

Outsourcing in 18 European countries: The role of worker power

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Abstract

Most research on outsourcing looks at cost-driven, resource-based or transformational motives to understand outsourcing decisions at the company-level. This article brings in the workers' perspective, which is a topic that has not been the focus of attention of most previous studies. The article takes cross-national data for 18,264 companies in 18 European economies to examine the role of worker power on outsourcing decisions. According to the results from multilevel logistic analysis and contrary to the authors' expectations, worker power relates to a higher likelihood of outsourcing. This article concludes with some thoughts on this finding and presents some directions for future research.

Keywords

Employee voice, European Union, management

Introduction

Throughout the world, outsourcing has steadily increased. Technical-rational pressures of increased competition combined with improvements in information and communication technologies and changes in the ideological landscape have most likely led to an increase in outsourcing activities, because it is expected to provide profit maximization and corresponds to cultural norms of greater flexibility (cf. Boltanski and Chiapello, 1999). Outsourcing is a multidimensional concept, which may refer to the outsourcing of goods or services to a firm's subsidiary or an external entity such as suppliers, competitors, customers or strategic alliance partners as well as to outsourcing activities at various locations (Varadarajan, 2009). In this article, we define outsourcing as *the transfer of all activities and processes to external providers at different locations domestic and international*, which is one of the most common definitions in the current literature (see also

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Ellram and Billington, 2001; OECD, 2006). Outsourcing has become an important feature of the world economy (Grossman and Helpman, 2005), including the outsourcing of manufacturing activities, product development, marketing, sales, IT and other business activity (see Freytag et al., 2012). According to Hummels et al. (2001) outsourcing grew by almost 30% among 10 OECD countries between 1970 and 1990 and manufacturing outsourcing grew by approximately 30% in euro area countries between 1995 and 2004 (Geishecker, 2007). In a recent survey among 3300 business leaders in 45 economies, 40% indicate they are (or they are planning) outsourcing business processes (Grant Thornton, 2014). As a result, production processes have become decentralized. A well-known example of this is the production of the Boeing *Dreamliner*. The manufacturing process of these planes is carried out by approximately 900 suppliers and manufacturers. In other words, outsourcing is a central feature of today's economy, and this seems to hold for both the private and the public sector (Flecker and Hermann, 2011).

To date, most studies on outsourcing decisions at the company-level focus on cost-driven, resource-based or transformational drivers, such as highlighted by transaction cost theory, resource-based view and organization theories (Hätönen and Eriksson, 2009). The transaction cost perspective and the resource-based view start from the theoretical premise that organizations pursue outsourcing strategies if they have limited in-house resources and/or capabilities or if outsourcing brings about financial benefits by using market transactions instead of performing them internally (e.g. Autor et al., 2003; Barney, 1991; Williamson, 1975). Another process leading to outsourcing is connected to the idea to create new organizational forms or 'radical renewal' (Linder, 2004), such as 'network organizations' (Miles and Snow, 1986), while others state that this line of organizational thinking is still closely related to an emphasis on cost reduction and gaining competitive advantage (cf. Buckley and Lessard, 2005). As such, these two motives (cost reduction and gaining competitive advantage) are seen as the most important driving forces (Freytag et al., 2012; Iqbal and Munir Dad, 2013; Lonsdale and Cox, 2000; Weil, 2014) and this search for lowering costs has been reinforced by processes of economic globalization, placing a stronger emphasis on business competition (Kalleberg, 2011).

While much has been said about the management perspective regarding outsourcing, as proposed by the transaction cost perspective and the resource-based view, the workers' perspective is largely missing. Power resources theory (Korpi, 1983, 2006) provides a theoretical rationale on outsourcing from the perspective of employees. The basic argument of this theory is as follows: due to outsourcing, workers may feel insecure about their jobs. While outsourcing probably has no effect on the overall level of unemployment in the long-run (e.g. Weidenbaum, 2005), for example through specialization and increased productivity, research suggests that increased outsourcing results in higher levels of unemployment in the short-run (e.g. Mohlmann, 2013). Hence, one could argue that outsourcing fuels workers' fear of losing their jobs. Traditionally, trade unions and other forms of 'worker power', such as works councils and leftist political power, strive for higher wages, better working conditions and higher levels of job security. Following the logic from power resources theory, if workers have more power they are better able to organize themselves and to strive against corporate restructuring through outsourcing. In such contexts of high levels of worker power, companies are most likely pushed towards finding other ways in their need for flexibility and cost reduction.

