huws 2006, Hasle et al. 2014). To this respect, literature has repeatedly suggested that outsourcing of public services deteriorates labour and deprives the role of industrial relations institutions. Contracting out, indeed, modifies the “power relations between employers and labour and thus put pressure on the core workforce to make concession of their employment conditions” (Flecker 2009:253, Caprile 2000, Marchington 2005, Doellgast and Greer 2007). Furthermore, outsourcing enhances tendencies towards deregulation and fragmented decentralized bargaining since external providers are rarely covered by collective agreements.

In the same direction goes the reasoning developed within the framework of the segmented labour market theory. This body of literature devoted extensive attention to the organisation of work and employment at the inter-firm level. It has been argued that the restructuring practices adopted across the value chain utilize, and at the same time create, segmented labour markets (Edwards et al. 1982). Hence, outsourcing practices at the workplace and organizational level are responsible for creating and reproducing inequalities “motivated by interest in tapping into different market segments where wages are at a lower level, even though the work” (Doeringer and Piore 1971,
The search for more flexible labour in production process represents a further central issue (Flecker and Meil 2010). Organisations increase their internal flexibility by outsourcing activities and tasks to external suppliers, which in turn transfer the flexibility demand to their employees (Arzbacher et al. 2002). Accordingly, service contracts increasingly rely on non-standard contracts and temporary forms of employment to fulfil the demand of flexibility expressed by core firms (Flecker 2009).

On this point, the flexible firm model developed by Atkinson (1984) offers a further – much debated – functional point of view: organisations split their workforce between a relatively small core workers group, providing functional flexibility, loyalty and commitment in return for employment protection, and a large peripheral workforce with non-standard precarious working conditions, used to achieve financial and numerical flexibility. The issue is directly related to the dualization literature (Palier and Thelen 2010, Thelen 2012), according to which “firms actively pursued a strategy of separation of the workforce, which divided employees into core and fringe workers” (Hassel 2012:3) as a strategy to achieve savings and flexibility through more liberal employment rules for peripheral workers. Outsourcing it has been argued be beneficial for core workforce, since it can work as a buffer, sheltering them from company restructuring, budget constraint and market fluctuations and pouring all these risks on peripheral workers. Competing literature strand however are questioning the soundness of dualization theory, putting forward the opposite assumption. Outsourcing, instead of cushioning core workers, negatively affects this workforce segment as well (Flecker 2009, MacKenzie 2009), putting growing pressure even on permanent workers in standard employment relations and raising the “levels of insecurity even within the zone of integration” (Dorre 2005, Flecker 2009).

Impacts of outsourcing on industrial relations structure and union’s role and strategies have been subject to increasing scrutiny as well (Caprile 2000, Doellgast and Greer 2007, MacKenzie 2009, Huws 2012). Industrial relation investigation indeed has repeatedly demonstrated as contracting out involves a profound change of scenario for trade union’s action, as a consequence of an evolving working environment. Atomization of companies following restructuring and the subsequent dispersion of workers represent relevant obstacles to union’s traditional role in organizing and representing at the workplace. Accordingly “trade unions tend to be far weaker and work relationships far more individualized (Caprile 2000:4). An increasing number of studies has explored union responses to restructuring within the broader union revitalization debate (Cunningham and James 2009, MacKenzie 2009). Strategies involve a more proactive engagement with outsourcing process, searching for flexible and innovative policies to address new challenges
in the labour market: from the growth of non-standard forms of employment, to the dispersion of workers outside organization boundaries and the multiplication of actors involved on the employer side. Generally, unions held up on critical positions towards outsourcing, but counterbalancing it with a pragmatic approach, considering it as an irreversible process (Caprile 2000). Some commentators even interpreted this engagement “to have facilitated the greater use of subcontractors and to an extent legitimized the process of restructuring” (Mackenzie 2009:558) destigmatizing the role of this market-type mechanism in a way.

**Methodology and research hypothesis**

The analytical outline sketched in the previous section leaves room for further empirical research dealing with the impacts of organizational restructuring on labour and industrial relation structures. More in details, few scholarly attention has been devoted to the topic within the public sector (Jaehrling 2014), while comparative research designs concerning public services across sectors and countries - are even more sporadic (Flecker 2010).

