Outsourcing and Service Work in the New Economy

Outsourcing and Service Work in the New Economy: The Case of Call Centres in Mexico City

By

José-Luis Álvarez-Galván

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To Olivia

To my parents

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INTRODUCTION

Justification: outsourcing, flexibility and service work

This book analyses the outsourcing of front-line service work in the new economy. Its aim is to examine how workers' experiences and employment conditions are affected by the interactions between subcontractors and client firms.

In recent years, outsourcing has gained popularity as a mechanism to deal more effectively with the uncertainty of increasingly challenging business environments. According to mainstream business scholars and social scientists, intense competition, variations in demand and technical change have forced organisations to substitute hierarchical arrangements by market mediated transactions (Piore and Sabel 1984; Harrison and Kelley 1993; Harrison 1994; Porter 1998; DiMaggio 2001). In the case of labour, outsourcing is often 'praised' for achieving significant cost reductions thanks to a more efficient allocation of resources and specialisation (Watanabe 1971; Lacity and Hirschheim 1993). Nonetheless, the practice of outsourcing also raises important concerns. Outsourcing might blur organisational boundaries, fragmenting employers' authority and affecting coordination between organisations (Marchington et al. 2005; Walsh and Deery 2006). In other words, outsourcing embodies challenges and difficulties that, in practice, increase transaction costs and potentially affect workers' experiences and employment conditions.

In order to analyse these challenges, I have chosen the outsourcing of front-line service work in Mexican call centres as a case of study; a decision inspired by some of the most relevant theoretical and empirical aspects identified by the literature on outsourcing and service work in contemporary societies.

For the first time in the history of capitalism, service industries have overtaken agriculture as the largest source of employment in the global economy. According to the International Labour Organisation (ILO), in 2006 the proportion of people employed in service industries reached 40% while the proportion of those employed in agricultural industries decreased from 39.7 to 38.7%. Finally, the proportion of people employed in manufacturing industries was only 21.3% (ILO 2007:2). Therefore, service workers play a prominent role in the economic structure of many developed and developing societies today.

Within this context, the call centre industry is considered a ‘flagship’ activity of the new economy, growing rapidly and facing intense international and local competition (Frenkel 1999; Taylor and Bain 1999; Deery and Kinnie 2002; Korczynski 2002; Deery and Kinnie 2004; Moss et al. 2008). Also, call centre services represent a paradigmatic case of labour-intensive processes that are closely monitored and controlled by information technologies (Taylor and Bain 1999; Taylor et al. 2002; Baldry et al. 2007). The labour force in call centres is rich in social diversity and skills; there is a large proportion of female employees and call centres’ recruitment strategies tend to target college-educated workers (Taylor and Bain 2005). Last but not least, call centres operate as a kind of ‘node’ in the service economy where many other industries converge to subcontract customer services (Batt and Moynihan 2002; Korczynski 2002; Glucksmann 2004; Batt et al. 2007; Kinnie et al. 2008).

The Mexican case is relevant as it provides a weak institutional setting where labour protection is low and business competition is largely unregulated in practice. Until now, most of the exploration of the experience of work and employment conditions in the new economy has been focused on the case of rich developed countries, creating the impression –not intentionally, I guess– that other regions of the world do not necessarily provide a relevant context for these analyses. However, Mexico is a good example of an emergent economy with attractive local conditions for the expansion of labour-intensive industries of the so-called new economy.

This investigation is based on extensive information collected through 65 in-depth interviews with call centre workers and managers concerning their work experiences in four outsourcing companies in Mexico City from the end of 2006 to the first months of 2007. Also, 18 additional interviews were undertaken with union representatives, officials of the Mexican Ministry of Labour, academics, consultants, industry representatives and other relevant informants.

The findings presented in this book identify those elements that can be more affected by, or associated with, the interactions between subcontractors and client firms: job designs; customer segmentation; the use of contracts for services; the supervision approach; union avoidance; the use of internal labour markets to secure management loyalty; and the reinforcement of social divisions in the workplace. Of course, these practices and elements are not exclusively designed or created to deal with the problems and tensions generated by the relationship between client firms and subcontractors, but they play a fundamental role in solving the conflicts between organisations in the administration of the workforce. Importantly, these findings suggest that a number of practices that were common in the old economy are still relevant in the organisation of work in the twenty-first century.

