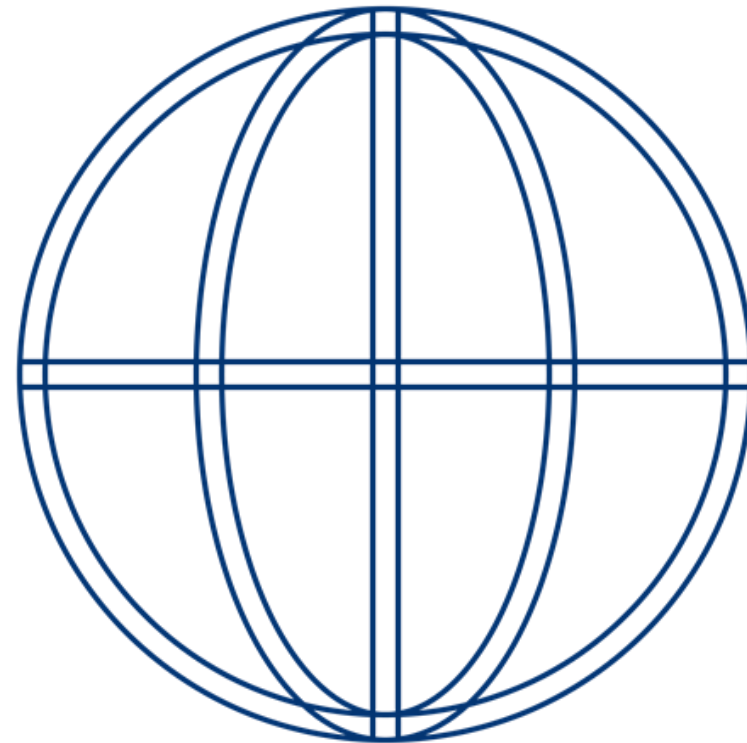


Outsourcing dilemmas



Outsourcing – definition

We use the term outsourcing as a generic term when tasks are moved inside or outside the country – and inside or outside the group/business.





Outsourcing dilemmas and our role as employee representatives

Outsourcing has become a fact of life for many businesses, and is something we need to address. It is complex and filled with dilemmas. The relocation of tasks to another country or business (typically where the labour is cheaper) has traditionally been something that we as employee representatives have disapproved of because it leads to job cuts and subsequent dismissals of our members/colleagues.

Outsourcing can, however, give the individual business more favourable competitive conditions or access to skills that are in short supply in Denmark.

From the perspective of the UN sustainable development goals, moving tasks from Denmark to, for example India, Poland or Lithuania might also help to promote global equality, good working conditions in other countries and democratic values/the rights of individuals.

Employee representatives from businesses where the outsourcing of tasks is part of its business strategy have discussed different dilemmas. Here we give a brief account of the six dilemmas discussed including the questions to be raised with management before, during and after a decision to outsource:

Dilemmas concerning:

1. Inequality
2. Democracy
3. Home market
4. Labour market
5. Skills
6. Supply (dependence)

Discussed by whom:

1. Board of directors
2. Business councils
3. Works councils
4. European works councils (EWC)
5. The media/authorities



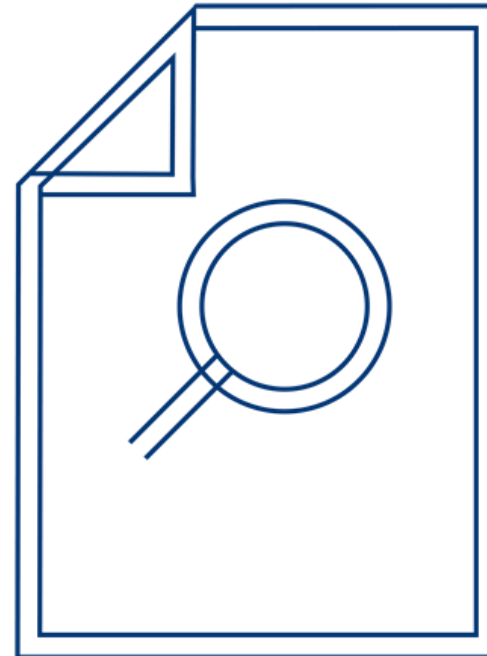
The purpose of the memo on outsourcing dilemmas

