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Contesting Firm Boundaries: Institutions, Cost Structures, and the Politics of Externalization

Abstract

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Keywords

organizational boundaries, telecommunications, outsourcing, inequality, comparative employment relations

Disciplines

International and Comparative Labor Relations | International Business | Unions

Comments

Required Publisher Statement

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Suggested Citation

Doellgast, V., Sarmiento-Mirwaldt, K., & Benassi, C. (2016). Contesting firm boundaries: Institutions, cost structures, and the politics of externalization [Electronic version]. *Industrial and Labor Relations Review*, 69(3), 551-578. doi: 10.1177/0019793915624088

CONTESTING FIRM BOUNDARIES: INSTITUTIONS, COST STRUCTURES, AND THE POLITICS OF EXTERNALIZATION

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CHIARA BENASSI*

This article develops and applies a framework for analyzing the relationship among institutions, cost structures, and patterns of labor–management contestation over organizational boundaries. Collective negotiations related to the externalization of call center jobs are compared across 10 incumbent telecommunications firms located in Europe and the United States. All 10 firms moved call center work to dedicated subsidiaries, temporary agencies, and domestic and offshore subcontractors. A subset of the firms, however, later re-internalized call center jobs, in some cases following negotiated concessions on pay and working conditions for internal workers. Findings are based on 147 interviews with management and union representatives, archival data on restructuring measures and associated collective agreements, and wage data gathered through collective agreements and surveys. The authors argue that variation in outcomes can be explained by both the extent of the cost differentials between internal and external labor and the ease of exiting internal employment relationships, which in turn affected patterns of contestation associated with externalization measures.

The standard internal employment relationship has long been in decline across advanced economies as firms externalize a range of jobs once performed in-house to subcontractors, temporary agencies, and

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KEYWORDS: organizational boundaries, telecommunications, outsourcing, inequality, comparative employment relations

subsidiaries.¹ Firm strategies to shift work across organizational boundaries in this way have been linked to the deterioration of pay and working conditions, and the weakening power and coverage of collective bargaining institutions (Lillie 2012; Holst 2014).

A central concern in employment relations research has been to analyze how labor market and collective bargaining institutions influence these boundary decisions. Past studies can be grouped broadly into two research streams. First, scholars have analyzed the relationship between different combinations of institutional arrangements and particular externalization strategies, such as contingent employment contracts (e.g., Houseman and Ōsawa 2003; Olsen and Kalleberg 2004; Liu 2015) or subcontracting arrangements (e.g., Grimshaw and Miozzo 2006; Doellgast, Batt, and Sørensen 2009). A second body of research has asked how labor unions and other worker representatives influence boundary decisions through strategies ranging from “cross-class coalitions” with core employers (Hassel 2014) to concession bargaining in exchange for job guarantees (Flecker and Meil 2010) to campaigns to organize and extend institutional protections to externalized groups of workers (MacKenzie 2010; Greer and Hauptmeier 2012).

These two research streams focus on different mechanisms connecting institutional environments to the boundary strategies of firms. The first examines how institutions at the national and company levels affect cost structures associated with externalizing work, whereas the second asks how and why worker representatives develop alternative strategies toward externalization decisions and then access different power resources to exert influence over these decisions. In this article, we incorporate both of these mechanisms into a framework for analyzing the relationship among institutions, cost structures, and the political dynamics associated with labor-management negotiations over organizational boundaries. We focus on two principal dimensions of cost structures that differ across institutional settings: the cost differential between internal and external labor, and the ease of exiting internal employment relationships. We hypothesize that different combinations of these two factors affect patterns of contestation between employers and worker representatives over externalization decisions.

We demonstrate the usefulness of this framework in explaining differences in how worker representatives responded to changing boundary strategies for call center jobs, based on findings from a 10-country comparative study of incumbent telecommunications firms. We show that unions and works councils placed the highest strategic priority on opposing or reversing externalization in those cases characterized both by large differences in labor costs between internal and external labor and by high ease of exiting

¹Vidal defined *externalization* as a “reversal of the general tendency of Fordism to internalize processes and employment” (2011: 284). We use the term here to refer to the process of moving work across organizational boundaries from internal workplaces or employers to workplaces or employers that have contract-based relationships with these firms.

internal employment. This often resulted in significant internal concessions aimed at reducing the labor cost advantage of externalized worker groups in response to employer benchmarking of costs and exit threats. Past cost structures did not fully determine outcomes, however, as unions across the cases also sought to expand legislated and negotiated protections for these externalized worker groups. When successful, these strategies showed the best results in terms of both limiting the expansion of poorly regulated, low-paid jobs and preserving pay and working conditions for internal workers.

Explaining Patterns of Contestation over Organizational Boundary Decisions

Figure 1 illustrates our framework for analyzing how cost structures associated with externalizing work influence patterns of contestation between labor and management over boundary decisions. The two axes in Figure 1 capture the cost-based factors associated with boundary decisions. In the management strategy literature, the relative costs of externalizing particular tasks or jobs compared to performing them in-house are typically argued to be rooted either in transactions costs (Williamson 1985) or in the extent to which externalization strategies complement distinctive firm resources or capabilities (Argyres 1996; Lepak and Snell 1999). When institutions are included in these efficiency-based theoretical models, they are primarily theorized to affect boundaries through their influence on governance costs (Williamson 1985) or on the broader competitive strategies of firms (Hall and Soskice 2001). In contrast, employment relations research has shown that direct or production costs associated with alternative externalization measures can be influenced by labor market and collective bargaining institutions at the national, industry, and company levels. We analyze two dimensions of these costs: labor cost differences between internal and external jobs, and the costs associated with exiting internal employment relationships.