In exploring these issues, the article grounds evidence on a theory-driven selection of 4 case studies, based on a most-different systems design (Przeworski and Teune 1970, Anckar 2008). This research design maximizes the number of variables in which sectors and countries differ. Acting as leverage in affecting the impacts of outsourcing, these explanatory variables could give an account of trajectories emerging at different layers of comparison. Hence, two public sub-sectors (health care and local government) and two countries (Denmark and England) constitute the contexts under scrutiny. The sectors are different along several dimensions: the local government represents a traditional Weberian public administration, entitled to provide more standardized services, subject to growing financial constraint and accountable towards its citizens, who can punish their political representatives in case of misconduct through the vote. The other way round, the health care sector organisation represents a non-traditional Weberian administration which is required to provide more customized and specialized services, more sheltered from economic constraints with respect to the local authority. Furthermore, the local government mainly employs unskilled and low skilled workforce, easily replaceable in the labour market; conversely, hospital require highly specialized figures, less readily replaceable and accordingly endowed of strong bargaining power into the labour market. Finally, the visibility, directly linked to the sensitivity, of services provided by health sector organisation, compared to those in the municipality, marks a relevant difference
between the two. Given these theoretical premises, I expect the health sector peculiarities acting as a buffer during restructuring processes, sheltering working conditions and industrial relations from potentially perverse negative consequences; the same reasoning applies to the local government in the opposite way.

Moreover, my theoretical hypothesis is also that an extended labour market regulation as well as strong employment relations structure may act as mediators in alleviating and controlling the negative impacts of restructuring process (Jaehrling 2014). Following this argument, two countries with different employment relations models have been chosen. Denmark has an inclusive employment relations regime, where regulations and policies are designed to extend employment and employment rights as largely as possible, providing welfare and security to all workers, minimizing differences within the labour market: accordingly high protection to weaker categories of workers is guaranteed. England, conversely presents a market employment relations regime, which puts emphasis mainly on market adjustments and self-regulation, hence minimizing the role of employment regulation and organized labour institutions, seen as negative rigidities (Gallie 2007). So I expect Denmark having less negative experience for employees following outsourcing than more liberal countries like England (Vraengbæk et al. 2013).

A case-study method has been developed to provide insight into the research questions. One local government and one hospital have been selected within each country as case studies to explore in depth, following a primary criterion: they show a far-reaching use of outsourcing. Since the deployment of effects does not follow immediately the outsourcing, but vice-versa requires a certain time span, the guideline adopted allows to retrace the restructuring process and to investigate the effects unfolded over time. In addition I choose case studies in which outsourcing involves the same kind of services, for sake of comparability.

Findings are based on 26 extensive semi-structured interviews conducted in Denmark between March-June 2014 and 27 conducted in England between September 2013 and January 2014, involving representatives from management (councilors and mayor in local governments, employer associations, general managers of single service, HR managers) to trade union officials both at local and national level and shop stewards in workplaces. These expert interviews with key informant, based on a rather standardized set of topics, covered a detailed description of the outsourcing process, changes in employment conditions, changes in work organization, impacts on relationship with unions and their power, the role of industrial relations and regulations in the restructuring process.
Credibility was actually gained through triangulation of sources, interviewing actors from multiple sides of the process – employers, trade unions officers and employees– (Healy and Perry 2000). The interviews were complemented by public organisations documents collection, such as annual reports, surveys, official documents and other secondary material as newspaper articles to produce a comprehensive picture of the outsourcing process that had taken place.

**Impacts of outsourcing in Denmark**

*Municipality*

The Danish public sector underwent a restructuring towards market-type mechanisms and outsourcing for the provision of services since the 1980s, following a gradual and incremental pattern (Petersen and Hjelmar 2014). Despite the more limited scope of the trend compared to Anglo-Saxon tradition (Pollitt and Bouckaert 2011) the issue triggered an heated enduring debate at both political and academic level (Greve 2001). The number of studies dealing with the consequences of contracting out on cost saving and quality of services in the Danish context has considerably expanded during the last decade (Blom-Hansen 2003, Christoffersen and Paldam 2003, Pallesen 2004, Petersen *et al.* 2012, Petersen and Hjelmar 2014). But only limited scholarly attention has been devoted to job terms and conditions and employment relations issues (Vrangbæk Petersen and Hjelmar 2013). Research findings pertaining the two case studies in Denmark, one municipality and one hospital, provide some better understanding of the main impacts.

The municipality in exam resulted from a merge of two municipalities, following the administrative reform occurred in 2007. One of the two started the restructuring process in 1996, outsourcing home care; to follow, cleaning in public building and schools, rubbish collection and roads maintenance have been put out to tender. After 2007 then contracting out has been extended to the second municipality, including also job centers in 2009 (back-in-house after 2 years) and green areas maintenance in 2010.

The impacts on job terms and conditions present some common pattern across all the tasks outsourced: a clear-cut consequence is the increase of workload. This has meant for nurses doing home care to visit more patients in the same amount of time; higher speed of work for cleaners in schools; workers in street cleaning are required by contract to cover wider surfaces in the same number of hours. The overload of work represents one of the main challenge for unions officials,
who reported to be deeply concerned about hard work, rather than wages. Salary indeed remained almost the same, protected by the Transfer of Undertaking (Protection of Employment) legislation – ensuring same job terms and conditions during employees’ transfer from a company to another – and collective agreements signed in most of the big private companies (in the case study only 1 small company in nursing sector refused to sign a contract). Moreover the competitive tendering always contains specific clauses requiring to bidders to maintain the same working conditions in case they award the contract.