In sum, while management perspectives argue that the growth in outsourcing is driven by the need for cost reduction and achieving competitive advantage, power resources theory suggests that worker power could make the adoption of outsourcing more difficult at the company-level. This article aims to test this theoretical perspective by taking the workers' perspective into account next to the management perspective. Therefore, our main research question is: *Does worker power impact on companies' outsourcing decisions across Europe and if so, in what way?*

This article contributes to the existing literature in two ways. First, we combine a management and a worker perspective in one model. Prior research focuses primarily on the management perspective, mostly the resource-based view and/or transaction cost economic theory (McIvor, 2008, 2009). We extend our knowledge on outsourcing by including another theoretical perspective. In this way, we are able to obtain a richer understanding of outsourcing and we are addressing the gap of 'theoretical pluralism' in previous research (Gilley et al., 2006: 28; see also McIvor, 2008). While some studies tried to link economic and more sociological perspectives on outsourcing decisions (see, for example, research focusing on dependency relationships between suppliers and sellers; Caniels and Roeleveld, 2009), there is a lack of attention to the employee perspective in particular (cf. Iqbal and Munir Dad, 2013). Second, we extend existing studies on outsourcing by using recent company-level data from the 2013 European Company Survey, which is based on management interviews in 32 European countries. Although the academic interest in outsourcing has grown over the years (Hätönen and Eriksson, 2009), much research is restricted to one specific context (e.g. Addison et al., 2008; Diaz-Mora, 2008), primarily the United States (e.g. Ang and Straub, 1998; Ellram et al., 2008, 2013; Gilley et al., 2004; Swenson, 2004; Whitaker et al., 2005). Investigating multiple countries contributes to the generalizability of the results.

The article is structured as follows. In the next section we discuss the main theoretical rationales and our hypotheses in more detail. The third section presents the data and methods, followed by the main results. The last section provides a discussion of the key findings and implications for further research.

Theoretical background

In this section we present different theoretical rationales on outsourcing. First, we briefly discuss the dominant management perspective that mostly focuses on cost-rational and competitive reasons as main drivers for outsourcing. Next, power resources theory offers a different point of view, emphasizing the role of worker power. Finally, we discuss some relevant control factors at the company-level.

The management perspective on outsourcing

Most research on outsourcing follows a management perspective. As was discussed by Globerman and Vining (2006), there are a number of cost-reducing and competitive rationales for outsourcing. For example, outsourcing brings about lower fixed (labour) costs, economies of scale and/or a greater potential for flexible production (Abraham and Taylor, 1996). In general, a major driving force behind outsourcing is the search for

lowering labour costs (e.g. Kohler, 2002; Quelin and Duhamel, 2003). However, while cost savings remain an important aspect in understanding outsourcing, access to more competences and expanding capabilities have become even more important drivers in a knowledge-based economy (e.g. Bottini et al., 2007: 6). Moreover, the most frequently used underlying theories are the resource-based view and/or transaction cost theory (e.g. Kavcic and Tavcar, 2008; McIvor, 2008).

The resource-based view (RBV) seeks to explain competitive success among firms (e.g. Barney, 1991; Brush et al., 2001; Collis and Montgomery, 1995; Espino-Rodriguez and Padron-Robaina, 2006). It is argued that different degrees of resources and capabilities within firms explain competitive advantage. Firms' resources could imply financial, physical, technological, reputation and human resources (Grant, 1992). By identifying possible resource gaps, firms can decide where there is place for outsourcing (Grant, 1991). The so-called core-competences approach has evolved from the RBV and specifies that companies try to minimize resource gaps that are most critical for their competitive advantage (Barney, 1991; Hamel and Prahalad, 1994). Put differently, companies will not outsource their core competences. In this study, we consider human resources as a core competence in particular (Bartlett and Ghoshal, 2002; Pfeffer, 1994). With respect to human resources, competitive firms need motivated and loyal employees. These workers can be considered as valuable resources and are important regarding a firm's competitive position as we know that motivation and high employee retention are positively associated with labour productivity and knowledge-sharing (e.g. Brown et al., 2011). Hence, organizations that rely on these human resources are likely to internalize them. Organizations that do not have this particular type of resources are more inclined to externalize business activities through outsourcing. For example, in a company with a lack of motivated and/or appropriately IT-skilled employees, these problems can be addressed by adopting IT-outsourcing. Keeping IT in-house and/or solving problems by searching for new employees internally is simply a too costly way of troubleshooting. In other words, problems of limited human resources can be overcome by expanding resources, such as the right skills and expertise, externally. Following these considerations, we hypothesize that:

H1: A lack of motivated employees increases the likelihood of outsourcing.

H2: A higher level of employee retention decreases the likelihood of outsourcing.