The vertical axis of Figure 1 represents the size of the gap in labor costs between similar internal and external jobs. Past research suggests that several characteristics of institutional settings can affect this labor cost differential. First, the strength and scope of collective bargaining arrangements can change the wage premium enjoyed by internal workers in core firms or sectors (Batt and Nohara 2009), as well as the possibility of bypassing collective agreements using different categories of externalized work (Shire, Schönauer, Valverde, and Mottweiler 2009). Second, national legislation provides varying degrees of protection for workers on standard and non-standard contracts, including equal pay rules and job security provisions (Arrowsmith 2009). A further consideration is the extent to which subcontractors are able to evade compliance with labor laws. For example, research on contract-based organizational forms in the United States (Weil 2014) and subcontractors using posted workers in Europe (Wagner 2015) showed

Figure 1. Predicted Effects of Labor and Restructuring Cost Structures on Patterns of Union–Management Contestation over Externalization

Labor cost differences between internal and externalized workers	High	I Moderate contestation Worker representatives view externalization as a low threat to internal jobs because of restricted exit but as a significant threat to equity goals because of high cost differentials. Employers may seek to externalize to gain cost savings but have limited ability to use benchmarking of costs to gain internal concessions.	II High contestation Worker representatives view externalization as a significant threat to internal jobs and equity goals because of high cost differentials and high ease of exit. Employers may use benchmarking of cost differences with external worker groups and exit threats to gain internal concessions.
	Low	Worker representatives view externalization as a low threat to internal jobs and to broader equity goals because of low cost differentials and restricted exit. Employers may seek to externalize to gain flexibility but cannot use it as leverage for internal concessions.	Worker representatives view externalization as a moderate threat to internal jobs because of high ease of exit but not to broader equity goals because of low cost differentials. Employers may use exit threats to gain labor cooperation to improve the productivity and quality of internal labor but cannot use externalization as leverage for internal concessions.
		Low contestation III	Moderate contestation IV
		Low	High
		Ease of exiting internal employment	

that these employers gain competitive advantage by systematically violating minimum wage and hours standards.

The horizontal axis of Figure 1 represents the ease with which employers can exit internal employment relationships. Institutions can influence this ease of exit through their effects on restructuring or switching costs. These costs are higher where legislated or negotiated job security arrangements are in place or negotiated obstacles to substituting internal with external labor exist. These include, for example, employment protection legislation, transfer of undertakings legislation, worker consultation and

codetermination rights (Grimshaw and Miozzo 2006), and collective bargaining agreements (Shire et al. 2009), including negotiated limits on the extent and form of outsourcing (Katz, Batt, and Keefe 2002) or agency work (Benassi 2013). Ease of exit can also be affected by the degree of employer dependence on the skills or commitment of internal workers (Doerflinger and Pulignano 2015). Although we might expect this dependence to differ most significantly across job categories, institutions may also affect skills for similar occupations, for example, through collective negotiations over work design and training investments (Lam 2002).

This literature has helped to theorize two dimensions along which direct or production costs associated with the externalization of similar jobs or tasks can be expected to differ across institutional settings. As in the transactions cost literature, however, the focus of this research has been on analyzing the factors that change employers' short-term "efficiency" considerations. Broadly, management is assumed to respond to institutions because of their effects on cost-based incentives associated with alternative boundary strategies. In contrast, we analyze the way in which different combinations of these (institutionally embedded) cost factors affect patterns of contestation between labor and management over boundary decisions. The power and control approach to the study of boundaries in the management strategy literature provides a good starting point for theorizing these relationships. Santos and Eisenhardt argued that organizations often adopt boundaries that may not appear efficient in the short term but that have long-term benefits in allowing them to maximize "strategic control over external forces," such as regulators, suppliers, or other market actors (2005: 495). They drew predominately on resource dependence theory, which views organizations as seeking power and control in markets through attempts to reduce the uncertainty inherent in relationships with other organizations (Pfeffer and Salancik 1978).

This literature typically has focused on firms' relations of dependence with external groups or interests, based on the assumption that organizations are unitary actors (Bidwell 2012: 1622). In contrast, we include both employers and worker representatives as major stakeholder groups within organizations, who experience relations of power vis-à-vis, as well as dependence on, one another. Each group has distinctive interests in the longer-term effects of boundary decisions on employment terms and conditions, both within an organization and across internal and externalized groups of workers. We apply this broader conception of inter- and intra-organizational power dynamics to analyze the relationship between cost structures and labor-management negotiations over organizational boundaries.

We hypothesize that the intersection of labor cost differences and ease of exit will be associated with four distinct patterns of contestation over the externalization of jobs (see Figure 1). First, when cost differences are large between similar groups of internal and external workers and when the ease of exiting internal employment is high or expanding, we expect to find a

high degree of contestation over boundary decisions (Quadrant II). Under these conditions, firms have large cost-based incentives to externalize work, whereas workers cannot rely on negotiated or legal constraints on exit to block externalization measures. To this end, management may simply seek to externalize all jobs. This is not always desirable, however, particularly in areas that can be strategically important or in which ensuring compliance with quality standards is difficult, such as customer service.

Thus, another way in which management may try to reduce costs is to seek concessions from the internal workforce by benchmarking workers' pay and working conditions against those of the external workforce. This kind of competitive benchmarking, linked to threats to internal jobs, has been observed in a range of contexts, across the international subsidiaries of multinational corporations (Marginson and Sisson 1996; Pulignano and Keune 2015) and between internal and subcontracted worker groups (Flecker, Haidinger, and Schönauer 2013). We posit that employers are most likely to use this strategy under conditions of high cost difference and high ease of exit. To use the language of labor market segmentation theory, externalization can more easily be used as a form of countervailing power against labor unions or "internalized worker norms governing the wage-effort relationship" (Grimshaw and Rubery 2005: 1035). Described in terms of resource dependence theories, employers may manipulate organizational boundaries with the aim of reducing dependence on core workers and their representatives and/or of enhancing their power to align internal pay and working conditions more closely with external markets (Santos and Eisenhardt 2005).

