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Outsourcing of services and regional impact on employment

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Outsourcing of services and socio-economic and regional impacts on employment

38TH CONGRESS OF THE EUROPEAN REGIONAL SCIENCE ASSOCIATION

Peter Sjøholt

This paper focuses on the issue of organisation and purchase of services by public authorities (mainly municipalities) and large corporations (mainly one company towns). It deals with restructuring of service provision, notably outsourcing of different types of services from institutions and corporations and the concomitant regional and local impact upon employment. It is hypothesised that effects may be both positive and negative, depending on the types of service and location of the buyers. The discussion is theoretical, viewing outsourcing in its preconditions and effects as outcomes of economic, social, cultural and political factors and forces in society at large. Some selected empirical cases from Norway are included, however, in order to analyse more closely beneficial or adverse regional employment effects

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Peter Sjøholt

The theme

Organisation of production has, over the last 15 years or so, increasingly attracted the attention both of scholars, corporate people, politicians and the public at large. One of the reasons for this concern is the important impact different forms may have in a wider context than just in the narrow environment of production. Among the aspects of the organisational structure which has been subject to increased interest is the issue of the corporation (or institution) as a self-contained entity, producing or providing the majority of input factors itself or as a part of a system of vertical disintegration, buying in and integrating input factors from different sources. A rather comprehensive scholarly debate has been conducted on the problematic - largely instigated in the early 1980s by Piore and Sabel (1984) and followed up by the subsequent discussion on post-Fordist production systems and flexible organisation of production by Scott & Storper (1986), Storper & Christopherson (1987), Scott (1988 and 1988 b) Gertler (1992) and many others.

The details of this debate need not bother us in our present context. It is sufficient to state that a new attention has been focussed on the various effects of the restructuring processes in the organisation of production. In the regional field, which is an important part of our concern, centralising and decentralising impacts have been particularly been brought to the fore. The organisational discussion has rekindled the importance of the importance of agglomeration economics, taken up a hundred years ago by Marshall (1891) followed up by Weber (1909) and becoming a hot issue in the late 1980s and the 1990s, Scott (1985,1986), Scott & Storper (1996), Amin & Robins (1990), Krugman (1991), Amin & Thrift (1992) and Asheim (1996).

Organisation of production and its concomitant many-dimensional effects are issues common both to the private and public spheres of the economy. We have, in our reasoning, tended to dichotomize very much these parts of the economy. Certainly, great differences are apparent in the two sectors in goals and motives, the former being wholly or largely concerned with return to

capital and profit as its ultimate *raison d'être*, whereas the latter has to take more seriously into consideration aspects of welfare, redistribution and equity and in several fields to disregard motives of cost reduction and profit. These viewpoints will have clear repercussions on what we are discussing in the present context. However, by emphasizing the dichotomy too much we may run the risk of failing to see the similarities which undoubtedly also exist. To a much larger extent than we generally think public bodies are engaged in production processes which call for productivity and efficiency, particularly in the field of service production.

Services are also the main concern of this paper - in particular their role in the wider actual and potential process of production in the private as well as the public field with emphasis on direction and magnitude of in-house and outsourced provision and the possible socio-economic and regional effects.

Generally services have grown in magnitude and importance both in the private and public sectors. In the corporations of the former both the upstream and downstream part of the production chain has contributed to this development, although with great variation between types of production and hence enterprises. Most pronounced has the increase in the service economy been in corporations undergoing fundamental restructuring processes, brought about by a combination of fierce competition and substantial technological changes. In the public sphere the services in question are interesting in a double sense. On the one hand they are inputs into production processes, very much akin to the ones demanded by private enterprises. more conspicuous though in this sector are on the other hand the services rendered to the general public or to selected persons and groups as a part of the public welfare and redistributive systems. Some of the public services are therefore collective, others more individually directed.

Typical of advanced industrial countries in our time a decentralisation in regional level of rendering services has occurred. The role of municipal and regional units has grown at the expense of the state and of parastatal agencies.