The structure of this book

This book is divided into two major sections. The first part, consisting of the first two chapters, sets the theoretical framework, and the methodological and empirical context of this research. The second part, the four empirical chapters, embodies the analytical core of this investigation. The book closes with a concluding chapter that revisits the initial questions, evaluates the general findings and reflects about future investigation.

The first chapter presents and discusses the three major themes informing this investigation: outsourcing, employment relations and service work. As mentioned, the aim of this research is to analyse subcontracted front-line service work in the new economy, investigating how subcontractors respond to the challenges of coordination and negotiation with the client firm and how these processes affect workers' experiences and employment conditions. Flexible inter-firm arrangements, such as outsourcing, are generally understood as strategies to face a more competitive and changing environment. Therefore, this research starts with an exploration of outsourcing, its definition and purpose. The basic idea behind outsourcing is that it allows a more efficient and rapid allocation of resources (Watanabe 1971; Lacity and Hirschheim 1993). This argument is popular in the business and economics literature where labour is simply understood as any other commodity (Samuelson and Nordhaus 2001). In this respect, the transaction costs logic predicts that hierarchical arrangements must be replaced by market transactions if the latter is less costly for the organisation (Williamson 1979; 1981).

However, this economics-based approach to outsourcing has been criticised on several fronts. For sociologists, the complex nature of work imposes important challenges for market transactions; in other words, labour should not be considered as any other commodity and its allocation and control inside organisations or markets must take into account more complex mechanisms (Granovetter 1992; Grint 1998; Fernandez et al. 2000; Castilla 2005; Granovetter 2005).

The complex nature of work as a social activity takes us to the second aspect explored in the literature review undertaken in chapter one:

employment relations. In order to understand the difficulties faced by outsourcing arrangements it is essential to consider the complexities of employment relations in a historical perspective. It is important to have in mind that outsourcing, and the flexible firm model in general, presupposes the flexibility of employment relations and, very importantly, a reconsideration of workers' motives, from solidarity to individualism, from life-time contracts to high mobility (Atkinson 1984; Handy 1989; Pink 2001; Donnelly 2009; Reed 2009).

The first chapter closes with considerations about how the nature and characteristics of service work might affect the relationship between outsourcing and employment relations. Specifically, this research suggests that the customer-oriented interface adds substantial complexity to the problems of coordination and negotiation between subcontractors and client firms in call centres; something that has been certainly identified by other authors but not analysed as a central research question (Batt 2000; Batt and Moynihan 2002; Moss et al. 2008).

After setting the conceptual and theoretical ground, the second chapter presents the research design, methodology and context of this investigation. Bearing in mind that this research is based on an institutional setting that might not be familiar to most readers, I wanted to offer certain detail in its description and analysis. In general terms, the Mexican case is relevant not just because there has been little attention to this national experience but also because the Mexican case offers the possibility of looking at how inter-firm relationships and employment relations interact in an environment of strong liberalisation policies and weak institutional support for workers (Bensusán and Rendón 2000; Dussel Peters 2000; Stiglitz 2003; de Buen Lozano 2005; Ruiz Duran 2005a; De la Garza and Salas Páez 2006).

After dealing with the characteristics of the Mexican context, the second chapter explores the advantages of undertaking a case study to address the research questions of this investigation. After this, the chapter presents the organisations selected and explains why they were considered important for the research questions presented here. For each organisation, the 'account' was considered the unit of analysis. 'Account' is the name given to the outsourcing contract between call centres and their commercial clients. In all the accounts and organisations chosen for this research, I conducted in-depth interviews with workers and managers, and gathered information about the experience of work and employment conditions in subcontracted workplaces through non-participant observation. I also interviewed a group of people outside these companies in order to get a general perspective of the context in which these workers' experiences and employment relations take place. These participants included union representatives, academics, consultants, industry representatives and government officials.