Worker representatives also have an interest in maintaining or extending their power to determine the conditions of employment. They are most likely to view this power as being under direct and immediate threat when firms can easily exit internal employment relationships and when large cost advantages are associated with doing so. This will lead labor to contest externalization. This can take different forms, including agreeing to internal concessions that bring internal pay or working conditions closer to external-market levels, partnering with management to improve the performance of internal workers, or organizing externalized groups to close the internal-external cost differential through raising the market wage. These strategies are not mutually exclusive. Research on the German metal sector showed that the union alternated among all three of these strategies, following labor market reforms that deregulated the use of agency work and mini-jobs (thus decreasing their costs) (Hassel 2014; Benassi and Dorigatti 2015; Eichhorst 2015).

In contrast, when cost differences between internal and external groups are low and exit is restricted, employers will typically have weaker incentives and fewer opportunities to seek changes in internal cost structures through benchmarking or demands for concessions (Figure 1, Quadrant III). When significant constraints on exit are present, internal workers and their

representatives may share management's interest in maintaining or expanding market-based contracting arrangements—particularly when this provides additional flexibility. Researchers have argued that high employer dependence on internal workers contributes to insider–outsider dynamics, whereby unions representing core workers agree to externalization to protect their members from insecurity associated with unstable markets (Doeringer and Piore 1971; Lautsch 2002). At the same time, we would not necessarily expect these dynamics when the cost differences between internal and external groups of workers are also low because this outcome is typically achieved through encompassing collective bargaining and labor market institutions (Bosch, Mayhew, and Gautié 2010). Under these conditions, unions are less likely to view externalization as undermining solidarity or conflicting with their equity-based goals. Thus, when constraints on exit are high and the labor-cost differential is low, externalization should be associated with low contestation, particularly when worker representatives are able to represent externalized groups of workers through collective bargaining. For example, Grimshaw et al. (2015: 10) found that union resistance to externalization in the Swedish public sector was weak because collective agreements harmonized the pay differences between the private and the public sector.

Situations may also exist in which large cost differences between internal and external labor are present but exit options are restricted, for example, because of strong job security arrangements for the internal workforce or the low availability of appropriate subcontractors (Figure 1, Quadrant I). Alternatively, employers may be able to easily exit internal employment but enjoy limited cost advantages of doing so because of either already low labor costs for the internal workforce or encompassing institutions that establish similar pay and working conditions across externalized jobs (Quadrant IV). In both cases, we expect moderate conflict because employers face constraints on using benchmarking of costs to gain concessions but also have either cost-based incentives or exit-based capacity for externalizing work. Worker representatives, in turn, will adopt a range of strategies aimed either at sustaining or further strengthening restrictions on exit, at improving the productivity of the internal workforce, or at organizing the external groups.

This framework provides a novel means of theorizing the mechanisms linking institutions, cost structures associated with externalization decisions, and patterns of contestation between labor and management over these decisions. Past research has looked at these different factors in isolation. The original contribution of our analysis is to show the ways in which they are related to one another. This approach allows us to develop a more complete and dynamic model that can be used to explain varying outcomes at the organizational level in different political economies. In the case studies discussed here, we demonstrate the value of this framework in analyzing different patterns of contestation over the restructuring of telecommunications call center jobs.

Case Studies and Methods

The findings in this article are based on a comparison of 10 incumbent telecommunications firms: TDC in Denmark, TeliaSonera (TS) in Sweden, Deutsche Telekom (DT) in Germany, A1 in Austria, France Telecom (FT) in France, Telecom Italia (TI) in Italy, BT in the United Kingdom, AT&T in the United States, Orange Polska (OP) in Poland, and O2 Telefónica Czech Republic (O2CR) in the Czech Republic. These cases represent very similar organizations undergoing parallel changes in markets and ownership structures, but they are located in countries with distinctive labor market and collective bargaining institutions. Table 1 presents background information on each company.

As shown in Table 1, the cases have experienced broadly similar changes in markets and ownership, characterized by intensified competition, declining market share, and growing pressure from private investors to increase profits and maximize shareholder value. This has encouraged firms to downsize employment, adopt multidivisional forms to pursue product diversification (Sako and Jackson 2006), and increase the use of outsourcing and contingent employment contracts (Holst 2014). In this article, we focus on one area of work that has been significantly affected by these developments: call centers responsible for customer contact in the sales, service, billing, and technical support areas. Labor-intensive call center work is increasingly mobile because of declining information and communications technology costs. Moreover, it can be performed cheaply by domestic and offshore subcontractors in the growing international outsourcing industry (Taylor and Bain 2004; Batt, Holman, and Holtgrewe 2009).

At each company, we conducted semistructured interviews (147 in total) with managers and worker representatives. The interviews were conducted both by phone and face-to-face; in most cases, the interviews were held in the native language of the interview partners.² We also distributed a survey to union and works council representatives at each organization that included standardized questions concerning collective bargaining institutions, negotiations over and outcomes associated with restructuring measures, and pay structures for call center jobs.³ The interviews were transcribed and, together with site visit notes, coded using the qualitative data-analysis software atlas.ti. Interview findings were then analyzed by grouping quotations by codes, preparing comprehensive reports for each case, and then comparing emergent themes across the cases. Finally, we produced a report summarizing our findings, which was both sent to all individuals interviewed and presented at a dissemination conference

²At TDC and TS, interviews were conducted in English; at O2CR, they were conducted through an interpreter.