Another mechanism that may drive outsourcing builds on transaction cost economics (TCE) (Williamson, 1975, 1981). Transaction cost theory tries to explain why firms pursue market transactions (instead of internalizing these transactions into a centralized organization). According to transaction cost theory, each possible transaction is interpreted by a decision between 'making' products or services internally or 'buying' products or activities externally. The basic assumption of transaction cost theory is that firms will have a greater interest in outsourcing when transaction costs are relatively low (e.g. Aubert et al., 1996; Vining and Globerman, 1999). For example, transaction costs may imply negotiation costs, contract costs and/or firm-specific human capital costs (asset specificity). Earlier research shows that asset specificity is the most important explanatory aspect

of this theory (Williamson, 2008). The logic of TCE is closely related to the assumptions of the RBV, but differs in at least one respect. While TCE mainly focuses on the transaction costs of outsourcing, RBV is to a higher degree related to an analysis of in-house resources and means of value creation, in this way striving for competitive advantage (Espino-Rodriguez and Padron-Robaina, 2006). Human resources are of great value for organizations. According to TCE, employers try to avoid dismissing workers when they possess firm-specific skills. In this case, outsourcing yields higher transaction costs because they will have to invest in firm-specific assets in terms of (on-the-job) training again. As a consequence, while companies are unlikely to outsource their firm-specific and highly-skilled labour assets, keeping them in-house, all other activities are good candidates for outsourcing (Ellram et al., 2008; OECD, 2006). In this way, firms are able to reduce costs related to their non-core competences. Hence, Diaz-Mora (2008) demonstrates that highly-skilled labour is usually accompanied by relatively high wages. In those companies, the cost-cutting motive becomes more pronounced, resulting in higher outsourcing intensity. Consequently, this leads to our third hypothesis:

H3: A higher degree of firm-specific skills required for a job increases the likelihood of outsourcing.

Most empirical research on outsourcing follows this management perspective. Until now, research on the workers' perspective is lacking. We elaborate on this perspective below and derive some specific hypotheses based on this approach.

The workers' perspective on outsourcing

Power resources theory (PRT) stresses the importance of collective worker power, which relates to works councils, trade union activity, collective wage bargaining and worker representation by leftist political parties, in determining labour market outcomes as well as welfare state development (Korpi, 1983, 2006). PRT highlights the conflict of interest between employers (capital) and workers (labour) and suggests that in countries with stronger works councils, unions, collective wage bargaining and leftist political parties, workers obtain a relatively stronger bargaining position, which stimulates worker voice (Esping-Andersen, 1985). Much research has been done on the question of whether the presence of strong trade unions is positively related to wage earners' preferences. In this respect, several authors have found that in countries with stronger trade unions there is a positive association between the labour's share of national income (Kristal, 2010), lower wage inequality (Addison, 2014; Western and Rosenfeld, 2011), lower worker insecurity (Dixon et al., 2013) and higher levels of worker autonomy (Esser and Olson, 2012; Gallie, 2009). However, research on the relationship between the role of worker power and outsourcing is scarce. The few available studies are theoretical (e.g. Lommerud et al., 2009) or case studies with limited generalizability. For example, Doellgast (2008) compares union influence on outsourcing in six telecommunication firms. She shows that unions seem to enjoy some influence on outsourcing decisions where there is a high level of union density and close cooperation with local works councils. In those cases, managers are limited in their use of outsourcing because of union pressure and the threat

of negative publicity from union-led campaigns. The political composition of government may influence outsourcing decisions as well. It is usually assumed that lower-skilled workers oppose free trade because they experience less employment stability due to outsourcing (Scheve and Slaughter, 2001). In general, political leftist parties such as the social democrats mobilize and represent this relatively insecure workforce (Korpi, 2006). We already know that a leftist political composition of government has a positive effect on social spending and inequality reduction (e.g. Bradley et al., 2003; Huber and Stephens, 2001) as well as the level of job quality (Gallie, 2009). Regarding outsourcing, we expect that political power in the hands of leftist parties encourage companies to seek other solutions than outsourcing, although there is always some room for employers for manoeuvre. Or, as Korpi (2006: 205) puts it: 'this context restricts employers' market options'. In addition, we expect that the presence of works councils and high levels of collective wage bargaining increase workers' overall capacity to bargain and tend to support policies that increase employment instead of outsourcing jobs and company functions. Therefore, following PRT, it seems reasonable to expect that:

H4: The presence of works councils decreases the likelihood of outsourcing.

H5: A high level of trade union density decreases the likelihood of outsourcing.

H6: A high level of collective bargaining coverage decreases the likelihood of outsourcing.

H7: Leftist political cabinet composition decreases the likelihood of outsourcing.

In Figure 1 our hypotheses are summarized in a schematic overview.

Next, we briefly discuss some additional control factors that may impact on outsourcing decisions at the firm-level as well.