This stability in wages, however is very often matched with worsening in other benefits, such us reduced maternity leaves, lower sick pay scheme, fewer pension contribution. Another consequence is the change of working hours established by contract: nurses shifted from the traditional 37 to 25-30. In some cases too little for living; cleaners, conversely, reached to upper limit of 40-47 hours, too much in a single week. Nevertheless, union officials pointed out that their members not rarely preferred the private sector than the public one: in the former collective agreement in fact they could improve their salary through work overtimes (cleaners) or because they have some piecework (roads maintenance workers); moreover if they felt excluded in the public sector, they fell part of the core group in private companies: “in the private company they are the company, in the public they are just a number” (union official April 15, 2014). Additionally in labour-intensive activities, like home care, the private sector provides new update technologies to nurses to facilitate their work.

No case of redundancy during the has been reported in the case study, but once expired the collective agreement the new contractors fired half of cleaners transferred (40 over 80) and 6 workers in road maintenance. Additionally, there are quite a few examples of workers leaving because of too different working conditions (as workers in road maintenance) and work overload and burnout (in green areas maintenance). Finally many key informants interviewed witnessed a widespread feeling of insecurity and instability.

Coping with these issues represents a challenging task for unions, deeply concerned about the sharp increase of workload and the insecurity of employment which often follow the contracting out.

As a response, trade unions try to keep well informed members and shop stewards, supporting them during restructuring processes, publishing informative articles on newspaper and talking in television: information to promote awareness on the topic is a fundamental part of their strategy. Further strategies involve pressure on politicians during decision-making, pushing for having the internal (control) bid during each tendering process, or for including social clauses in invitation to tender.
The overall picture, however, depicts a collaborative relationship between unions, representatives at the workplace, council’s managers and KL, the association representing all Danish municipalities. Key informants, on both sides, reported positive experiences, taking advantage of the long-standing tradition for dialogue, which allows to keep conflict at the lowest level the possible (strikes in fact have been very rare). In order to facilitate the restructuring process, making it smooth for municipalities, KL produces guidelines pamphlets to outsource and transfer staff for politicians, HR departments and employees. Moreover, in case of dispute, social partners are used to follow precise rules to solve it.

Shop stewards and workers representatives are elected in each company, and their role is taken in high esteem, since they take good care of the workplace.

Unions pointed out an increase difficulty in organizing members. FOA, for instance, represents unskilled workers in the public sector, such as cleaners: when they shift from the public sector agreement to the private one they often lose members since they change union as well. 3F, conversely, representing unskilled workers in both sectors, keeps its member working together with its branches representing in the private sector.

**Hospital**

Following the administrative reform occurred in Denmark in 2007, health care become an exclusive competence of the Regions. Accordingly, hospitals management has been centralized at the regional level, where each council establishes which tasks testing in the market. The hospital under examination contracted out, in the last two decades, waste collection and management, catering service for patients, building cleaning, windows polishing task and the maintenance of outdoor and green areas surrounding the hospital. In September 2013 however, the regional council launched an organizational project called “Service Assistant Projektet” (Service Assistant Project): this new figure, the service assistant, resulted as a merger between cleaning staff and porters (appointed to transport patients and goods inside the hospital) was trained and designated to carry out both the functions. Accordingly cleaning service went back in-house after 28 years of outsourcing.

Impacts on working conditions of this restructuring process are quite controversial. The overall picture depicts a widespread positive pattern, as stated by key-informant interviewed both on management and trade unions side. The concurrent implementation of the EU regulation concerning the Transfer of Undertakings (Protection of Employment) and the application of collective agreements renegotiated every two years, in both the public and private sector, generally guaranteed almost the same working conditions following outsourcing. All the employees involved in the
Restructuring have been transferred to the new private providers (KRAM for catering, ISS for cleaning and windows washing, LK Gruppen for green areas maintenance) except for 2 in catering, redeploy inside hospital’s canteen; no cases of redundancy has been reported. Same wages and same employment rights followed the workers in the new company, as long as their collective agreements were valid.