³In Denmark, management provided data on pay structures because unions did not have an overview of pay across locations; in the other countries, union representatives provided these data from the survey, supplemented by collective agreements. The survey questionnaire is available on the Academia.com profile of the authors.

Table 1. Background on the Case Studies

Company	Country	Total employees 2010	Year of first public share offering	Year fully privatized or percentage state ownership	Year market liberalized (fixed-line segment)	Market share (fixed-line segment) 2010–2011	Union density*
TDC	Denmark	9,200**	1994	1998	1996	67%***	75%
TeliaSonera (TS)	Sweden	8,937***	2000	51%	1993	59%***	85%
A1	Austria	9,717***	2002	28%	1998	55%***	65%
Deutsche Telekom (DT)	Germany	123,174***	1995	32%	1998	52%***	55%
France Telecom (FT)	France	102,552***	1997	27%	1998	51%***	N/A
Telecom Italia (TI)	Italy	57,994**	1997	2003	1997	56%***	26% ^a
BT	UK	79,800***	1984	1993	1990	39%***	90%
AT&T	USA	143,898***	1885	1885	1996	40%***	88%
O2 Telefónica Czech Republic (O2CR)	Czech Republic	7,114**	1995	2005	2001	60%***	38%
Orange Polska (OP)	Poland	25,687**	1998	2010	2003	57%***	25%

Sources: *Union surveys, **European Commission (2010); ***Statista (2014).

Notes: N/A, not available.

^aTI membership percentage is higher than reported here because this figure does not include members of the Unione Italiana del Lavoro (UIL) and Unione Generale del Lavoro (UGL).

attended by interviewees. We also presented it at several meetings organized by national and international unions representing telecommunications workers (Doellgast, Sarmiento-Mirwaldt, and Benassi 2013). The responses of representatives from the case study firms to the report and at conferences helped us to correct errors of fact and to confirm the resonance of our comparative analysis with stakeholder experience.

Case Study Comparison

Our comparison of the cases proceeds in three parts. First, we summarize the boundary strategies adopted by the 10 case study firms. Second, based on our framework (Figure 1), we compare the two dimensions of cost savings and ease of exit associated with these strategies across the 10 cases. We demonstrate the value of our framework in explaining different patterns of labor–management contestation in four cases corresponding to its ideal-typical quadrants, as well as alternative outcomes in terms of re-internalization and concessions. Third, we examine the role of worker representatives in seeking to shift these cost structures through organizing strategies aimed at closing gaps in regulation and at improving pay and working conditions for externalized groups.

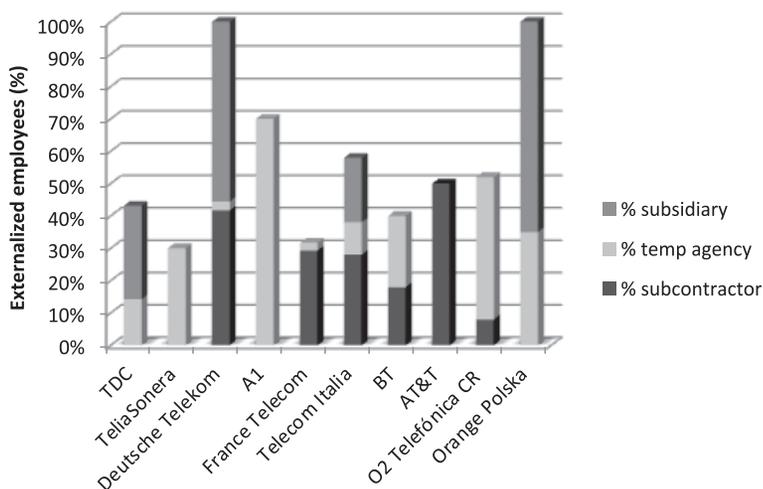
Boundary Strategies of the Case Study Firms

The case study firms externalized call center work through four alternative strategies: ownership of dedicated call center subsidiaries, use of temporary agencies to staff internal call centers, domestic subcontracting, and offshore subcontracting. The shift of work to call center subsidiaries is a partial form of externalization; although these subsidiaries are still owned by the incumbent firms, they typically are organized as internal subcontractors, responsible for selling call center services to their parent company and, in some cases, to other companies.

Figure 2 illustrates the proportion of work externalized through each of these strategies by each firm around 2010. TDC, DT, TI, and OP moved call center work to dedicated subsidiaries, with all consumer-segment call center jobs at DT and OP located in these subsidiaries. TDC, TS, A1, BT, OP, and O2CR used moderate to high numbers of agency staff in their internal call centers; DT, FT, and TI used small numbers of agency staff; and AT&T did not use temporary agencies. Those companies that relied on moderate to high levels of subcontracting (20 to 50% of jobs) primarily used either domestic subcontractors (DT and TI) or offshore subcontractors (FT, BT, and AT&T). TDC, TS, A1, and OP did not subcontract (in this time period), and O2CR subcontracted fewer than 10% of jobs.

Table 2 compares major changes in organizational boundary strategies, covering the 10-year period from 2005 to 2015. This shows that seven of the companies moved jobs that had been externalized back in-house. In four of these cases—TDC, DT, BT, and AT&T—these changes were associated with

Figure 2. Estimated Percentages of Employees Externalized in Call Centers (Consumer Segment), 2010–2012



Sources: Management and union interviews.