Chapter three opens the second and core analytical part of this book. This chapter presents and discusses the main challenges in administering a subcontracted workforce. The first challenge is the problem of distrust and opportunistic behaviour from participants (Williamson 1979; 1981; Lorenz 1988; Simon 1991; Stiglitz 1991; López 1998; Lorenz 1999). This is evident during the setting up of the different accounts and the recruitment and selection processes undertaken by subcontractors. Often the organisations involved in outsourcing have divergent interests (Simon 1991; Sako and Helper 1998; Korczynski 2002). On the one hand, the primary interest of the client firm is not just to reduce costs but also to provide a maximum level of service quality to satisfy customers; the incentive is towards more quality for less money. On the other hand, subcontractors are more concerned about increasing the revenue from their accounts without necessarily increasing the investment needed to monitor and supervise workers in order to secure high levels of service quality. In other words, they want to be paid more for less.

These tensions and divergences are also translated to the selection and training procedures where workers appear to be confused by contrasting types of demands from different *employers* but in the same job (Korczynski 2002). As mentioned, call centres seem to be more concerned with the number of calls processed, while clients are concerned with their quality. These tensions become even more complicated when the dimension of the customer–worker is added into the equation. At this point workers' identity and commitment is subjected to pressures from at least four fronts: subcontractors, client firms, customers (Cooke et al. 2005) and other workers. In addition, downsized workers might play an essential role in strengthening the communication and coordination between client firms and subcontractors. In this chapter, the findings of this research suggest that downsized workers might embody a valuable source of expertise and tacit knowledge for subcontractors, training and supervising new workers and even providing advice to supervisors and coordinators about specific services and procedures. Nonetheless, downsized workers seem to suffer high levels of anxiety and frustration, in addition to experiencing tensions with other workers in the subcontracted workplace.

At the middle of this apparently chaotic situation it makes sense to ask to what extent outsourcing arrangements could be truly efficient, when the transaction costs seem to be, in fact, so high, and cooperation among organisations seems to be scarce. From the point of view of organisations, flexible and precarious employment relations might be of critical importance since they could be of considerable help in counterbalancing the negative effects of inefficiencies in the operation and administration of the workforce.

The fourth chapter deals with the technical division of labour or job design as a strategy to organise the workforce in a multi-employer environment and in turns facilitate cooperation and negotiation between subcontractors and client firms. As mentioned, the main tension in service-oriented outsourcing is the confrontation between standardisation initiatives of call centres (in order to reduce costs) and the demand for the customisation of the service from client firms (to retain customers) (Korczynski 2002; Moss et al. 2008). Also, as a response to these tensions, service-oriented organisations with multiple clients tend to develop strong divisions based on the revenue reported by each client (Batt 2000; Batt and Moynihan 2002).

In this respect, it is expected that there will be a direct relationship between the level of customisation in services and the revenue generated by clients: services for low income markets tend to be standardised while services for high income markets are more likely to be tailored to the individual needs of clients (Batt 2000; Batt and Moynihan 2002). However, not all the differentiation of work experiences and employment relations is expressed in vertical divisions related to revenue generation.

The evidence collected in this research reveals that there are substantial differences within the same job designs, that is, differences at the horizontal level. To explain this unexpected finding, I rely on the role of supervisors and client firm representatives as elements of mediation between the labour force and the organisations involved. Findings of this research indicate that supervisors and client firm representatives actively negotiate shifts, absence permissions, medical leaves, holidays, extra-payment and account's rotation directly with workers, something that seems to be in line with findings reported about British subcontracted service workers (Deery et al. 2010). In other words, the interplay between subcontractors, client firms and workers is again of critical importance in explaining employment conditions and work experiences in outsourcing.

Therefore, different employment conditions within the same job design or job category are potential sources of tensions and problems between subcontractors and client firms because employees do not believe that there is a difference in the skills required for them that justifies the varying conditions. Hence, it seems that there are considerable incentives to carry out horizontal mobility in large service organisations with multiple clients when these differences emerge. However, information collected in this research shows that there is relatively low mobility of workers between different accounts. How is it possible to explain this counter-intuitive phenomenon?