Additional company-level controls

A number of previous studies have shown that outsourcing varies between companies. There is evidence that firm size, a firm's use of technology, its sector and the financial situation may be related to outsourcing. Regarding firm size, it is expected that larger firms are more inclined towards outsourcing because they may find contract partners more easily compared to smaller firms. In other words, they experience lower search costs (Tomiura, 2005). From this perspective, it seems likely that outsourcing is also more pronounced in those cases where a company is a member of a larger organization with different locations in a given country. Another factor concerns the complexity of products. More precisely, if firms operate in highly complex market environments, characterized by high levels of (costly) technology, firms will most likely focus on their core competences. It is simply too costly to internalize all components or tasks (indirectly) related to the production process, such as marketing, cleaning or transportation. In sum, firms operating in complex market environments will opt more likely for outsourcing (Curzon Price, 2001). Furthermore, one could also expect a positive relationship between technology and the likelihood of outsourcing because advances in technology provide

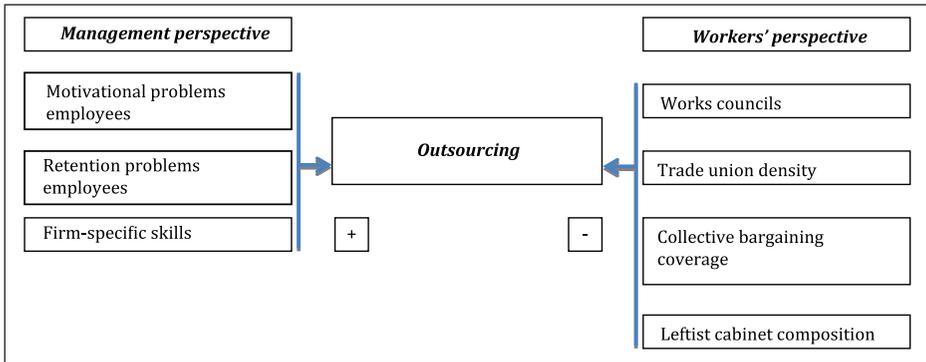


Figure 1. Overview of hypotheses.

companies with more efficient ways to locate and coordinate business operations externally (Antras et al., 2005). Notwithstanding tendencies towards outsourcing in the public sector, we expect that outsourcing plays a more important role in the private sector of the economy due to a more volatile market environment. Finally, a firm’s financial situation may be a relevant aspect when understanding outsourcing. However, the expected sign is ambiguous. There are arguments for expecting a positive link; outsourcing may be favourable for firms that perform financially well. For these organizations, outsourcing is one way to remain flexible and competitive relative to others. However, it seems plausible as well that a financially less stable situation increases the likelihood for outsourcing because of reasons of cost reduction. Therefore, we test whether a firm’s financial situation is related to outsourcing decisions.

Data and methods

To test our hypotheses, the 2013 European Company Survey (ECS 2013)¹ conducted by Eurofound is used. We decided to use this dataset because the ECS 2013 includes the necessary company-level data for all 28 EU member states. The data collection by a voluntary telephone survey took place between February and June 2013. This dataset, using a stratified random sampling design among European companies with 10 or more employees in each country covered by the survey, provides detailed information on company characteristics, outsourcing decisions and industrial relations in Europe. The respondents are persons who are at or near the top of the hierarchy and directly responsible for all staff, working conditions and work organization at the local establishment. The overall response rate of the ECS 2013 was 38%, which is relatively high compared to other company surveys in Europe and the US (e.g. Fleischmann, 2014). Eurofound carried out an extensive translations procedure to ensure that measurements are equivalent across different institutional settings (Kankaras and Van Houten, 2015). After organizing our data, our dataset contains 18,264 company observations in 18 European countries.² The individual-level variables are calculated while applying the appropriate weighting factor for the countries included, provided by Eurofound to allow

for appropriate generalizations. The data are enriched by including some macro-level indicators. Adding these macro-level indicators reduced the number of countries that could be included in the analyses. In total, the data of companies in 18 countries were analysed. This number lies between the 15 and 20 countries required to get outcomes that are satisfactorily reliable (Stegmueller, 2013). To test whether the outcomes differ with and without the macro-level indicators, we also estimated models that only included the individual-level data (using dummy variables to control for country effects). The results show that these effects are similar to those reported in the multilevel analyses.

Outsourcing is measured by three indicators:³ ‘Is this establishment partly or entirely outsourcing each of the following activities to a third party that is not owned by your establishment or the company you belong to?’ *Innovation*: design or development of new products or services (1 = yes); *Production*: production of goods or services (1 = yes); *Marketing*: sales or marketing of goods or services (1 = yes). While earlier contributions on outsourcing have mainly examined one specific activity, such as manufacturing, we are able to distinguish three different functions of the production process.