Notes: These figures are based on estimates provided by interviewees, who differed in their ability to give precise numbers of jobs externalized in each category. The reference year differs among the cases but is roughly in the 2010 to 2012 period. The percentage subcontracted at TI is a conservative estimate, with up to 70% of call volume subcontracted in some areas of work. Temporary agency workers at DT, TI, and OP were used in the subsidiaries, whereas those at other companies were used in internal call centers. The figures for percentage subcontracted at FT, BT, and AT&T include both domestic and offshore subcontracting.

negotiated concessions by unions and other worker representatives aimed at re-internalizing call center jobs or preventing further outsourcing. The remaining three cases—TS, TI, and FT—show more minor or no concessions.

The variation observed across the cases in the extent and form of externalization can be attributed in part to distinctive combinations of labor and restructuring cost structures in different institutional settings. For example, TDC was historically able to pay agency workers lower wage rates than its internal staff because agencies were covered by lower-cost collective agreements. In contrast, at DT, outsourcing call center work offered more significant cost savings because agency workers were covered by equal pay rules but subcontractors had much lower pay rates because of very low bargaining coverage and no national minimum wage. Constraints on exit from internal employment relationships could also affect the form of externalization. DT initially faced significant short-term constraints from job security and location security agreements. Nevertheless, management was able to shift call center jobs into lower-cost subsidiaries, in some cases later selling these subsidiaries. O2CR represents a contrasting case in which weak job security allowed the company to externalize by downsizing its call center workforce while simultaneously increasing its use of temporary agencies, some of which hired former O2CR workers. These types of institutionally influenced

Table 2. Changes in Organizational Boundaries (2005–2015) and Associated Changes in Pay and Conditions for Internal Workers

<i>Company</i>	<i>Measures to re-internalize work, halt externalization plans, or significantly expand externalization</i>	<i>Associated changes in pay and conditions for internal workers, sought or secured in negotiations</i>
TDC	<ol style="list-style-type: none"> 1) 2011: All temp agency workers made permanent 2) 2012–2013: Management agreed to halt outsourcing plans 3) 2014–2015: Management outsourced 50% existing call center workforce 	<ol style="list-style-type: none"> 1) Unpaid lunches and reduced terms and conditions for new hires/internalized temps 2) Flexible working time model introduced 3) Management sought further concessions on pay for lunches and breaks, reduced pensions, and cuts in overtime pay to halt planned outsourcing; when union did not agree, outsourcing was carried out
TeliaSonera	2013–2015: Temp agency workers reduced from > 30% to 18% of workforce	None
Deutsche Telekom	<ol style="list-style-type: none"> 1) 2007: Management agreed not to outsource new subsidiary 2) 2012–2014: Subcontracting reduced from 40 to 30%; percentage of temporary agency employment reduced; internal employment stabilized 	<ol style="list-style-type: none"> 1) Pay reduced by 30% for new hires and working time increased for existing workers; more variable pay; weekend work introduced 2) Flexible working time model introduced; part-time work increased; more intensive performance monitoring allowed
AI	None	N/A
France Telecom	2010–2012: Amount of work outsourced declined with declining call volume	None
Telecom Italia	<ol style="list-style-type: none"> 1) Mid-2000s: 1,350 workers from a subcontractor moved to TI subsidiary; freelancers converted to training, probation, part-time, and temporary agency contracts 2) 2008–2012: All temporary agency workers in subsidiary made permanent 	<ol style="list-style-type: none"> 1) Slightly lower initial pay grades for internalized temporary agency workers 2) Internalized workers on part-time contracts progressively moved into full-time contracts
BT	<ol style="list-style-type: none"> 1) 2007: Some temporary agency workers made permanent 2) 2011: Management agreed to internalize 600–900 offshored jobs 	<ol style="list-style-type: none"> 1) New pay grade with less favorable pay and conditions for internalized temporary agency workers 2) New pay grade with less favorable pay and conditions for jobs created through in-sourcing
AT&T	2007–2013: 3,600 offshore jobs internalized	New pay grade with less favorable pay and conditions for jobs created through in-sourcing
O2 Telefónica Czech Republic	None	N/A
Orange Polska	None	N/A

Note: N/A, not applicable.

cost factors exerted some influence over boundary strategies at each of the firms.

As the comparison in Table 2 shows, however, these boundary strategies could change over time, often following negotiations between management and worker representatives. This raises further questions concerning the political dynamics associated with these negotiations. Why in a subset of companies were boundary decisions a central focus of collective bargaining, with agreements to re-internalize work or to halt further externalization, whereas in others they were not? Why did some of these agreements involve significant concessions on pay and working conditions for internal workers, but in other cases these agreements involved no concessions? We argue that these differences can be explained by analyzing how different combinations of labor and restructuring cost structures influenced patterns of labor-management contestation over boundary decisions.

Comparing Contestation over Boundaries

We apply our framework, illustrated in Figure 1, to explain the observed variation in patterns of contestation across the cases. We first classify each case as low, moderate, or high along the two axes in Figure 1: cost savings associated with externalization and ease of exiting internal employment (see Table 3).

The classification of cost differences is based on data on pay levels for similar groups of internal and externalized workers, gathered through the union surveys and interviews (see also Figure 4, later in the article) and also on qualitative findings concerning differences in broader terms and conditions of employment. Cost differences were predominately affected by five factors: internal pay distribution, the presence and scope of equal-pay rules for temporary agencies, bargaining coverage and strength for domestic subcontractors, availability of offshore subcontractors, and the presence of centralized collective bargaining in incumbent firms that extended the pay and working conditions negotiated for traditional core workers to call center subsidiaries. Thus, for example, TS faced lower cost differences between internal and externalized workers than TDC because of more compressed internal pay, stronger equal-pay rules for temporary agency workers in Sweden, and higher bargaining coverage for subcontractors. FT, BT, and AT&T are classified as having high cost differences because they had access to a significant market of offshore services in English-speaking Asian countries and French-speaking African countries, offering cost savings of between 30% and 75%. At TI, O2CR, and OP, cost differences are classified as moderate because internal pay rates were relatively compressed and because (particularly at TI) some institutional protections improved the pay and working conditions for major categories of externalized workers.