Chapter five addresses this question highlighting the importance of social divisions inside the workplace as a mechanism for controlling and disciplining workers. In this regard, it is important to remark that workers cannot be seen as a homogeneous group, with a solid collective identity and interests. In call centres, as in many other service-oriented organisations, recruitment practices are largely based on employees' referrals (Fernandez et al. 2000; Castilla 2005). Therefore workers themselves end up as key decision makers about who joins the organisation or not at entry level positions (Maguire 1986; 1988). In doing so, external social divisions are reproduced inside the workplace and, very importantly, this seems to reduce the transaction costs of recruitment. Overall, there are two relevant consequences of this practice: one external and the other internal.

On the one hand, it is argued that much of the success of front-line service work depends on the creation of a 'customer enchantment' (Korczynski 2002), the creation of pre-configured interactions between customers and employees. This is achieved not just through the use of scripts or job designs but also through the reproduction of external social stereotypes that can be perceived in the tone of voice, volume or pronunciation type. For example, it is expected that female workers are more likely to be chosen for sales work and men for technical support services, just because this gender selection corresponds to Mexican stereotypes of service work. On the other hand, it seems that there is an internal and powerful consequence of the use of social networks for recruitment. As mentioned, it might be difficult to control the labour force when employment conditions diverged between accounts that, in practice, require similar skills. Nonetheless, social divisions (in the form of family, friendship or community links) appear to control and discipline workers as well as to operate as a glass wall to limit employees' attempts to move. The effect of these social barriers is reinforced by human resources practices such as internal competitions where teams are based on individual accounts.

Interestingly, despite the strict control exerted by organisations and peer pressure derived from social divisions, it seems that workers still have an important degree of autonomy in front-line service work (Leidner 1993). Findings of this research indicate that workers use this autonomy in order to cope with the pressures and stress of their work. To illustrate this point, chapter five also presents some cases where employees use their autonomy and discretion in order to cope with the demands of customers, supervisors, client firms and other workers.

To conclude with the mechanisms for coping and resisting the stress of front-line service work, chapter five analyses the experience of unions in the call centre industry in Mexico. It seems that job designs and the use of social networks in recruitment have been effective means for fragmenting workers' collective actions and responses to managerial practices. The only union in the industry is located within an organisation that does not have a large diversity of commercial clients but only provides services to organisations of the same corporate holding.

The first three empirical chapters (from three to five) focus on how the strategies of subcontractors, in dealing with the problems of negotiation and cooperation with client firms, have effects on the experience of work and employment conditions of non-managerial workers. The sixth and final empirical chapter of this book is about the experience of managers and their role in the operation of the subcontracted firm and its expansion. In most of the literature about the experience of work in the new economy, managerial careers are also the target of the labour flexibility logic (Handy 1989). Moreover, managers themselves are supposed to enjoy the opportunities of being more mobile and having less firm-specific skills to satisfy their more individualistic and goal-oriented professional motivations (Reich 1991; Reed 2009). In this regard, managers are observed as agents who circulate 'freely' across the diffusing boundaries of organisations.

However, the findings of this research suggest that managers tend to be attached to organisations and remain the target of several retention mechanisms such as internal labour markets, training opportunities, attractive pensions, private medical care and paid holidays. There is no question that managers' experiences contrast with non-managerial employees in call centres. In this sense, it is possible to see how the boundaries of the firms are re-established in managerial circles whose loyalty and commitment in the long run seem to be crucial for the expansion of the organisation. In the four companies studied here, almost all the managers interviewed have climbed the whole organisational ladder. Very importantly, most of them share a common background from other organisations, revealing the importance of social capital for progression in managerial careers. However, it is possible to perceive that there is a difference between the experiences of managers depending on their gender. Apart from the area of human resources, men are still the dominating group in managerial circles and, notably, female managers seem to progress in their careers using more meritocratic mechanisms than their male counterparts.

Finally, the concluding section of this book revisits the initial research questions, provides a general evaluation of the findings and reflects on the topics for further research.