Purpose:

- to discuss outsourcing on a nuanced basis and in the perspective of sustainability

Objectives:

- to make employee representatives aware of the risks of outsourcing
- to empower employee representatives to discuss outsourcing matters with management and members
- to ensure long-term sustainability for businesses
- to consider our communication in the area of outsourcing

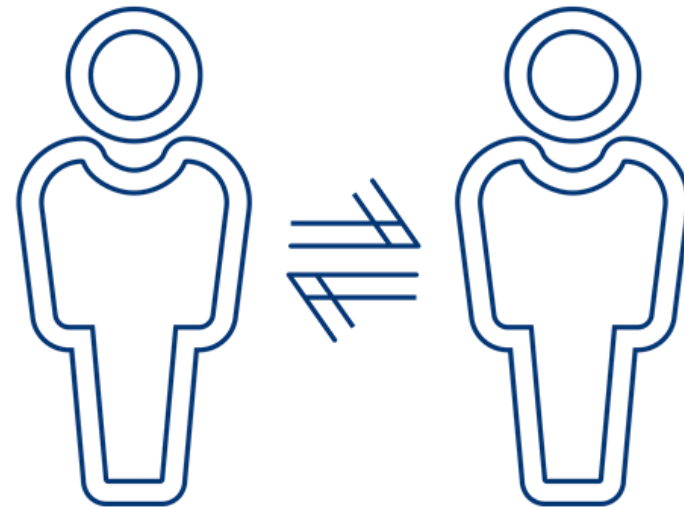


The employee's experience of outsourcing

- Dismissals
- The unforeseen backflow of tasks from outsourced sites
- The experience of job loss after having trained others in taking over the tasks
- The loss of knowledge resulting from relocation
- Lack of coherence when tasks are split across boundaries (value chain is broken)
- Cooperative challenges across countries/cultures
- Defending inconsistent quality in connection with deliveries from countries to which the tasks have been outsourced
- Lack of management and responsibility for executing the outsourcing process

Acknowledge competition on equal terms, but check if outsourcing:

1. takes place in a socially responsible/sustainable way
2. takes place on proper terms with respect to the employees **losing** the task and those **receiving the task**, and not least those **who stays** in the company and must take responsibility in cases where things are not working well after the transfer
3. takes place on a truly informed basis (use, for example, the EU Directive establishing a framework for informing and consulting employees) and with value creation in the long term in mind





Inequality dilemma

Advantage: Outsourcing reduces global inequalities.

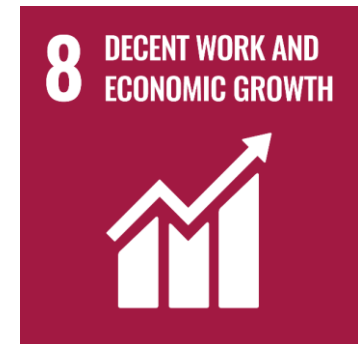
Disadvantage: The gains achieved from outsourcing may be unequally distributed.

The gains might go to higher dividend payments instead of reinvestments in jobs and growth.

Risk that the business might support citizens who are financially better off rather than eliminate economic disparities.

Recommendations:

- Acknowledge that your business contributes to creating good jobs and reducing global inequalities.
- Ask about and require that attention is being paid to good terms of employment and organisation in the outsourcing countries.
- Refer to the international conventions, guidelines and principles to which the businesses have committed themselves (e.g. ILO conventions, UN- and OECD guidelines, UN principles for responsible banking).



Democracy dilemma

Advantage: The business could help pull in the direction of stronger democratic values in the outsourcing countries.

Disadvantage: The business could risk coming into conflict with the democratic values of its home market in outsourcing countries (e.g. LGBT+ rights).

Recommendations:

- Acknowledge that the business must strike the right balance between respecting the local culture, the values of the business and fundamental democratic values.
- Demand that democratic values in the outsourcing countries be taken into consideration as part of the risk analysis.
- Ask about what the fundamental values mean. Where is the limit, and where can we make compromises?
- Make the fundamental values of democracy a natural part of the dialogue with the management locally and transnationally.
- Ask the management if the tasks to be handled in the outsourcing country are/will be placed in a country with a democratic deficit.