The classification of ease of exit from internal employment relationships is based on consideration of legislated and negotiated employment

Table 3. Comparison of Cost Structures Associated with Externalization

<i>Company</i>	<i>Cost difference between internal and externalized workers</i>	<i>Ease of exit from internal employment relationships</i>
TDC	HIGH Equal pay rules for temporary agency workers allowed lower pay if covered by collective agreement Decentralized bargaining allowed wage differentiation in call center and other subsidiaries Minority of subcontractors covered by a sectoral or company-level collective agreement	MODERATE Weak legislated employment protections Negotiated employment protections increased costs associated with downsizing; stronger protections covered former civil servants (35% of workforce) Worker transfer to subcontractors moderately used
TeliaSonera	LOW Equal pay rules and high bargaining coverage for temporary agencies Majority of subcontractors covered by a sectoral agreement establishing minimum pay and working conditions	HIGH Strong negotiated employment protections in the past; however, employer unilaterally exited from these agreements in 2008 Worker transfer to subcontractors widely used
Deutsche Telekom	HIGH Equal pay rules and collective bargaining for temporary agencies Decentralized bargaining at DT allowed wage differentiation in call center subsidiaries Very low bargaining coverage for subcontractors, with no national minimum wage (before 2015)	MODERATE Strong legislated employment protections and job security in collective agreements; some civil servants with very strong protections (35% of workforce) Works councils have codetermination rights over dismissal decisions Worker transfer to subcontractors widely used
AI	LOW Equal pay rules and collective bargaining for temporary agencies All subcontractors covered by a sectoral agreement establishing minimum pay and conditions	LOW Strong legislated employment protections and job security in collective agreements; high proportion of civil servants with very strong protections (60%) Works councils have consultation rights over dismissal decisions
France Telecom	HIGH Equal pay rules and collective bargaining for temporary agencies Majority of subcontractors covered by a sectoral agreement establishing minimum pay and working conditions at national minimum wage Availability of offshore subcontractors with very low labor costs	LOW Strong legislated employment protections and job security in collective agreements; high proportion of civil servants with very strong protections (70%)
Telecom Italia	MODERATE Equal pay rules for temporary agencies, but based only on sectoral agreement (not higher-paid company agreement)	MODERATE Strong legislated employment protections, strong job security in collective agreements Negotiated limits on percentage of

(continued)

Table 3. Continued

<i>Company</i>	<i>Cost difference between internal and externalized workers</i>	<i>Ease of exit from internal employment relationships</i>
	High bargaining coverage for domestic subcontractors, but they could choose lower-cost agreements and use cheaper freelance contracts Decentralized bargaining at TI allowed wage differentiation in call center subsidiary	temporary agency work
BT	HIGH Equal pay rules for temporary agencies introduced in 2011 but could be bypassed using pay between assignment contracts Availability of offshore subcontractors with very low labor costs	MODERATE Moderate legislated employment protections, moderate job security in collective agreements Agreed limits on percentage of offshored and temporary-agency workers
AT&T	HIGH No equal-pay rules for temporary agencies or collective agreements for subcontractors Decentralized bargaining at AT&T allowed wage differentiation in call centers with lower-tier agreements Availability of offshore subcontractors with very low labor costs	HIGH Weak legislated employment protections, relatively weak job security in collective agreements Negotiated limits on offshoring and practices to replace domestic workers; however, employer used a range of strategies to get around these rules
O2 Telefónica Czech Republic	MODERATE Equal-pay rules for temporary agencies but did not cover flexible benefits No collective bargaining for subcontractors	HIGH Weak legislated and negotiated employment protections
Orange Polska	MODERATE No equal pay for temporary agencies, pay 30–60% less Central collective agreement extended to call center subsidiary	HIGH Weak legislated and negotiated employment protections; however, some job security protections for call center subsidiary

protections or job security agreements, as well as other arrangements that limited exit, such as civil servant status and consultation or codetermination rights of works councils. In addition, three case study firms—TDC, TS, and DT—outsourced significant numbers of jobs in different areas through the transfer of workers to subcontractors. This represents a particular form of exit that allowed these firms to bypass other negotiated or legislated employment protections.

We classify the ease of exit as low, moderate, or high based on the strength of the negotiated or legal limits on downsizing or moving jobs,

Figure 3. Comparison of Cases Using Framework in Figure 1

Labor cost differences between internal and externalized workers	High	I France Telecom	BT TDC Deutsche Telekom	II AT&T
	Moderate		Telecom Italia	O2 Czech Republic Orange Polska
	Low	A1 III		TeliaSonera IV
		Low	Moderate	High
Ease of exiting internal employment				

which affected restructuring or switching costs associated with externalizing work. For example, A1 and FT both had a low ease of exit because of high proportions of civil servants with lifetime job security in addition to relatively strong legislated employment protections. TDC is classified as moderate because it had high downsizing costs associated with both a relatively generous notice period and retraining provisions in addition to some stronger employment protections for former civil servants. TS is classified as high because management unilaterally exited similar job security agreements in 2008. BT faced moderate constraints on exit because of job security agreements committing management to retrain workers and place those whose jobs had been cut in other parts of the company. BT’s union had also negotiated agreements limiting the percentage of work offshored and handled by temporary agencies, which were relatively transparent and easy for the union to police. Although AT&T also had negotiated limits on offshoring, the company was able to bypass these agreements because of multiple bargaining units and poorly coordinated collective agreements with widely varying terms and conditions. These examples illustrate the way in which ease of exit was influenced not only by formal agreements and laws but also by the capacity of employers to avoid or exploit loopholes in these institutions.