CHAPTER ONE

OUTSOURCING AND SERVICE WORK IN THE NEW ECONOMY

1.1. Outsourcing and the blurring boundaries of the modern firm

1.1.1. The flexible firm

It is argued that intense competition, technological change and variations in demand have forced organisations to substitute hierarchical arrangements for market mediated transactions in order to respond faster and more efficiently to the challenges imposed by this environment (Atkinson 1984; Piore and Sabel 1984; Harrison and Kelley 1993; Harrison 1994; DiMaggio 2001). Perhaps, the most elaborated link between new and more flexible organisational forms on the one hand and employment relations on the other, corresponds to the flexible firm model formulated by Atkinson (1984). In his model, Atkinson suggests that the segmentation of the labour force inside the firm would allow organisations to deal more effectively with intense competition and quick changes in demand. Crucially, in Atkinson's model this labour market segmentation also corresponds to two different types of labour flexibility: numerical and functional (Atkinson 1984; Pollert 1988; 1991; Kalleberg 2001).

On the one hand, 'functional flexibility' is the enhancing of employees' ability to perform a variety of jobs and participate in decision-making; in doing so workers can collaborate with faster and more efficient responses to volatile conditions in the market. This functional flexibility tends to be applied to workers in primary labour markets. On the other hand, 'numerical flexibility' refers to the strategies used to reduce costs by limiting workers' involvement in the organisation. Benefits for workers (expressed by the employment relationship) are reduced to a minimum, removing those components that are likely to gain loyalty and commitment from them, such as career ladders, life-time employment contracts, or benefits. In other words, this numerical flexibility applies to workers in secondary labour markets.

It is clear that Atkinson's flexible firm model was designed not just to provide the organisation with more flexibility but also to protect workers with firm-specific skills working in the core activities of the company (Cappelli 2000; Cappelli and Neumark 2004). The protection mechanism would consist in providing workers on the periphery (or secondary labour markets) with non-standard forms of employment in order to facilitate the adjustment in the size of the workforce (Atkinson 1984; Handy 1989; Cappelli and Neumark 2004). This approach certainly suggests a dual labour market structure where workers whose skills are more firm-specific tend to be allocated to primary labour markets and receive better employment conditions. On the other hand, workers holding less firm-specific skills are more likely to be allocated to secondary labour markets. Therefore, according to this logic, those activities considered peripheral are more likely to be subcontracted and workers in these activities to be subjected to non-standard employment conditions.

1.1.2. Outsourcing

Outsourcing is understood here as an arrangement where a client firm establishes a relationship with a subcontractor for the purchase of a final product, component, part or service under the specifications of the client firm (Holmes 1986; Lacity and Hirschheim 1993; Child 2005; Marchington et al. 2005).

The logic of outsourcing is inspired by centuries of economic thought such as Adam Smith's famous example (1776) about the technical advantages of the division of labour in the pin factory: production is more efficient when the whole process is divided into tiny pieces of specialised processes. In this respect, it seems that contracting out could be a useful mechanism in the division of labour. The economics-based literature (Watanabe 1971; Holmes 1986; Lorenz 1988; Harrison and Kelley 1993) frequently argues that labour might be subcontracted for three basic reasons:

- Capacity: when additional workforce is needed to complement existing capacity.
- Specialisation: when the client firm requires the use of specialised labour that is not available 'in-house'.
- Cost-cutting: when the client firm subcontracts a segment of the production that might be produced more cheaply by a third party.

It seems that organisations use outsourcing when they have not got enough capital or labour for their production needs (to speak about only two basic production factors). An example of this can be seen in the tourist industry, which experiences fluctuating demand throughout the year. During the high-demand seasons, such as summer and Christmas, hotels and other tourist-related businesses tend to rely largely on temporary and part-time workers. Demand for the rest of the year can normally be covered by using a permanent workforce. On the other hand, an organisation might opt to outsource for reasons of specialisation. Let's stay with examples in the tourist industry. Like any other businesses, hotels require adequate accounting controls and financial supervision. Large hotels with complex financial operations normally subcontract or outsource their accounting affairs to external firms; accounting is not hotels' 'core' business but it is critical for them to have good accountants if they are to be successful businesses.