Yet, as all the interviewees confirmed, in the long run conditions remained almost the same since upon expiry of the public sector collective agreement, the new work term and conditions agreed upon the private sector agreement were partly different from the previous one. As a result, salaries generally decreased, albeit in contained manner (“in the area of cleaning the wage raised when we took it back” HRM special consultant in the Region, March 26, 2014). Moreover, the shift from public to private agreement unleashed further changes for employment conditions as well. Maternity leaves (4 weeks less), sick pay schemes (full pay for 56 calendar days instead of all days) and pension scheme (12.15% in the private against 12.75% in the public) are less generous in the private sector, as well as severance pay (1 months instead of up to 3 months) and months of notice (up to 4 months instead of up to 6) in case of dismissal.

Nevertheless, evidence sheds light on a twofold dynamic emerging from the restructuring, with negative consequences on workers, even more detrimental than the worsening of contractual terms. On the one hand, greater demands are placed on work, including longer or more flexible hours, and a notable increase in the workload. Workers in the green areas maintenance are subject to a “winter clause”: in rotation, the firm suspends their contract from December,1 to March, 30 because of reduced activity during winter time. Cleaners experienced a reduction of working hours from 37 to 24 by contract; moreover they are required to clean the 30% more of the surfaces in the same amount of time, compared to what established in the public sector contract. Last but not least, they have more demanding tasks, such as preparing and serving tea and coffee as well.

On the other hand, outsourcing introduced increasing flexibility related to workplace. Catering staff prepare the food boxes in a kitchen located in another city, owned by KRAM, and then transport them to the hospital. Over 4 gardeners maintaining green areas, only one permanently works at the hospital, while the remaining 3 switch between that hospital and other hospitals where the private company has a contract. However, they have corresponded money for the driving time, at the tax rate of 3.81 Danish kroner (DKR) per kilometer.

Key informants, therefore argue that, comparing to other hospital, the overall picture is rather positive, thanks to the long continuity maintained with the private providers.
Employees have experienced a reduction in morale and engagement, as witnessed by shop stewards and service managers, because of the persistent insecurity of job following outsourcing: “workers grumble because this is not what we are used to” (Green areas manager, April 25, 2014); “it’s because of the human being: they don’t like changes, they want safety and stability in their job, this is Maslow, basic” (catering manager, June 11, 2004); “my members are very worried because they don’t want to change: they know what happens then” (trade union official representing cleaners, May 26, 2014). Both in cleaning service and outside areas maintenance, a few cases of burnout have been reported after some years, because of an overloaded job task or too little hours of work agreed in the contract. Unions officials however specified that, in some of these cases, workers were entitled to resign because of changing working condition and to receive unemployment benefits. Interestingly, the case of backsourcing of cleaning activity has brought some perverse effects to light. After 28 years of outsourcing to the same private provider, all the cleaners have been involved in a 2 year education path, organized by the Region in partnership with unions within the “Service Assistant Project”. This has meant extensive training for all the workers – cleaners as well as porters –, raise in salary for the cleaning staff, improvement in employment benefits (pension scheme, holidays, maternity leaves) and a reduction in the workload as guaranteed by public sector agreement. But most of workers transferred in-house displayed skepticism and concern about the new contract, since at the first stages they did not fully realize the scope of this change. As an example, overtime hours in the private company were all paid each month; the public sector contract, conversely, entitles to take the same amount of hours off: surplus hours are then paid every three months. But cleaning staff, unskilled and coming from 15 different developing countries, usually expressed a preference for receiving money as soon as possible, to save and send home. Moreover, over three decades, they developed a deep engagement with the company where they felt to belong to the core sector, while in the hospital they feel relegated to perform only peripheral tasks.

The union official involved in the project initially mistrusted the project as well, suspecting an underlying intention to fire part of the service assistants in excess. For trade unions and employment relations structures, outsourcing did not involve such a negative change of scenario. All trade unions’ officials express a profound concern for the changes occurring in job terms and conditions when their members shift from public to private sector collective agreement. Cases of burnout, moreover, confirmed unions’ concern about a too high workload. In the case study however, according to the Danish model in the regulation of work, unions have always been informed and involved in the restructuring process before transferring workers.
Additionally they signed collective agreement with all the private companies providing services. Key informants among unions and employer side agreed in defining their relationship as positive and collaborative, since they share the ultimate goal to make the service working, keeping good conditions for the staff. Education for cleaners organized in partnership represents a clear example. The green areas manager admitted “out of recorder” to have frequent informal consultation with shop stewards, for keeping each other informed.

Shop stewards are elected within each service, backed up by “arbejdsmiljørepræsentant”, representative elected for monitoring security at the workplace.

Nevertheless, a challenge dealt with unions capacity to organize strikes, since the tradition of going on conflict is not that entrenched in Denmark; moreover engagement in conflicts among unskilled workers coming from developing countries is very low. Unions instead informed their members, to make them more aware of the restructuring, assisted them during the transfer and help shop stewards at the workplace.