Apparently, a propensity to indifference exist in the ability and possibility of producing and providing service inputs in house or through external sources. Trends are somewhat confusing,

Illeris 1996). Most scholars having studied the phenomenon agree today that there is a increasing tendency to outsource part of the production, at the same time as retention or, in some cases, growth of internal production is clearly evident. This both-and structure of transactions has its clear logic. Growth in external purchases and external production and distribution of services always presuppose that the internal organisation of a firm or an institution is capable of handling the transaction and put it to practical use. In most cases this is tantamount to having an internal production potential. These facts call for great caution in explaining transactions and transactional histories.

Common both to corporate and public activities are rational economic-strategic considerations. In the private corporations it is increasingly becoming common to retain the core activities in house and shedding more peripheral tasks by farming them out to more specialised economic units. In public institutions the picture is somewhat unclear but transactions are undergoing change also in this sphere. This restructuring, which may apply both to goods and services, is part of corporate strategies, the genesis of which very often can be traced back to particular theoretical systems.

Theoretical and conceptual background

Internalisation and externalisation of production, whether of goods or services, has been an issue under debate from early in this century. Coase (1937) was the first one to try to explain organisational options and their outcomes in economic terms as a cost-driven process. The starting point of his theoretical reasoning is the relative costs of organising production internally versus using the market by buying in input factors for realising specific production purposes. The main contention was that firms and their internal organisation tend to expand until the cost of organising an extra transaction within the corporation exceeds the cost of using transactions on the market for the same purposes. From being a vertically integrated production unit (organisation) firms thus tend to take part in a process of vertical disintegration. This theoretical framework, which tries to explain different models of organising production, approaches the issue from pure cost considerations. The particular costs, which, moreover, were absent in the tenets of the neo-classical equilibrium theorists, consist largely of search, information, bargaining and decision costs.

Stigler (1951) tried to keep the discussion within the neo-classical equilibrium tradition by explaining the different transactions forms from the point of view of the theory of the firm. Without directly taking recourse to transactional forms, he emphasized that production systems tend to be molded as a response to economy of scale. The vertical disintegration strategy is thus a means of maximizing economy of scale for firms not being able to realise it internally. Stigler was later criticized for his overall mechanistic explanations among others by Levy (1984). In the models of Williamson (1979, 1985) the institutional economic explanation initiated by Coase is sought developed and expanded. By introducing markets and hierarchies as core concepts of organisation of production and isolating determining factors for choice of transaction modes, he built a system to show under what circumstances different choices are made. Crucial to Williamson's transactional system are factors like asset specificity in the production process, market uncertainty, frequency of operation (or use) and bounded rationality. As the above factors increase in importance, cost of market exchange will rise to a point where integration will be favoured as an organisational principle.

Notwithstanding the illuminative concepts developed by Williamson the theoretical system is difficult to operationalise empirically. Buckley (1988) thus never found estimates of such costs. The system is also inherently static, and, as contended by O'Farrel & al. (1993), underestimates the external assets available to the firm. Use of these resources which may explain dynamics in production processes may take several organisational forms. Thus vertical disintegration, not primarily as a transactional cost reducing measure, but as a learning process may be one solution. Good examples are sourcing out of IT services and high quality consulting in order to infuse internal production processes with new knowledge and competence. This is also dynamic in the sense that the co-production realised is a pressure on the external service provider to be a constant innovator in order to be attractive to the client. This is according to Barcet & Bonamy (1994) an everlasting dynamic dialectic, the absence of which, as shown by Larsen (1992) may result in decreasing vertical disintegration.

Growth of vertically disintegrated production systems is also dynamic in another sense, as an expression of a wish for greater flexibility, not only numerical flexibility as a means of

substituting variable for fixed costs, but according to Sayer (1989) flexible labour markets, flexible working practices, flexibility in restructuring and flexible organisational forms. These may fulfill various purposes besides pure cost reductions, among other things contribute to spreading risks. Another manifestation of organisational dynamics is increased networking and alliance building between firms, a sort of intermediate form of transactions in the Williamson scheme, making use of synergetic potential for mutual complementary action (Cunningham & Calligan 1991). No coherent theory is built around this transactional dynamic, but many elements have been developed by among others Thorelli (1986), Jarillo (1988), Håkansson & Johansson (1987) and summed up in Håkansson & Snehota (1995). The essence of this system of explanation is emphasis on mutual trust in contrast to Williamson's opportunism. It also paves the road for a better understanding of innovative dynamics, as one of the purposes of networking is to function as an agent of innovation through mutual sharing of new technological and processual knowledge.