Several independent variables are included in the analysis. First, *retention and motivational problems* are measured by two indicators: ‘Does the management encounter any of the following problems at this establishment currently?’ Difficulties in retaining employees (1 = no); low motivation of employees (1 = no). The variable *firm-specific skills* is measured by the question ‘Approximately what percentage of employees work in jobs which require at least one year of on-the-job learning in order for the person to become proficient in his/her task?’ A similar indicator has been applied by others (see e.g. Kalleberg and Reve, 1993). Seven categories are distinguished: 1 = none to 7 = all employees. *The workers’ perspective* is measured by four variables that closely depart from PRT (Korpi, 2006). First, we have included a variable that indicates the presence of a works council in one’s firm (1 = yes). Second, we included the level of trade union density across countries in 2012/2013 (source: OECD statistics 2015). Trade union density is an important indicator for measuring a labour movement’s strength in a particular country (see also Sano and Williamson, 2008). However, union density does not tell the whole story of union strength. The bargaining coverage level is a relevant measure of union strength as well (Visser, 2006). Therefore, we included an additional variable that enables us to examine the share of workers covered by collective labour agreements negotiated by unions (as a percentage of all wage and salary earners in employment). This variable is provided by the ICTWSS database covering key elements of modern political economies for all OECD and EU member states (Visser, 2013). Finally, to analyse the impact of leftist political parties we have measured the cabinet composition in 2012 (1 = right wing hegemony to 5 = social-democratic and other left parties hegemony). The data are obtained from the Comparative Political Data Set (Armingeon et al., 2014). Unfortunately, no data are available for 2013. Therefore, countries with national elections (parliamentary) in 2013 are excluded from the original ECS dataset.⁴

As control variables, firm size, number of establishments, firm’s use of technology, sector and the firm’s financial situation are included. Firm size is measured by the number of employees in the establishment (1 = more than 50 employees) and number of establishments by a dichotomous variable that distinguishes between those without (0) and those with more establishments in a given country (1). Firm’s use of technology is

measured by the proxy variable changes use of technology in the last three years (1 = yes). Regarding the variable sector, a distinction is made between the public (0) and private sector (1). A question that indicates whether the financial situation of the company is (very) good (1 = yes) is included as control factor. Finally, we control for macro-level economic conditions by including the change in gross domestic product growth in 2013 (source: Eurostat statistics 2015).⁵

For the empirical analysis, the relationships are investigated by means of multilevel logistic regression models. Three models are estimated in which we control for company characteristics as well as variables at the national level. Table 1 gives an overview of the correlation coefficients among the variables in the ECS 2013 dataset. Most variables are related, but the table shows that there are no problems with multicollinearity.

Results

As Figures 2–4 show, the level of outsourcing differs between countries. It appears, for example, that in some Eastern European countries such as Estonia and Slovenia as well as in Portugal, Belgium, the Netherlands and Finland in particular, outsourcing occurs more often compared to other European countries. To some extent, these findings may be associated with economic changes. For example, Finland's (−1.1%), Slovenia's (−1.1%), the Dutch (−0.5%) and Portugal's economy (−1.1%) showed declining economic growth rates in 2013. In turn, these economic pressures may result in outsourcing expansion as a way to achieve cost savings. However, other factors may also account for cross-country differences. In Finland, which has the highest score on outsourcing, the high-tech Nokia-driven technology cluster may have its impact on outsourcing decisions. According to Kuemmerle (1999), outsourcing activity in high-tech industries is increasing in particular. Furthermore, there have been significant developments in other fields as well, such as the outsourcing of production activity, partly due to a demerger of a publicly listed Finnish construction company, the YIT Corporation (Halonen, 2013). While Central and Eastern European countries traditionally exhibit lower labour costs compared to many Western European economies, the IT and telecoms sector as well as the economy as a whole has expanded, which may drive a need to manage costs through outsourcing processes to even lower-cost locations in order to remain competitive (cf. Harrington and Priesemeister, 2014). Regarding some other high-ranking countries, in Portugal an increase in competitiveness has led companies to focus on their main business leaving other activities to specialized entities (Chastre et al., 2013: 86). A flexibility of labour laws has also added to outsourcing activity in Portugal, while the Netherlands already has a long tradition in international trade and foreign investments. Finally, some other country-specific institutional conditions may impact on outsourcing decisions. In liberal market economies, such as the UK and Ireland, outsourcing levels are relatively low in particular. This may imply that within countries with lower levels of employment protection and union strength (Hall and Soskice, 2001), companies have enough opportunity to maximize efficiency and profits, for example by adjusting labour costs. In this way, there is no need for a relocation of labour.

We now turn to the multivariate analysis. Table 2 displays the full models of our analysis for three dependent variables regarding outsourcing decisions. The null models (not

Table 1. Correlations among variables, survey data ECS 2013.

| | Innovation | Production | Marketing | No. establishments | Retention | Motivation | Skills | Sector | Fin. sit. | Technology |
|---------------------|------------|------------|-----------|--------------------|-----------|------------|--------|--------|-----------|------------|
| Production | .440 | | | | | | | | | |
| Marketing | .388 | .317 | | | | | | | | |
| No. establishments | -.035 | -.017 | -.040 | | | | | | | |
| Retention | -.013 | .002 | -.023 | .010 | | | | | | |
| Motivation | -.029 | -.027 | -.013 | -.009 | .204 | | | | | |
| Skills | .023 | .059 | .011 | -.035 | .014 | .051 | | | | |
| Sector | -.017 | .016 | .000 | .004 | .018 | .049 | .008 | | | |
| Financial situation | -.015 | -.009 | .005 | -.035 | .084 | .217 | .044 | .062 | | |
| Technology | .114 | .099 | .081 | -.114 | -.033 | -.034 | .073 | -.002 | .026 | |
| Firm size | .037 | .038 | .031 | -.233 | -.026 | -.030 | .010 | -.088 | .062 | .098 |

Coefficients > .025, $p < .001$.