Figure 3 illustrates how each case maps on to Figure 1, using the classification developed in Table 3. Four cases broadly conform to our ideal-typical quadrants in the framework: FT (Quadrant I), AT&T (Quadrant II), A1 (Quadrant III), and TS (Quadrant IV). The other cases have intermediate positions on at least one of the two axes.

At AT&T, cost savings associated with externalization and the ease of exiting internal employment relationships were both high. The pay at subcontractors, which have no collective bargaining in the United States, was significantly lower than at AT&T’s internal call centers, with a difference of

up to \$13/hour. In addition, work could be offshored to destinations such as India or the Philippines, where wages were a fraction of those paid in the United States. Beyond these wage differences, benefits (including most notably health insurance) added to the cost of internal workers.

Ease of exit in the United States is high overall because of weak legislated employment protections. AT&T's collective agreements with the Communication Workers of America (CWA) included some restrictions on subcontracting. However, AT&T was able to sidestep these provisions by using loopholes in the agreements and by adopting complicated restructuring measures that made verifying whether management was complying with their terms difficult for the union. The presence of multiple bargaining units across AT&T exacerbated this problem because workers could be moved across regions and collective agreements that had different provisions regarding outsourcing. Union representatives observed that management also offered generous redundancy plans "to eliminate certain whole titles" and shift the work to subcontractors (interview, CWA representative, 06/05/13).

Under these conditions, outsourcing was strongly contested by the CWA. The lack of a bargaining presence in subcontractors, along with the low union density overall in the United States, meant that organizing the externalized workers was not viable. Instead, the union sought to both increase costs of exit and reduce the cost disadvantage of the internal workforce. "Our contract actually says, when you're going to do any contracting you're supposed to notify the union the intents of that. But the intent was for me to come up with alternatives, maybe the union can come up with ideas on how to help them meet that need [in terms of finding cost savings in-house]" (interview, CWA representative, 03/14/12).

In one example of these strategies, the CWA formed a joint committee with management in 2001 to 2004 whose aim was to narrow the cost differential between internal and offshored call center work. This resulted in proposals to create a new job title for employees handling lower-revenue work and to allow temporary work. In addition, a pilot project was proposed that reduced absenteeism and improved productivity through job rotation and flexible scheduling. Then in 2004 contract negotiations, the CWA sought an agreement to in-source 3,000 digital subscriber line (DSL) help-desk jobs that had been offshored to Accenture in India. Management agreed to bring this work back to the United States, in CWA-represented call centers, when the contract with Accenture expired in 2007—but only on the condition that the union negotiate a "competitive" set of conditions for the work. The work was internalized to five new call centers under a new job title in the Internet Services Agreement, with starting pay of close to \$10/hour. By 2013, 15 of these Internet Services call centers had been set up, employing 3,600 workers, and average pay had increased to \$14/hour.

The union adopted a range of strategies in negotiations with AT&T over boundary decisions, and it consistently contested externalization with the

objective of bringing jobs back in-house. The main means of doing so targeted reducing the cost disadvantages of the unionized workforce through concessions and a partnership whose aim was to improve the productivity of internal workers. Management was able to use the benchmarking of costs to gain these agreements, arguing for the need to introduce pay and working conditions that were competitive with external, market-based labor costs. At the same time, the union was able to resist direct concessions for existing workers and to gain some improvements in pay and working conditions over time for workers covered by the second-tier agreements.

A1 in Austria typifies the opposite set of conditions, in which both the cost differences between internal and external labor, and the ease of exiting internal employment were relatively low. A1 hired almost all new call center staff on temporary agency contracts. Nearly 70% of the call center workforce was on these contracts, which were often renewed indefinitely, with some workers remaining in this status for decades. These temporary workers, however, were entitled to the same employment terms and conditions as the permanent internal workforce because of strong equal-pay and treatment provisions in the national law and collective agreements. A1 still gained some savings, primarily because of the lower dismissal costs compared to the permanent workforce, as well as less generous pensions and benefits. Nevertheless, the labor-cost differential was significantly smaller than that associated with outsourcing or offshoring at AT&T. Other potential forms of externalization also offered lower cost savings because of Austria's more encompassing collective bargaining institutions. Centralized bargaining over pay and working conditions at call center subcontractors, at A1, and in the telecommunications sector guaranteed relatively standardized pay rates for equivalent jobs. For language reasons, offshoring is also not as readily available to Austrian as to U.S. firms.

In addition, management's ability to exit internal employment was significantly restricted by the large proportion of civil servants at A1, who enjoyed lifetime job security. Nearly 60% of the workforce had this civil-servant status in the mid-2010s. In addition, job-security provisions in collective agreements, relatively strong legislated employment protections, and works council oversight in dismissal decisions raised the restructuring costs associated with downsizing or relocating jobs. Although management was able to reduce internal employment over time, typically relying on voluntary redundancy or retirements, it was not able to quickly and unilaterally exit its internal employment relationships.