Finally, the strong dichotomy between in house production and external provision of services needs some modification as far as practice in the production process is concerned. As already touched upon, linkages to external service providers, either through different forms of alliances or market deliverers, may take the form of mutual innovative exchange. This is particularly the case in services on higher cognitive levels. Advanced service provision today may often, as contended by de Bandt (1994, 1995), be a complex, integrated and interactive problem solving process between client and provider. Overriding goals in this process will be not only to hire competence but generate competence.

To the realm of organisational forms eventually belong institutional and political considerations and motivations. When actors in firms and institutions step out of the internal organisation and leave provision of services to subcontractors and other external providers, much responsibility, among others for the work force, will become loosened and even disclaimed. It may be a clear motive as far as social costs are concerned.

Many or most of the above motivations of choice of organisational forms are applicable both to private firms and public institutions. Among the latter cost reduction is generally the overriding

motive of outsourcing. We should not overlook the motive of an innovative learning process also in this sphere of activities, however. Neither can it always be denied that elements of risk avoidance and of softening of labour relations may enter the picture also in the public sector. The latter consideration naturally varies with political colour of the organisation in question.

The relationships so far illuminated have mainly concerned service behaviour in a decentralised context, at the firm or local institutional level. The issue of outsourcing or in house production, particularly in the public sphere, is also linked to a higher level, increasingly molded by national policies, which have set rules and regulations for transactions on the market. These may be political-ideological in origin, as a means of enhancing market relations generally at the expense of the public economy. Originating in the US and the UK under neo-liberal regimes in the 1980s, systematic promotion of market mechanisms by federal or state prescription was introduced, only to be halted locally by opposing political regimes. During the last few years a compulsory tendering system has been lifted to an even higher level as part of the economic policy of regional blocks. An EU wide tendering system, also including the EEA area, has been instituted for public purchases as a means in promoting further market integration.

Methodology and propositions

From this rather brief overview of concepts and theories of organisation of production and particularly of the part played by services, it is natural to proceed to narrate how restructuring of this organisation is manifested in the real world. We will seek to achieve this by analysing problems and conflicts in and impacts on production systems. Particular interest is focussed on impacts on employment, and possibly in a regional context.

Many approaches are available to the purpose. One possible way would be to formulate clear hypotheses on the issue and apply these to a more closely defined study area. This approach was for several reasons dropped. In order to give an overview and some tentative answers to a few propositions the issue was tried illuminated by an extensive literature updating, particularly by studying economic, social and regional journal articles and a few books plus reports from specific research projects. Most of the background material is British and Nordic, with the main focus on

what is found of Norwegian research in the field. This should give a tentative state-of-the-art review of the present situation and the conditions leading up to it. In order to have answers to specific questions about recent development in organisation in large corporations in remote regional locations and in smaller local administrations in depth interviews have been conducted with managers and administrative leaders in the respective bodies. The interviews cover 9 enterprises and 5 municipalities. Thus they cannot be considered representative, but only typical. The results collected should therefore be interpreted with utmost care.

By the background data collected, by systematic study of literature as well as through personal inquiries, we hope to give an answer to the following propositions:

- 1) Restructuring of firms by outsourcing of several types of services has tended to create a leaner structure in enterprises in the processing industry
- 2) The impact on overall employment in the local area varies according to composition, size and location of the local economic and social environment, making onesided, peripheral industrial communities particularly vulnerable to losses in overall employment by the outsourcing process.
- 3) Losses in local employment are more pronounced when outsourcing higher level advanced services than in case of externalisation of lower skill operations, common both to the private and public sphere.
- 4) Larger market oriented enterprises and local governments have generally higher rates of externalisation than smaller ones, the local area simultaneously being able to absorb redundancies.
- 5) Smaller public administrations are culturally inhibited in outsourcing services, the employment balance in these municipalities often being positive.