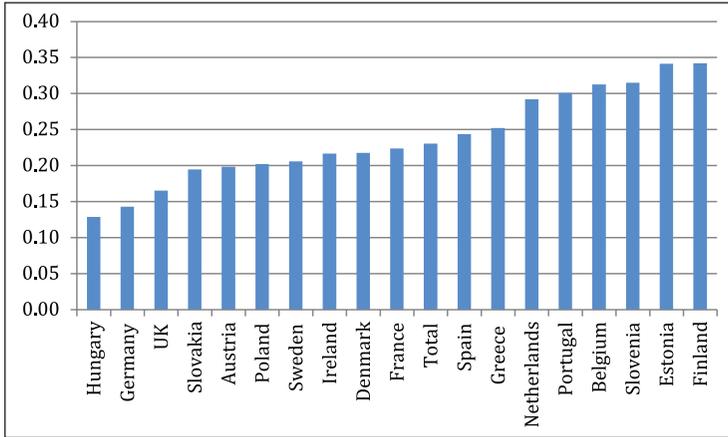


Figure 2. Outsourcing: innovation (proportions per country).
 Source: European Company Survey 2013.

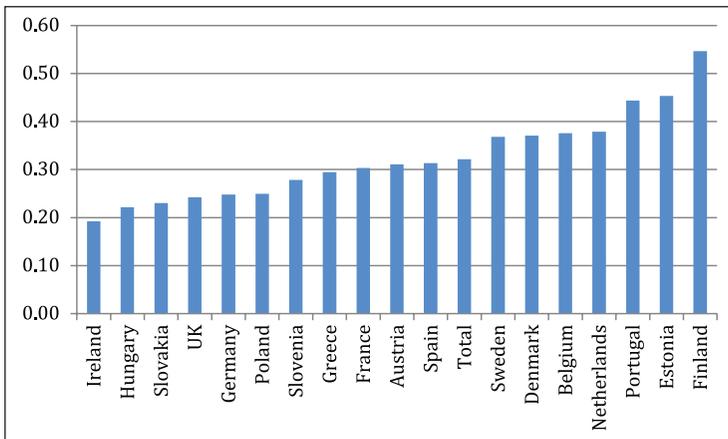


Figure 3. Outsourcing: production (proportions per country).
 Source: European Company Survey 2013.

presented) show that 4.8%, (innovation), 6.0% (production) and 4.6% (marketing) of the total variance in outsourcing decisions can be explained by variables at the national level. This means that while there is a clear multilevel structure in the data, most of the variance can be explained at the company-level. Looking at the drops in deviance, we also conclude that all three statistical models are significant improvements of the null models. The most important variables in explaining outsourcing decisions are the incidence of retention and motivational problems, firm-specific skills, firm size, firm’s use of technology and the political cabinet composition as an item indicating collective worker power. Regarding our hypotheses, the findings are largely in line with our expectations concerning the

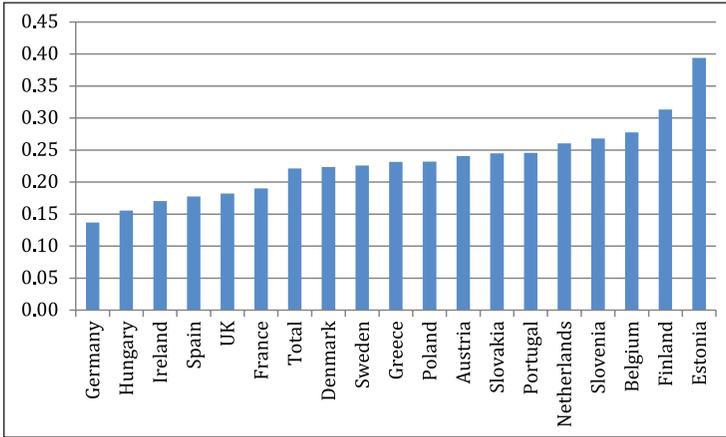


Figure 4. Outsourcing: marketing (proportions per country).