Impact of outsourcing in England

The local authority

Very emotive terms such as “government is too big” or “the need to cut red tape” (Asher 1987) well express the popularity of outsourcing in England as an alternative tool to provide public services since the 1980s. The origins of the phenomenon dated back to a small group of Conservative-led local governments which voluntarily started testing the market, to rapidly spreading to central government and health care sector. Several legislative interventions marked the ground towards a more and more fast and widespread use of contracting out: from the Compulsory Competitive Tendering (CCT) legislation in 1980, promoted by Ms. Thatcher government to push market competition in local authorities to the National Health Service and Community Care Act in 1990, introducing the idea of internal market into healthcare supply. Then the Best Value program for local authorities and different NHS plans (2000, 2012) followed.

The local government in exam first tested the market in 1979 for street cleaning, followed by refuse collection in 1982 and wide range of blue-collar technical tasks during the decade: parks and ground maintenance, vehicles maintenance, building cleaning, school catering and meals on wheels. By the 1990s onwards, the municipality experienced white collar, professional services out to
tender: they started from IT services and legal services, to move to architecture and design activities and engineering tasks, payroll management and elderly home care.

For sake of comparability with the Danish case studies, I will discuss the main impact on working conditions and employment relations of outsourcing in unskilled tasks and blue-collar activities. When the Council first embarked upon competitive tendering for street cleaning asked to all bidders to consider taking on the redundant workers for their own workforce, while for those not offered work by the contractor were offered generous early retirement or severance terms, or again, to be redeploy within the Council. This example of soft touch represents a unique case: all the other contracts will be then characterized by a relevant proportion of internal staff made redundant. Moreover severance terms got increasingly less attractive, rapidly equalling the minimum national standard.

Employment terms and conditions represent a big issue. Key informant agree with splitting the historical trend into two parts: the watershed is represented by the effective implementation in the municipality of Transfer of Undertakings (Protection of Employment) Regulations (TUPE) in 1987. Before TUPE legislation, workers transferred from an employer to another did not enjoy any kind of protection of their employment terms and conditions. As a consequence, we assisted to a general erosion of pay scales and benefits: “workers directly employed by the council were paid more for the same skills compared with the private companies” (union official October 22, 2013).

The overall picture is dominated by an increasing number of working hours, spread over 7 days instead of 5 and a raising flexibility in time arrangement. Street cleaners lost bonus and allowances that were corresponded for night-work or work over the weekend. Nurses providing home care were not paid for the travel time between a patient and the other. Transferred staff, moreover, experienced much greater mobility in the workplace: gardeners, who traditionally kept green areas within the Council, in private firms are require to cover 5-6 gardens in different localities, travelling the whole day. Nurses as well, should take care of patients across several municipalities. However the application of TUPE regulation since 1987 modified the overall picture in the early stages, protecting employees' salary and job terms and conditions after the transfer.

The most common complaints that workers reported after TUPE implementation deal with insecurity of work, more than the insecurity of paying conditions: “just to use one word: jobs are more uncomfortable, there was greater inconvenience for the worker, less security in term of what he or she would be expected to do (union official October 22, 2013). This led to a raise of turnover.

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1 TUPE regulation has been enacted in 1981, implementing the European Community Acquired Rights Directive 77/187/EC. But it was effectively implemented only at a later stage.
above all among older workers, and a growth in the number of redundancies. Private providers, as a mean to get around TUPE constraints, often opted for hiring new low-paid workforce than employing Council staff at the same terms and conditions.

Pension schemes represents an hot issue since pension entitlement was excluded from TUPE protections. This has meant that most of the private providers drastically reduced the contributions paid to workers. The issue was so severe and widespread as to require a legislative intervention from central government. In June 1999 the HM Treasury issued the Statement of Practice on Staff Transfer from Central Government “A Fair Deal for Staff pensions”. It sets out a framework to follow in case of staff transfer from the public sector to an external contractor: “the new employer offers transferring staff membership of a pension scheme which though not identical is broadly comparable to the public service pension scheme which they are leaving” (A Fair Deal for Staff pensions, 1999). Despite this policy, still some drawbacks emerged. The Fair Deal framework, indeed, did not apply to staff transfer from a private provider to another, when contracts were re-tendered, has happened in several cases. In 2013 the HM Treasury revised the Fair Deal for Staff Pensions policy, establishing that staff who are members of a public service pension scheme and who are compulsorily transferred out of the public sector will remain eligible to be members of their public pensions scheme. The Council accepted into its pensions scheme only workers transferred after 2008, denying the entry to the rest of workforce transferred before.

This long-standing restructuring attracted a vehement opposition of unions, backed up by the support of councilors from the Labour group: their strategies include campaigning door by door, exposing in public their claim in favor of in-house provision of public services; publishing papers to hand out also outside the Council; organizing information and awareness campaigns among members and workers. All these actions turned out to be almost ineffective since “if you campaigned against privatization and then your members ended up in the private sector, it’s your failure” (shop steward November 19, 2013).