The state-of-the-art. In house production and outsourcing on the threshold of the 21. century

What then are the manifestations of the issue of outsourcing in the real world in western countries? In trying to narrate some of this story we meet with great difficulties in generalising. Systems of organisation in corporations and public administrations have developed over time, partly in response to the requirements of a general market economy, partly as a historically determined development path, which, moreover, is contextually embedded. Some of the structures reflect a long history. In the private sector, and primarily in manufacturing industry, the roots are to be found in complexes of enterprises developed around a core activity - iron processing, sawmilling, later pulp and paper processing and textile production. These enterprises provided and organised most of the inputs needed, commodities as well as services. This pattern was to be found in most British manufacturing towns, the East Coast mill towns of the US, and in the Scandinavian world in the legendary Swedish «brukssamhällen», often modelled on paternalistic principles. In Norway the so-called company towns, nuclei of processing industries, largely built on cheap energy supply, were organised pretty much in the same fashion. But also the modern industrial corporations, although more differentiated in their set-up depending on more intricate value-added chains and gradually more inclined to sub-contracting, were by and large organised as hierarchies, tending to maximize internalisation of their economic activities. The integration of corporate and public political strategies, as illuminated in the Fordist and regulation discourses, Piore & Sabel (op.cit.) and Lipietz (1986) tended to reinforce these tendencies by harmonising state and union interests in redistribution policies. In the public services sphere, following in the wake of corporate organisation, organisation of provision developed in a similar way. It was only in the aftermath of World War II that government on different levels, but mainly the state, assumed a wider responsibility for different welfare services in most western countries. A mixture of Keynesian economic principles (1936) and left-liberal planning ideas (Mannheim 1945), Beveridge (1944) lay behind the vesting of responsibility for welfare in public bodies, built on principles of social equity.

It was the crisis of the Keynesian demand economy model, surfacing in the early 1970s, which brought turbulence into the system and paved the way for reorganisation. Both the emergence of

new types of economic activities, among these industries springing up in the wake of the IT «revolution», more flexible production for segmented markets and new, looser pattern of organisation in old industries set the pace for new organisational drives in production systems, Manifestations like increased divisionalisation, more flexible production and increasing sub-contracting in a lot of enterprises developed alongside a neo-liberal resurgence in the field of politics in many western countries, permeating even traditionally political radical movements and weakening the earlier stabilising institutional frameworks like the trade unions.

A general transition from mass organisation to looser contractual relationships followed. These models have entered both the industrial structure (manufacturing and services) and the public service systems. The latter had, in most industrialised countries grown tremendously during the Post World War II period, often to make up huge entities, being frequently difficult to handle. Factors reinforcing the transition to a looser organisation of production systems are also linked to a general societal restructuring. The private firms were exposed to a climate of merciless, even ruthless competition and need for restructuring of their activities. The public institutions have increasingly come to face a scarcity of funding. These challenges precipitated new attempts to reduce costs in both spheres, also affecting the organisation of production. The corporate sector, for instance, saw a need for buying in specially adjusted components that could be produced cheaper in specialised enterprises (Nesheim 1996).

It is not convincingly conclusive, however, whether an overall externalisation is gaining ground or if a strong internalisation is still rather prevalent. Although there is evidence of industrial corporations even externalising most of the former core activities in commodity production and retaining mainly the more «invisible» strategic functions (Quinn, Doreley & Paquette 1990), this is an exception. Certainly, a recent Norwegian case in the same direction has been described by Nesheim (op.cit.). Conversely there are clear evidence of reinternalisation in the face of the recession of the 1990s (Barcet & Bonamy 1994, Sjøholt 1994). O'Farrel &al. (1993) observed a similar trend in a survey undertaken in Britain. It is beyond doubt that externalisation simultaneously belongs to the order of the day. Specific functions, both high and low in competence requirement, thus advertising, Gruhler (1990) repair and cleaning (Rekkavik & Spillum 1990) are increasingly being farmed out. Perry found a slight tendency of externalisation

in his inquiries in New Zealand(1990, 1992) and Beyers and Lindal (1997) came to the same conclusion using empirical evidence from the US.