Finally, organisations may use outsourcing for purely cost-reduction reasons. In this case, the organisation probably has the internal resources to face cyclical changes in demand or the knowledge to deal with an apparently peripheral activity, but it outsources the activity because there is a 'third-party' which is able to do the same activity more cheaply. A final example could be the catering services in hotels. Restaurants are perhaps not the actual core of hotels' business, but there is no doubt that catering services have a big impact on customers' satisfaction. Some hotels, although they know how to manage their catering services and have catering facilities and staff 'in-house', simply decide to subcontract the service to a cheaper external supplier.

There is also a fourth justification for the use of outsourcing that is not commonly identified in most of the literature: imitation. During the interviews, specialists from the Mexican Institute of Tele-services (IMT, *Instituto Mexicano de Teleservicios*) told me that many small and medium sized companies frequently want to adopt outsourcing solutions in call centres. When IMT consultants explain to these clients that a business diagnostic must be carried out in order to evaluate whether call centre outsourcing is really needed, the common reply is: "There is no question about it. We already know that we need one. Big companies do it and we must follow their example if we want to remain competitive". (Interview with an IMT consultant). Interestingly, one CEO in the call centres interviewed said that there is nothing new about the existence of outsourcing, that it is used in the business world from time to time and is not exclusive to present times: "It has been here for a long time; I used to say to my clients that Christopher Columbus started outsourcing!"

A key assumption of the model of the flexible firm is that flexible organisations need a network of flexible inter-firm relationships to operate (Porter 1998; DiMaggio 2001) because this network of inter-firm arrangements is used to allocate activities considered peripheral. In this regard, almost by definition, it is impossible to have a flexible firm without a set of connections to other organisations to carry out activities that, otherwise, would have to be undertaken inside the organisation. As a consequence, the giant and vertically integrated corporation that dominated the world during the post-war period (Whyte 1956; Chandler 1977; Lazonick 1991) would be replaced by a network of smaller firms using a relatively small, flexible and horizontal workforce nowadays, in which outsourcing might play a key role as a mechanism for building connections between organisations[1] (Piore and Sabel 1984).

In this respect, it is evident that most of the discussions on outsourcing are rooted in historical analyses about the nature of the firm (Coase 1937) and debates about hierarchies versus markets (Williamson 1979; 1981; Simon 1991; DiMaggio 2001). In this regard, the transaction cost concept coined by Coase (1937) and later reformulated by Williamson (1981) are crucial in understanding the rationale of outsourcing for many companies. Williamson pointed to the split of costs in two different categories: production and transactions (Williamson 1979; 1981)[2]. The second category is the costs associated with the coordination, monitoring, controlling and managing of transactions. Thus, when firms have to make decisions about which activities to 'internalise' and which others to 'purchase' in the market, managers must consider transaction costs (Williamson 1979; Lacity and Hirschheim 1993). A transaction cost approach would predict that those activities involving the transaction of specific and strategic assets for the firm tend to be internalised or, if using the market, to be ruled by contracts that guarantee mutual cooperation for the compliance of the specifications agreed. On the contrary, if this type of operation relies

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[1] The rise of the network concept has triggered intense debates about the extent to which networks are completely new (Castells 1996) or whether they are just another intermediate stage in the continuum between markets and organisations (Stinchcombe 1990; DiMaggio 2001). Also, it is argued that networks do not represent any kind of historical discontinuity or radical chance because both organisations and markets tend to operate alongside combinations of cooperation, bureaucratic rules and price mechanisms (Barley and Kunda 2004; Marchington et al. 2005).

[2] Williamson (in the 1970s and early 1980s) was puzzled by the growth of large bureaucracies, which produced many operations internally (Williamson 1979; Lacity and Hirschheim 1993).

on the market, companies require higher levels of supervision and control over the exchange and this might potentially increase transaction costs (Coase 1937; Williamson 1979; 1981; Lacity and Hirschheim 1993).