Source: European Company Survey 2013.

resource-based view and transaction cost theory. The regression results indicate that highly motivated employees and the absence of retention problems of employees are negatively associated with outsourcing decisions. From the models we also conclude that the level of firm-specific skills is significantly related to higher outsourcing activity. This suggests that firms may face higher labour costs that come from this type of asset-specificity. While it is less likely that these firm-specific skilled workers are subject to outsourcing, firms may search for cost-cutting strategies for other business areas (see also Diaz-Mora, 2008). Looking at the overall picture, the results are in line with our first two hypotheses. With regard to collective worker power, the empirical results seem somewhat surprising. The presence of works councils at the workplace seems to improve outsourcing production activity. It was, however, expected that within such an institutional context outsourcing intensity at the company-level would be lower. Therefore, the results do not correspond with hypothesis 6. The picture is similar when it comes to political cabinet composition. The presence of leftist governments seems to increase outsourcing activity. This was not predicted by hypothesis 7. However, these results could be explained by the following argumentation. Collective worker power, such as political worker power and to a smaller extent works councils, improves workers' terms and employment conditions, including (minimum) wages (Bryson, 2014). Higher wages could potentially damage the competitive advantage of companies in global economies (Cooke, 1997; Cooke and Noble, 1998). As a consequence, companies may relocate activities to other firms at home and/or abroad in order to reduce labour costs and to obtain increased flexibility (Holl, 2004). In other words, companies may adapt to relatively higher labour costs and bargaining rights for workers by using outsourcing strategies. The impact of the political context on outsourcing decisions might also be understood as a way to evade state interference such as social security contributions paid by employers, in this way achieving some cost savings. That we have found no significant effect regarding trade union density or the bargaining coverage level may be due to the decline in trade union power across most economies. In 2013, almost 17% of all

Table 2. Determinants of outsourcing decisions in 18 European countries (multilevel logistic regression results).

| | Innovation (B/SE) | Production (B/SE) | Marketing (B/SE) |
|--|-------------------|-------------------|------------------|
| <i>Independent variables (level 1)</i> | | | |
| Retention problems (1 = no) | -.151* (.079) | .018 (.073) | -.147* (.080) |
| Motivational problems (1 = no) | -.113* (.063) | -.206*** (.057) | -.080 (.064) |
| Firm-specific skills | .030*** (.012) | .072*** (.010) | .025** (.012) |
| Works councils | .004 (.006) | .013** (.005) | .007 (.005) |
| Firm size | .116** (.058) | .205*** (.052) | .160*** (.058) |
| Number of establishments | .054 (.053) | .031 (.048) | -.027 (.054) |
| Use of technology | .486*** (.049) | .345*** (.044) | .335*** (.049) |
| Sector | -.088 (.085) | .193** (.080) | .104 (.088) |
| Financial situation | .069 (.052) | -.008 (.047) | .030 (.053) |
| <i>Independent variables (level 2)</i> | | | |
| Trade union density | .038 (.042) | -.036 (.040) | .014 (.040) |
| Bargaining coverage level | -.090 (.118) | -.109 (.107) | .000 (.106) |
| Political cabinet composition | .219*** (.060) | .103* (.053) | .111* (.060) |
| GDP change | .621 (.881) | -.887 (.832) | .288 (.846) |
| Constant | -3.587 (2.550) | 1.059 (2.425) | -2.374 (2.469) |
| Deviance | 178.563*** | 171.213*** | 100.595*** |
| ICC ^a | .046 | .058 | .045 |
| Observations | 13,795 | 13,829 | 13,812 |

Source: European Company Survey 2013.

^aICC = Variance Level 2 / (Variance Level 2 + $\pi^2/3$).

Significance levels: * $p < .10$, ** $p < .05$, *** $p < .01$.

wage and salary earners are a trade union member within OECD countries, against 26.3% in 1990 (source: OECD statistics 2015). In other words, workers may try to shape their influence through voting for leftist political parties instead of unions. Considering our previous expectations, we have found no support for the claim that collective worker power may reduce outsourcing activity at the company-level. On the contrary, collective worker power, generated by political conditions and partly the presence of works councils, seems to have a positive impact on outsourcing. Regarding the control variables that matter, the findings are in accordance with our expectations. The use of technology leads to more outsourcing and we have found indications that larger firms and private sector companies are more inclined towards outsourcing. However, we have found no link between the perceived financial situation of a company and outsourcing intensity. This finding underlines its ambiguous relationship. Finally, we have found no significant association between macro-level economic conditions and outsourcing decisions at the company-level.

Conclusion and discussion

The main purpose of the present study was to create a better understanding of outsourcing decisions at the company-level. Despite the large number of studies that examine outsourcing

decisions, a European-wide study focusing on the workers' perspective is largely missing. At this point, it is time to redress the balance. First, outsourcing decisions at the company-level are often portrayed as the result of management rationales focusing on a company's competitiveness (see also Hartman and Patrickson, 2000). As expected, we have found that this perspective, such as the resource-based view and transaction cost theory, is helpful indeed in explaining outsourcing decisions. Motivated employees as well as the absence of retention problems decreases outsourcing activity, as predicted by the resource-based view perspective. However, from a transaction cost perspective, the level of firm-specific skilled workers is positively correlated with outsourcing activity and stresses the costs associated with these human assets. Therefore, all other activities are subject to outsourcing. Similar results were found by Diaz-Mora (2008) in the Spanish manufacturing industries.