In other cases both internalisation and externalisation are growing simultaneously. This led Illeris (1996) to conclude that empirical evidence indicates no strong tendency towards either externalisation or internalisation in producer services in the corporate sector. Put together there is an *increased* use of services more or less equally provided from external and internal sources with a slight preponderance of outsourcing

In the public sector the picture is also somewhat unclear. There can be no doubt that the earlier very homogeneous hierarchial structure is giving way somewhat to a more loosely organised service provision, depending more on external inputs. This transition is partly cost-driven and partly ideological in origin. On the European scene the UK has been the instigator and has today the longest tradition in a systematic outsourcing. The new drive was initiated by the conservative government in the early 1980s and was heavily ideologically laden. It was successively extended by means of new laws up to the early 1990s. The development has thus been planned and implemented from above. As a compulsory tendering system the outsourcing process, where also specially organised public bodies were allowed to participate, predated the EU directive of the 1990s, which was introduced as a measure of further market integration. In Britain, as described by a number of scholars, Milne (1993), Patterson & Pinch (1995), Allen & Henry (1997) and Reimer (1998) many services earlier provided directly by the public administration have been farmed out, and largely, although not uniformly, been taken over by private enterprises. As also demonstrated from Australia, Hall (1995), studies of this process have mainly concentrated on rather peripheral services, cleaning, refuse collection, catering and guarding. These ones are also the ones most frequently being reorganised. A rather substantial part of these has, during the last decade been farmed out in the UK, geographically very much coinciding with municipalities of a conservative political profile, thus on the whole creating a south/north divide in coverage.

The above service functions make up a rather small part of the operations within the public service sector. Its main part, where are to be found the substantial number of employees, investments and running costs, consist of educational work, health and social care plus public

works. The core functions of these subsectors, and particularly of the latter, have also been subject to outsourcing, but to a far smaller extent than the above mentioned «hotel services». Certainly, private hospitals and clinics make up part of the health system in many western countries and most conspicuously in the United States. The non-public institutions consist of both purely market based enterprises and enterprises owned and run by non-profit organisations. Many of these have a long tradition, but the tendencies towards privatisation have increased in the recent past. In Germany, for instance, the health system is tending towards a basic stock of public general hospitals, supplemented with a host of privately operated specialist clinics (Kühn 1984). Also in the field of social services, particularly in care for elderly people, many countries have witnessed outsourcing of the services to private operators, who partly own the premises, partly lease them from the public authorities. This is also the case in the Nordic countries, most conspicuous in Sweden, where from the early 1990s several large cities and municipalities in suburban areas have transferred social services earlier hierarchically organised and performed within the public administration to smaller unit operators, either public or private (Bengtsson & Rønno 1996). It is important to keep in mind that these arrangements, although differing in organisation to a certain degree, are generally subject to the public authorities ordering, financing, monitoring and scrutinising the operations, thus mainly outsourcing the service production proper.

Important as they are, also as innovative alternatives and as systems of a more optional nature for the general public, outsourced public welfare services, and, we might add, also some general education, are still exceptions rather than the rule in most western countries. The changes have met with varying resistance, not only from professional and other vested interests, but also from parts of the general public, who see the principles of equity - socially as well as regionally- threatened or even violated.

However, as long as outsourcing meets a demand, mainly because of queues in the public system, and cost efficiency and some positive innovation in organisation and in practices can be attributed to it, the new arrangements will probably run their course. This prospect makes it paramount for the public authorities, particularly in areas of fundamental social interest, to control and monitor

the new service organisation. In the next chapter we shall, by a brief discussion, throw some more light on some impacts of the changing service structure in the corporate and public sphere.

The new service provision. A short discussion of employment and socio-economically linked impacts

As could also be gathered from the above survey, very much of the knowledge we possess of the externalisation process versus the retention of internal production tasks both in the private and the public enterprises and other bodies is rather detached, being results of studies from different parts of the world with different methodological approaches. Hence, when we are going to collect the threads, we are left with an inconsistency problem. Difficulties are great in evaluation of impacts emanating from the process of organisation of production, and particularly difficult are the problems of measurement.

This will necessarily complicate the account that follows. Instead of giving a consistent comparison based on unambiguous data sources the discussion will have to centre around less comparable findings, mainly singular and contextual cases, which do not easily lend themselves to analysis and general conclusion.