When looking at all these considerations about labour segmentation, transaction costs and core-periphery models, it seems that a clear rationale emerges: peripheral activities and their workers are more likely to be subcontracted simply because they do not represent firm-specific assets and contracting them out is cheaper than undertaking their work inside the organisation. In other words, outsourcing is essentially related to transaction costs. However, other social scientists claim that the orthodox business logic of outsourcing oversimplifies the behaviour of participants (Perrow 1986; Granovetter and Swedberg 1992); underestimates power disparities and the asymmetry of information in economic relationships (Perrow 1986); and ignores the existence of intermediate organisational forms like market contracts that could operate like hierarchical arrangements (Stinchcombe 1990) or even the existence of new forms of coordination between organisations such as relational contracting (DiMaggio 2001).

In this regard, a critical approach towards outsourcing and numerical flexibility could be taken, suggesting that it allows for the redistribution of risks and uncertainties in production, distribution and trading activities (de Buen Lozano 2005; De la Garza 2005; Marchington et al. 2005) and this ‘redistribution’ of tasks and risks is marked by power inequalities. Consequently, in outsourcing, powerful companies tend to ‘allocate’ to ‘weaker’ partners those activities that are more vulnerable to unpredictable changes in demand, union militancy and technological obsolescence (Holmes 1986; Lacity and Hirschheim 1993; Child 2005; Marchington et al. 2005). Paradoxically, this power inequality creates a lack of trust and communication that obstructs the achievement of maximum efficiency and ultimately provides customers with products and services of less quality. This situation was noted earlier as one of the main disadvantages of considering only the cost-cutting advantages of numerical labour flexibility in the short run. Therefore, the whole argument that outsourcing is unequivocally efficient can be challenged.

The economic sociology critique of the conventional neoclassical and institutional economics framework on outsourcing seems to be particularly useful when dealing with the outsourcing of labour. According to this analysis, labour outsourcing implies ‘distinctions’ of control, supervision, trust, reward, stimulus and even physical allocation between permanent employees and subcontracted workers (Baron and Kreps 1999). These distinctions may elicit situations of trust and cooperation but also of distrust and exploitation, depending on power and information inequalities among participants (Lorenz 1988; 1992; 1999). In modern subcontracted firms it is common to see people working for different clients but ‘within’ the same organisation. Therefore, employment relations in labour outsourcing in a place with multiple clients can potentially result in important frictions and challenges for workers, clients and managers.

Despite these controversies, one cannot overlook the importance and popularity of outsourcing in present times. When thinking about outsourcing, it is almost irresistible to evoke Karl Marx’s and Friedrich Engels’s famous opening of the Communist Manifesto (1948): “A spectrum is haunting Europe, the spectre of communism”, but the spectre of outsourcing goes well beyond Europe and has become a continuous challenge for the labour movement around the world. Wherever one looks, outsourcing has become a type of magical solution for almost every single one of today’s challenges in the world of business.

In this research, the most important point in the relationship between outsourcing and labour is that it implies the reformulation of the traditional employment contract (Harrison and Kelley 1993; Marchington et al. 2005), that is, labour outsourcing implies the removal of the ‘rigidities’ of the employment relationship in order to reduce the costs associated with labour mobility[3] (Watanabe 1971; Harrison 1994). These economic rigidities consist of the set of responsibilities and obligations for employers and employees alike, which increase the costs of labour allocation in the market and within organisations (Samuelson and Nordhaus 2001). According to the flexible firm paradigm, this more flexible allocation of labour inside organisations and across the market would guarantee optimum efficiency and higher productivity levels (Porter 1998).

The dominance of the flexible firm model has been always a matter of dispute (Pollert 1988; 1988; 1991) but the explosive emergence of a business and management rhetoric inspired by flexibility principles is difficult to ignore (Sennett 1998; Stiglitz 2003; McMichael 2004; Sennett 2009). Nowadays, outsourcing is one of the most common forms of inter-firm relationship and work and employment relations play an essential role in this strategy.

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[3] This does not mean that outsourcing is the only type of inter-firm relationship that is strongly associated with flexible employment formats.