Second, and in addition to a management perspective on outsourcing, we have studied the role of collective worker power. However, the associations between different indicators for collective worker power and outsourcing were somewhat surprising. Contrary to the power resources theory, our results show that two indicators, works councils and the political cabinet position, are positively related to outsourcing decisions. As we explained above, this may indicate that within these contexts, labour costs and social security costs (such as disability insurance and unemployment insurance tax) may have gone up. This, in turn, may drive a need for outsourcing at the company-level. This supports a basic economic rationale for cost savings (Abraham and Taylor, 1996) and is in line with studies that have found a positive link between the average hourly wage per employee and outsourcing (Holl, 2004). In the end, while most studies thus far have mostly focused on one perspective, a second perspective helps us to understand outsourcing decisions at the company-level as well.

From a theoretical perspective, incorporating a workers' perspective provides a richer understanding on outsourcing and contributes to the academic literature on outsourcing and international business research. In other words, there is more to the story than considerations about a company's core activities and/or transaction costs (see also Caniëls and Roeleveld, 2009; Hätönen and Eriksson, 2009).

From a policy perspective, if there is such a (indirect) relationship between collective worker power and outsourcing, one may ask how collective worker strategies should be constructed in the near future. De-unionization and/or limiting the influence of works councils is most likely not the answer, assuming this comes with the price of growing earnings inequality and more precarious employment relations (Kalleberg, 2011). Probably, a more constructive way is to deploy cooperative efforts in which employees and employers are able to enhance employment conditions as well as flexibility at the company-level in order to remain adaptable to market forces. Another collective worker strategy is to seek cooperation across national borders in order to counterbalance managerial strategies of 'regime shopping' and outsourcing (Pernicka and Glassner, 2014: 317). At a European level, there are already some cross-national initiatives, such as the European Trade Union Confederation (ETUC) in order to overcome competitive pressures on wages.

Limitations and future research

Although we have contributed to prior research by integrating different theoretical assumptions regarding outsourcing decisions at the company-level as well as by using

new cross-national data, we would also like to discuss some limitations of this study. Unfortunately, an important variable could not be included in our analyses. We expect that labour costs at the company-level function as an important intermediate variable between collective worker power and outsourcing decisions. Future studies should try to overcome this shortcoming. Second, the data did not allow for a distinction between different forms of outsourcing. Therefore, future research might want to differentiate between outsourcing in the home country and abroad ('offshore outsourcing'). Third, longitudinal data could strengthen the causal directions. For example, while we have theoretical reasons to believe a positive causal association between firm-specific skills and outsourcing, one could also argue the other way around: companies are trying to acquire specific skills that are unavailable internally (cf. Hätönen and Eriksson, 2009). Fourth, future studies could also benefit from including additional controls, such as sector. We expect that outsourcing is more prevalent in labour-intensive sectors of the economy, such as the textile, clothing and furniture industry. Earlier studies also assume that export propensity and previous outsourcing levels are important determinants: companies with higher export levels (Swenson, 2004) and earlier outsourcing activity (Diaz-Mora, 2008) most likely fuel the need for outsourcing in the future as well. Fifth, while we have concentrated on the collective wage bargaining level as one of the key aspects of power resources theory, the possibilities for employers to deviate from these collective agreements should be included as well. For example, companies may deviate from collective agreements by lowering wages in order to overcome temporary economic difficulties (Keune, 2010). In countries where these kinds of deviation clauses are included in collective sectoral agreements, outsourcing may be practised less by companies. Finally, our findings demonstrate an association between political conditions and outsourcing decisions. This offers a good opportunity for detailed cross-country case-study research in order to investigate this relationship in more detail.

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Notes

1. See for survey details: www.eurofound.europa.eu/surveys/ecs/2013/european-company-survey-2013.
2. Unfortunately, we are not able to include more European countries due to a lack of data on several macro-level determinants. The 18 included countries are: Austria, Belgium, Denmark, Estonia, Finland, Germany, France, Greece, Hungary, Ireland, the Netherlands, Poland, Portugal, Slovenia, Slovakia, Spain, Sweden and the United Kingdom.
3. These three single-item measurements do not form a strong scale (Cronbach's alpha is .63).
4. The excluded countries are: Bulgaria, Czech Republic, Iceland, Italy, Luxembourg and Malta.

5. While one could also argue to include the level of employment protection legislation (EPL), earlier research shows no strong link between EPL and outsourcing (Kirkegaard, 2007: 11).

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