The impacts discussed are largely on costs and employment, two dimensions closely linked to each other. Employment is in this case interesting per se in quantitative terms, but is also interesting in a qualitative sense, in relation to conditions of the work force and to the impact on the industrial environment and local community welfare. Cost reductions, which is one of the reasons for outsourcing, a fact following from the theoretical models which were discussed previously, are often considered to be synonymous with reduction in employment and loss of jobs. Even though there are clear relationships, more variables are linked to cost efficiency, such as better organisation and concomitant increase in productivity, more rational purchases and other savings. Norwegian investigations thus reveal cuts in costs by more rational organisation in the order of 20%-30% in insurance expenditures and operations of IT services (Kjerstad & Kristiansen 1996). Positive impacts on efficiency and cost reductions in internally organised services may also follow by threats of farming out the services in question. Almquist (1996) thus

records from Stockholm that prospects of competitive tendering reduced the costs in social care for the elderly by 9%-10% . In this case there were clear evidence of reduction in the use of manpower.

Employment changes are the most conspicuous impacts of introducing new organisational concepts into the production system. In the private sector previous in house work force may be substituted by new personnel coming in, some of them, particularly in services on a high competence level, co-working with the internal staff, others, specialised in more menial or programmed tasks, performing them either outside or inside the client firm. Few consistent studies exist which can give a clear picture of the employment balance. It is seldom a question of direct substitution. Productivity gains will on the one hand possibly reduce the need for personnel. On the other hand the new externally organised supply may create its own new demand. Two cases from large Norwegian companies in the processing industry may illustrate this. In the aluminum industry the internal organisation at one of the one company sites wanted to get rid of the internal production of specialised tools, among these vehicles used in the production process. A company of its own was some years ago established as a spin-off from the smelter. Besides delivering to the enterprises of the concern, this company became involved in shipments to the world market. Employment has steadily increased. The company has later been resold and is today expanding its production particularly for foreign markets. Another metal smelter company in a more differentiated company town found its maintenance department too heavy a burden and wanted to get rid of it. It was sold to a private company with operations in the local area which greatly extended its expertise and capacity and is now selling services also to other companies at other industrial sites.

Experiences from Norway show great variation in employment impacts as a consequence of reorganisation of service provision in larger multi site localised corporations. By inspecting data from one company and other specialised industrial sites we find that internal employment in the enterprises in most cases has gone radically down, some of it from rationalisation of core production activities, increasingly, however, as a consequence of outsourcing of activities more peripheral to the production process. Among these maintenance, cleaning, refuse collection and transport services have to a large extent been transferred to private enterprises in the local area.

Experience indicates that the possibility of the local community of absorbing within its industrial structure former internalised functions is largely contextually contingent. Localities having fostered entrepreneurs and sites with a more broad industrial structure more readily take up the challenge of the new demand than really one-sided sites. To some extent this is also the case with non-manual services, among these IT and even some, rather simple R&D activities. Among the latter there are problems in creating viable spin-offs locally, however. Thus a new unit for environmental technology and concomitant services at one of the Norwegian sites failed before becoming firmly established.

According to own inquiries many of the more sophisticated services being shed by the enterprises leak out to more differentiated places. Some of it, mainly legal services, R&D, marketing and strategic consultancy, is taken over by the corporation head office and as a rule strongly centralised. But there are examples of a more local transfer. Accountancy for all the smelters of the largest multi aluminum corporation has thus been concentrated at one of the production sites.

The situation on the job market should not be dramatised too one-sidedly. An investigation carried out in 12 Norwegian industrial and large service enterprises (Nesheim op.cit) revealed that companies generally aimed at some local stabilisation. They were cautious with direct dismissals, trying to solve restructuring problems by replacement, early retirement and transfer of former work force to new externalised companies. In contrast to the situation described in British investigations of public outsourcing Allen & Henry (1996), Reimer (1998), great care is shown in retaining good conditions of work. In Norway, like in most of Scandinavia and in Australia, legal restrictions also limit the possibilities for employers to act arbitrarily. These conditions are generally more loose in countries like the UK and the US.