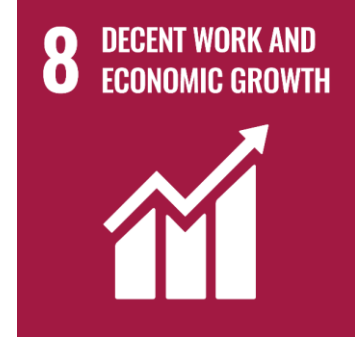
Home market dilemma

Advantage: Outsourcing can reduce costs and provide cheaper products and services.

Disadvantage: Outsourcing could reduce consumer demand on the home market because fewer jobs will decrease the purchasing power.

Recommendations:

- Ask if outsourcing is reflected in consumer prices/better services for customers on the home market. Ask for concrete examples.
- Ask if the business feels responsible for placing the jobs where its home market(s) is/are.
- Ask who their competitors are and in what markets they compete – and the parameters on which they compete.
- Are values and outsourcing compatible?
- Ask what the business would like to stand for. Would it like to contribute actively to the labour market and communities in the countries where the home markets are?
- Ask the management to collect experience from dissatisfied customers in directly client-facing functions handled by outsourced functions, for example in private banking – the experience is not “customer centricity”.





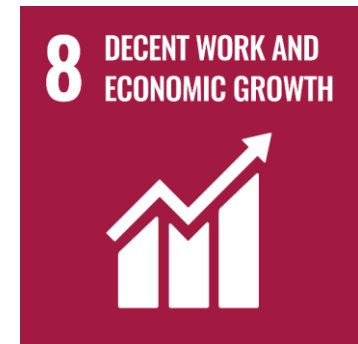
Labour market dilemma

Advantage: Outsourcing can open access to labour which is in short supply.

Disadvantage: Outsourcing can put pressure on the Danish labour market model if the country of destination has no collective agreements. The labour market and thereby also the businesses do not focus on reusing employees if tasks are outsourced.

Recommendations:

- Ask how the business ensures a sustainable employee development and retention policy in the home country.
- Ask how the management ensures employee representation in the countries to which the tasks are outsourced to support a sustainable labour market model.
- Ask which areas/skills may be susceptible to outsourcing in the short and long term – and work out a plan together for how to prepare employees for another job.





Skills dilemma

Advantage: Outsourcing can provide access to needed skills.

Disadvantage: Outsourcing could lead to a loss of knowledge and skills on the home market.

Recommendations/considerations:

- Acknowledge that the lack of skills may be solved through outsourcing, but that there are risks.
- Consider if the outsourcing of further activities would lead to the relocation of high-skilled tasks, thus with the risk of draining skills/knowledge completely.
- Map out the areas involving the risk of losing (silent) knowledge if outsourced, for instance by involving union representatives/employees.
- Speak to the management about the skills situation in the long term. Make the management aware that the loss of silent knowledge is usually discovered when it is too late.
- Ask the management what is done to compensate for the loss of knowledge.
- Consider the risk of placing critical skills and knowledge in places where the employee turnover rate is high and loyalty towards the company might be weaker than in home markets.





Supply/dependency dilemmas

Advantage: Outsourcing may provide flexibility and savings.

Disadvantage: Outsourcing is often irreversible and creates dependency on countries in which the political situation could quickly change.

Recommendations:

- Encourage the management to prepare an exit plan for taking back the outsourced tasks as it can prove difficult to re-establish outsourced skills. One way could be to keep the skills in the home market longer than planned.
- Make the management aware that employee commitment and motivation often depend on a sense of purpose and belonging that is often lost when the value chain is split/tasks are outsourced across boundaries.
- Ask how the management addresses the risk of placing critical skills and knowledge in places where the employee turnover rate is high and loyalty towards the company might be weaker than in home markets.
- Ask the management to relate to the security of supply and political uncertainty in the country as it may influence how tasks are solved in the country to which they are outsourced.
- Ask the management if the dilemma has been discussed by the business' board of directors.
- Ask the management if the business' board of directors has assessed the risk of re-outsourcing.