If in the early days the relationship between unions and the Council were “much more confrontational, later on it became a reasonable discussion about things” (Chief executive, November 19, 2013). One of the reason lies in the fact that 30 years of Conservative control and of continuous market testing weakened enormously trade unions’ power, “lowering union membership, lowering our credibility, lowering our negotiating role” (shop steward November 19, 2013). Moreover, the Council itself strongly pushed in that direction, cutting facilities time for shop stewards and opting out the clause of the Green book related to deduction of contributions: actually
it stopped collecting trade unions’ subscriptions within the staff, deducting the contribution from their salary every month.

On the other side, these “very hostile people in the first stages, they become more manageable under TUPE” (Chief executive December 10, 2013). The protections guaranteed by TUPE regulation softened the pressures towards trade unions’ role. Interestingly, some union officials interpreted it has a failure in the ultimate role of unions: keeping public services and public employees in the public sector, since in a sense it was legitimizing outsourcing as policy tool.

Trade union operating within the Council however tried to maintain a strong bargaining position, facing steadfast resistance among private contractors, which accepted to sign framework agreements only to a very limited extent. There are a few cases involving blue collar staff employed in big national companies. Moreover, they had to cope with the lack of information about pay and terms and conditions offered by private contractors, since they were very much reluctant in sharing their pay systems.

Restructuring towards outsourcing raised an additional challenge to trade unions, as they have to cope with a multi-level relationship: national level pressures and local level restructuring processes. That’s why all along the unions, their strategy was based on a twin-track approach. One is to campaign to oppose outsourcing, always backed up by pragmatic responses in order to organize and maintain recognition of collective bargaining in outsourced companies. “Neither strategies have been entirely successful. The danger is that we oppose the transfer, we support workers during transfer and then we walk away” (union official December 6, 2013).

Generally, unions experienced a decrease in their rate of membership. Staff transferred not always renews the membership to unions, which, in their turn, face growing difficulties in keeping on representing workers in a disintegrated value chain through an organisational structure still shaped around the traditional public sector structure. “Trade unions are not yet adjusted to organise outsourced people. We used to have one branch dealing with one employer; now one branch has to deal with many employers” (union official November 22, 2013).

**NHS foundation trust**

“There is a sort of different views on outsourcing in health sector. One of them was about: should the hospital be running something that is not equipped to do? So why should a hospital run a cleaning service? Its business is healthcare, not cleaning. Why not let these companies whose business is cleaning running it? Similarly catering or whatever. The opposing view is: we are a team and we have to deliver healthcare
together; everybody is important as the other, it doesn’t matter whether you are the surgeon or the cleaner, we will run all this together” (NHS Employer official, October 31, 2013).

That was the cultural climate pervading the health sector in the 1980s. In that context the NHS foundation trust started testing the market for cleaning service. Then, between late 1980s and early 1990s, it outsourced new blue collar activities: catering, car parking service, building maintenance, waste management and laundry service.

A second wave of outsourcing involved white collar workers as in the case of bedside facilities – provision of internet connection and telephone line in each ward – and call-center services and in the years 2000s went on testing the market for some clinical services, specifically rehabilitation services, some nursing activities, pathology and finally, in 2012, they outsourced the HR management.

Similarly to the local authority, also in this case I will discuss the main impacts for workers employed blue-collar tasks, in order to make the different cases as much comparable as possible. Employees generally reported to be paid below the rate that is commonly applied to workers in the health sector for the same kind of job. Moreover, they experienced an increase flexibility in their working hour and insecurity related to the short-term of their contracts. Turnover and burnout raised sharply among cleaners and workers involved laundry service as a consequence of the sense of uncertainty of employment and higher workload.

Another relevant issue was the presence among nurses of “a two-tiers workforce or multi-tiers workforce working side by side, getting paid different amounts of money and with different terms and conditions. This has had a very negative effect on the morale of people” (trade union official November 26, 2013).

TUPE regulation changed the picture, introducing a remarkable level of protection. In addition, when the restructuring process started the law was already in force, hence all transferred staff enjoyed the protection.

In 2004 the Agenda for Change (AfC) agreement, signed by unions, employers and government introduced in the National Health System (NHS) a grading and pay system for all NHS staff. The purpose was harmonizing pay and career progression all along the 13 traditionally separate pay groups. It represents a big change for transferred workers as well, since “when they transfer under TUPE they go with Agenda for Change conditions” (NHS Employer official October 31, 2013). Moreover, it sharply reduces wage differences between men, usually highly paid, and women.
Agenda for Change also set the maximum number of weekly working hours equal to 37.5, constraining all the providers to consider any extra hours of work as over-time work. Key informants agreed that AfC represents a very good deal, a turnaround for workers in the health sector.