Still the picture is somewhat unclear. It is difficult to make up a gross balance as far as generated local employment is concerned as a result of the outsourcing process. Although varying, indications point in the direction of an overall loss of jobs in the local area. This is also indicated by the demographic development. Figures from 7 municipalities in Norway, particularly dependent on one or a few processing industries show a loss of population ever since the

restructuring process started. This loss has been consistent also through the 1990s, in the worst case with a population decrease of 7% during the seven year period.

Few studies have explored the more general trends in outsourcing and impact on local communities. Rusten (1997) surveyed 450 Norwegian manufacturing firms in three lines of business, mainly small and medium-sized firms, ranging from 25-250 in employment. Her conclusions are moderately encouraging as far as local and regional impacts of outsourcing are concerned. The main part of services being externalised from the smaller companies of the sample, were preferably bought from local supply as far as possibilities exist, partly explained by lower transaction costs (among these a simplified search process), more personal informal knowledge and a business culture favouring local businesses. Larger enterprises of the sample, having more capacity for market search, tended to make more use of extraregional sources, as was also the case with subsidiaries, whose dependence on the parent companies is more pronounced. A possible change to a more centralised outsourcing pattern was evident also among smaller firms by an emerging use of brokers. For the time being this use has mainly been adopted for rather peripheral services.

A Swedish study of outsourcing of R&D in the electronics industry also shows substantial decentralisation (Suarez-Villa & Karlsson 1996). High technology is increasingly being produced in the hinterland of the large cities. Stockholm is still the main location of vertically disintegrated production by research intensive electronic firms in the capital. Elsewhere spin-off benefits are found in many rather dispersed , non-central localities. Contextual factors related to labour skills and organisational capabilities as well as possibilities of co-operative transactions have favoured this development.

In the public sector several studies from England show outsourcing to have somewhat differentiated impacts on employment. According to Patterson & Pinch (op.cit.) public service work has been intensified and job losses have not been quite compensated for through the transition to a new organisational structure. More managerial jobs, which have become rather centralised, and fewer jobs on the floor are also a characteristic outcome of the process. The system of large suppliers, in some cases bordering on an oligarchic structure, thus creates a concentration in management and a fragmentation in implementation. Only in rare cases this

system has paved the way for small and medium-sized local providers, which were the prospects foreboded in the rhetorics of the agents of change in the 1980s. Allen & Henry (op. cit.) found, on the other hand, astonishingly great continuity in employment as a consequence of the process of farming out services despite all changing of hands. Reimer (1997) also found apparent stability in employment in most cases, partly because of the benefits for employers of reemploying local people. Like Allen & Henry she found changes to be more pronounced in employment conditions than in sheer number of jobs. Through the processes of negotiating and renegotiating employment conditions tend to become more risky. Partly it has led to a cut of hours of work, in many cases to a point below thresholds of optimal social security benefits for the work force and particularly for women. Often it has necessitated workers to engage in more than one job in order to make ends meet. In contrast to the rhetoric of the proponents of the system the work situation is far from flexible for those concerned. That services are provided by external employers mean, in contrast to the situation when provided in house, more fragmented social relations and less scope for collective action on the part of the workers. Patterson & Pinch conclude that the new contract system also have negative repercussions on local government and local communities by undermining efficacy, capacity and local governance. It reduces the power of the local state to act in the support of the local economy, thus restricting local multiplier effects and other positive externalities. Compulsory competitive tendering has been a strong force in «hollowing out» the local state.

In Scandinavian countries, and particularly in Norway, changes have been far less dramatic. As we have already shown, competitive tendering has a far shorter tradition. Hence fewer public institutions have up to now practised outsourcing as part of their economic and managerial strategies. Those having reorganised their provision have also witnessed moderate changes in employment. Thus Kjerstad & Kristiansen (op.cit.) found in a sample of 25% of the Norwegian municipalities that only 26% of them had experienced any changes in manning of the public service sector as a consequence of more use of external contracts. Most of the units with change witnessed a reduction in jobs, the losses generally increasing by municipality size. The larger municipalities could, on the other hand, compensate more easily for the losses in the local area. Most manual services of the type public works, cleaning and refuse collection which have been contacted out in smaller communities, have also gone to small and medium-sized enterprises in

the local area, possibly with exception of the latter service, which in some cases has been organised on an inter-municipal basis. That higher order services have been transferred to the market, may have meant loss to the local community in smaller municipalities. This is not the case with health services, though, the more flexible organisation of which has had the additional benefit of shortening queues. But the above transferred jobs are generally very few. Greater changes may follow in the wake of outsourcing of social services. This reorganisation is still in its infancy in Norway, and it is therefore premature to jump to bold conclusions. Swedish experiences point in the direction of reduction of employment both in administration and in service production.

Up till now there has been in many smaller municipalities an increase in internal jobs, which have, by and large compensated for losses due to outsourced places of work. This is particularly true of social services, ranging from kindergarten attendants and teachers to nurses in elderly care.

From 1993 for some transactions and from 1994 for others the EU directive and concomitant regulations compel government and parastatal agencies at all levels to announce purchases above certain threshold values for competitive tendering. Suppliers are eligible in the whole EU-EEA area. It is still too early to draw any firm conclusions as to the impact of these transactional changes. According to Andersen & Lunde (1997) the bulk of the local and regional governments (60% and 77% respectively) use tendering more frequently than before, whereas the frequency of change is lower in the statal sector due to an earlier more widespread practice of tendering contracts. Most interesting in our context is that the suppliers are still overwhelmingly national and those winning the municipal and county contracts are mainly small and medium-sized enterprises. On the other hand purchases tend to become more centralised than before, particularly larger purchases. These have also increased in frequency, partly as a consequence of more widespread inter-municipal collaboration in purchases. It is difficult to quantify the new trends and evaluate job gains and losses. The trends point in the direction of benefits to higher levels in the regional hierarchy to the detriment of smaller local and regional places. Given the potential value of public purchases in the market, cautiously estimated in the range of 30-50 bill. NOK, it is reason to monitor further development in a minute way.

Due to the fragmented results we are able to present on the process of outsourcing in this chapter it is difficult to give precise answers to the propositions put forward in the chapter on methodology. The general decrease in employment found among the larger firms in the processing industry shows a slimming process both in core operations and in more peripheral service functions of which manual services make up the bulk. One-sided company towns are most vulnerable to job losses. Outsourcing in more differentiated processing industry communities has generally meant more work to new companies specialising in the services in question. These findings seem to verify propositions 1 and 2. Proposition 3 stating that outsourcing of higher order advanced services lead to more losses in local employment than farming out of less advanced tasks is not directly refuted by the findings but it seems to have a rather marginal effect in smaller communities and will readily be met by local supplies in medium-sized and larger towns. This stands in contrast to findings from England, where effects on local industry is judged to be rather negligible. Proposition 4 is on the whole verified by the empirical data, its subsection being in reality a repetition of claims put forward in proposition 3. The tendencies to inhibition of outsourcing by smaller public administrations (proposition 5) were substantiated by the few municipal interviews conducted, but are difficult to generalise any further. It has, on the whole been very difficult to quantify the findings, a fact that should call for great caution in the final conclusion.

Concluding remarks and suggestions of further studies

This preliminary overview has shown that the issue of outsourcing versus in house production of services both in the corporate and public sectors is very many-sided in manifestations. The preference by management for organisational form neither lends itself to easy conclusion. The organisation of production is certainly strongly economic in motivation, but not fully explained in terms of the classical price and cost variables. Social considerations play a role, although varying between countries and different political regimes. We have even seen contours of cultural determinants, particularly in the production of public services. These forces pull in the direction of internal control. Simultaneously, services originating both from market and networking sources seem to grow in magnitude, often for reasons of coping better with the dynamics of modern production. This has generally had a centralising effect, viewed in a regional dimension.

There are still many black boxes to open, and this calls for an intensified research effort. More comparative studies on impacts on employment and conditions of work as a consequence of different organisational rearrangements are particularly ripe for implementation. Comparisons of similarities and differences between corporate and public systems should be given high priority and presuppose a combination of qualitative and quantitative studies. The former should preferably be closely linked to theory, which still needs development. This is particularly necessary in order to get a more profound understanding of the dynamics of the system.

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