Pensions represented a further thorny problem to cope with. As in the local authority, TUPE did not guarantee the pension schemes covered: accordingly “contractors progressively cut the pension contributions, since after TUPE they could not get profits lowering wages” (union official November 8, 2013). The first Fair Deal for Staff pensions in 1999, constraining the new employer to offer to transferring staff a broadly comparable pension scheme to the public service pension scheme, solved the problem only to a limited extent. Indeed “most small providers can’t really offer broad comparable pension schemes, there’s anything like the NHS. They haven’t got resources or the economies of scale to afford that” (union official November 27, 2013). The revision in 2013 of the Fair Deal for Staff Pensions did not represented a great step forward: the NHS foundation trust decided to accept all workers involved in clinical and professional services, but excluding the manual workforce.

In terms of impacts on industrial relations structure and unions’ role, the case study presents some peculiarities. At the outset, when the first outsourcing contract was signed a strong national campaign against privatization was already underway, as a consequence of the emergence of first evidence of quality deterioration. Unions in health sector took advantage of that, strongly opposing the contracting out of ancillary services, exposing the chipping away effect on working condition and the progressively deterioration of wages. Moreover, workers often reported an erosion of motivation and engagement “because responsibility is redefined in terms of contractual arrangements. Training, feeling part of the team, make them feel proud, a greater sense of ownership are necessary to raise motivation and productivity of workforce” (union official November 22, 2013). If unions initially claimed a return of workers within the core workforce in the hospital, this adversarial position had been subsequently mitigated by, on the one side a kind of acceptance of the irreversibility of the phenomenon, and on the other side by the necessity to focus more extensively on protecting work terms and conditions in a very sensitive sector. Furthermore the introduction of TUPE regulation, widely applied in the sector, improved employment arrangements, as reported by workers and shop stewards.

Agenda for Change agreement clearly marked a turnaround in the relations between trade unions and employers. As a representative on the employers side stated “we did a big change to the pay system in 2004 and it was done totally in partnership” (interview October 31, 2013). The
agreement, besides creating a very protected pay system, represented a clear example of collaboration and partnership between social partners in the health sector. The 2013 Fair Deal for Staff Pensions agreement, finalized through the support of both trade unions and employers, seems to go in the same direction.

As in the local government, unions adopted a two-tracks approach as main strategy. One is, as we said before, to campaign for opposing outsourcing in the health sector, always backed up by pragmatic responses to organize and maintain recognition of collective bargaining in outsourced companies. Some framework agreement had been signed with private contractors. Union membership experienced a general declining trend, in common with other sector.

**Does the sector matter? Does the country matter? A comparative perspective**

In the previous section I outlined how outsourcing impacted on employment relations and working conditions within two countries – Denmark and England – across different sectors – local government and health care sector –. The overall picture is dominated by growing fragmentation of employment conditions and a deterioration of work (Marchington et al 2005, Flecker 2009). Employment has generally become more insecure and flexible, in terms of both hours and workplace flexibility. Greater demands are placed on work tasks, including increasing workload, higher speed in the work and the use of piecework. Additionally, work terms and conditions established by private providers underwent a sharp worsening, if not so relevant in term of salary, rather important concerning pension scheme, maternity leaves, sick pay scheme and holidays.

This profound change of scenario clearly challenge industrial relations structure and the role of trade unions. The atomization of companies and the subsequent dispersion of workers are important obstacles to their capacity to collectively organise and represent members (Caprile 2000). Overall unions have a critical approach towards outsourcing, backed up by pragmatic strategies to keep good and homogeneous working conditions. They try to maintain a recognition within private providers through collective agreements and workers representatives.

My argument, however, is that the above sketched out trajectories following restructuring processes are shaped by specific national legislative frameworks and institutional configurations (Flecker 2010, Vraengbæk et al. 2013). Table 1 synthetically reports the impacts of outsourcing in a comparative perspective: across countries and across sectors. The full dot represents those cases wherein the variables remain unvaried after outsourcing processes, so where working conditions are the same in the public sector and in the private companies. Conversely, the empty dot points those
situations wherein contracting out led to a clear deterioration of the variable under scrutiny. Intermediate cases are represented by the half full dot.

Tab. 1 Impacts of outsourcing in a comparative perspective

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Two rather discernable patterns emerge from the table. Firstly, evidence shows that employment in Denmark seems to be more sheltered from negative impacts of contracting out, compared to the patterns observed in England. Still job terms and conditions deteriorate following outsourcing from certain point of view, but negative consequences are more limited in scope than in the Anglo-Saxon country. Salaries and pensions kept the same rate after restructuring, while a tradition of collaborative relationship with the employers and their organizations allowed to all transferred workers to be covered by collective agreement and represented by shop stewards. On the contrary, such a scenario is extraneous in the English case studies, where outsourcing led to a clear detriment of wages, pension benefits and a fragmentation of employment relations. Nevertheless, a sharp increase in workload and a widespread feeling of job insecurity are common trends in both the national contexts.
According to my theoretical hypothesis, an inclusive employment relations regime, where regulations and policies are designed to extend employment and employment rights as largely as possible, providing welfare and security to all workers, minimizing differences within the labour market could act as a buffer in case of restructuring processes, alleviating perverse outcomes (Petersen et al. 2012, Jaehrling 2014). In England, conversely, a market employment relations regime, which puts emphasis mainly on market adjustments and self-regulation, hence minimizing the role of employment regulation and organized labour institutions, restructuring processes towards outsourcing led to a wide deterioration of employment conditions. The nature of the employment regime seems, however, to be ineffective in mediating the impacts on the workload and clearly on the perception of insecurity widespread among transferred workers.

Evidence from previous studies confirms this pattern: “consequences of contracting out for the employees are predominantly documented as negative in the literature, although the negative effects in the Danish literature are much more limited than in the international literature (Petersen et al. 2011:48). The cases of outsourcing in England, conversely, broadly fit the conventional theoretical expectations suggested by the literature on value-chain analysis and segmentation theory (Gereffi et al. 2005, Marchington et al. 2005).

There are also some indications of a second trajectory concerning sectorial differences in the impacts of contracting out. Table 1 presents evidence that impacts in health care sector appear as softer than in municipalities across the two countries, even if the trend is more marked in England. The overall picture, dominated by a deterioration of employment conditions and weakening of labour institutions, presents different nuances across sectors. The sensitivity of services in health sector, the lower budgetary constraints compared to municipalities, the higher visibility in mass media, above all in case of scandal and the deep interrelation and interdependence between tasks in hospitals could provide some preliminary explanations of this pattern.

Hence, my argument is that outsourcing is unleashing a twofold dynamic in its impact on job terms and conditions and employment relations structure. The result of this twin dynamic is a remarkable divergence across countries, where specific institutional configurations shape national patterns, but at the same time also a considerable convergence between sectors across national boundaries, driven by sector-specific features. Outsourcing appears to be simultaneously prompting both convergent and divergent developments, (Marginson and Sisson 2002), paralleling the idea of “converging divergences” (Katz and Darbishire 2000).
Conclusions
Over the past three decades, public sector organisations have been subject to a far-reaching restructuring towards outsourcing in a wide range of services. The topic drew wide attention from scholars and practitioners, mostly concerned about economic implications of contracting out (Domberger and Rimmer 1994, Domberger and Jensen 1997, Savas 2000), the effects on the size of public employment (Donahue 2002, Greene 2002, Fernandez et al. 2007, Alonso et al. 2013). But there has been less systematic comparative research on how outsourcing affects labour (Huws et al. 2008). The paper tried to fill this gap investigating how outsourcing of public services impacts on working conditions and employment relations structure in different sectors – local government and health care sector – and across countries – Denmark and England –. The comparative research design aims at investigating to what extent convergent or divergent trajectories between sectors and across countries are discernible.

While the overall trajectory is dominated by a deterioration of job terms and conditions and a weakening of industrial relations institutions, a more nuanced picture emerged if one focuses the attention on sectors and national contexts. Outsourcing indeed is unleashing a twofold dynamic in its impact: a remarkable divergence across countries, where specific institutional configurations shape national patterns, and simultaneously a considerable convergence between sectors across national boundaries, driven by sector-specific features. The idea of “converging divergences” (Katz and Darbishire 2000) seems to be supported by evidence.

The present study presents some preliminary and cautious steps forward in the literature. Firstly, it fills a relevant gap concerning an increasingly hot issue in the political agenda and for scholarly attention. Secondly, investigating a long-time period, the research design allows to determine – to a certain extent – rather persistent pattern over time: previous studies usually covered short time span, presumptively subject to transitory impacts which could evolve in the long run. Moreover, the paper encompassing a multidisciplinary approach, provides a preliminary contribution to different fields, from the value chain analysis debate, to the convergence/divergence debate in industrial relations studies. Finally, findings could represent a sort of analytical tool for categorizing and predicting impacts of outsourcing: given specific features at sectorial or national level, combined in different clusters, it could act as predictive model.

Of course, findings are of difficult generalizability, being based on a case study analysis, very much in depth but focused on a limited number of cases. Future research is needed in order to explore the issue in further public sector organisations in different sectors – for instance at central government level or in education –.
References