These conditions led to a situation of low labor-management conflict over externalization measures at A1. Management was not able to benchmark costs between external and internal groups of workers to argue for concessions because these cost differences were marginal. In addition, external workers were not widely perceived as undermining standards because they were covered by strong institutional and negotiated protections. In interviews, worker representatives noted that they were not happy

with the high use of agency work, particularly the practice of keeping workers on these contracts for long periods of time: “For me, this is not satisfactory, because I think it’s sick that you need agency workers at all, but when you’re in the stock market, financially driven, it looks better, as though you were slimmer” (interview, AI works councilor, 10/26/11). At the same time, the union and works council were able to represent agency workers’ interests, organizing them to join the union and intervening on their behalf in employment disputes. In one case described by the works councilor cited above, a temporary worker was dismissed “because management did not like him,” and the works council succeeded in getting him reinstated.

FT and TS are classified as different types of mixed cases. FT had a high proportion of civil servants—around 70% in 2012—which, together with the strong national employment protections in France, effectively made dismissing internal workers impossible. At the same time, cost differences between internal and external labor could be significant. In 2010, FT operated around 20 internal call centers (14,000 workers) and subcontracted with 20 external call centers (6,000 workers), around half of which were located in Morocco and Senegal. Call center subcontractors in France are covered by a sectoral agreement that sets the minimum salary at the national minimum wage. This was only 12% lower than the starting salaries at FT’s call centers in the early 2010s, but the overall labor costs were lower because of higher turnover (and thus a larger percentage of workers at the starting salary level), a large proportion of part-time workers, and less generous pensions and other benefits. A much larger gap existed between internal and offshored workers; management estimated that labor costs in the offshore call centers were on average 75% lower than those in the in-house call centers (interview, FT manager, 08/03/10), with typically no union representation.

Under these conditions, FT had relatively strong cost-based incentives to externalize work, but the firm also had strong constraints on exiting internal employment relationships. Management initially responded by adopting a series of draconian internal restructuring measures, with the explicit aim of increasing voluntary resignations (Diehl and Doublét 2010). This was halted after a wave of suicides at the company gained widespread negative media attention. Unions were critical of outsourcing and had formed a committee within the company’s “economic commission” to consult on this practice, with the aim of gaining commitments to reduce the volume of work outsourced. One union representative described a long process of trying to get information on the volume of work outsourced and associated costs. They succeed in gaining access to outsourcing data by convincing management they were committed to working with them to internalize jobs under good conditions: “This is really something that we won. It took time, it took a lot of confidence. We had to say to them: no, we will not use this to embarrass you in front of your competitors or create difficulties in the press. We want to use it because we think that employees are better inside the

Group [FT], that they are treated better when they are employees of the Group than when they are subcontracted outside of the group. That is the reality” (interview, Confédération générale du travail [CGT] representative, 06/30/10).

Indeed, FT reduced the volume of call center work outsourced in the late 2010s; however, managers and union representatives attributed this to declining call volumes. Cutting outsourcing was the easiest adjustment strategy because of the high costs associated with downsizing. Although the FT unions sought to reduce outsourcing (as did unions in all the case studies), they did not place a high priority on this in negotiations or when using direct action and protests. Notably, the unions did not seek to make concessions to reverse outsourcing, nor did management use the benchmarking of costs between internal and externalized workers to argue for changes in internal pay and working conditions.

At TS, similar to A1, the labor cost differences were low between internal and external workers because of encompassing legislation and collective bargaining. Temporary agency workers are covered by strong equal-pay and -treatment rules as well as by collective agreements, with high union density in this sector overall. In addition, most major call center subcontractors are signatories to their industry’s sectoral collective agreement and have strong local union representation. Union representatives estimated that the pay difference between call center workers at TS and at major subcontractors was between 2,000 and 5,000 krona/month, which amounts to \$1.40 to \$3.40/hour lower base pay. However, subcontractors also typically had a higher sales-commission component that narrowed this gap. In addition, the broader terms of the collective agreements were similar, with some stronger provisions in the call center agreement. These included, for example, prohibitions on split schedules.

At the same time, restrictions on exit at TS were low. The unions had negotiated past collective agreements giving redundant employees a generous package of benefits, which ensured no involuntary dismissals and gave employees three years to find new jobs within or outside the company. In 2008 management unilaterally ended this agreement and announced a major restructuring plan involving a large number of redundancies. In addition, TS transferred close to 11,000 technical and business service employees to subcontractors between 2001 and 2007. This demonstrated to the union and workforce the ease with which management could use downsizing and employee transfers to exit internal employment relationships.

The relatively small differences in pay between internal and external jobs meant that management could not easily use the benchmarking of these costs to demand pay concessions. Because externalized workers were covered by collective agreements, the union did not view externalization as a major threat to broader equity goals or to sustaining union membership. At the same time, union representatives at TS were concerned with the expansion of subcontracting and temporary agency work in different time

periods, and they tried to encourage re-internalization whenever possible. Around 2,000 call center employees were transferred to subcontractors between 1998 and 1999, when the company went through a major consolidation of its call center operations. TS continued to use the subcontractors for several years but gradually replaced them with temporary agency workers. By 2011, 40% of the workforce in customer service jobs and 30% in sales or support jobs were on temporary contracts. The union sought to convince management to internalize these workers, using the business case that the permanent workforce's customer service quality and productivity were higher: "3-4 years ago we had perhaps a thousand or more by Manpower for instance. We of course wanted them to be employed by the company. [...] we said, employ them in-house instead. I think they, the management, decided to do that because they noticed that the quality that they get from the employees was bigger if they are employed by us [...]. The company said: we are getting much higher customer satisfaction if we employ them ourselves, even if it costs a little bit more" (interview, Unionen representative, 10/27/14). By 2015, the proportion of temporary agency workers in TS's call centers had declined from more than 30 to 18% as more of these workers were shifted to permanent contracts.

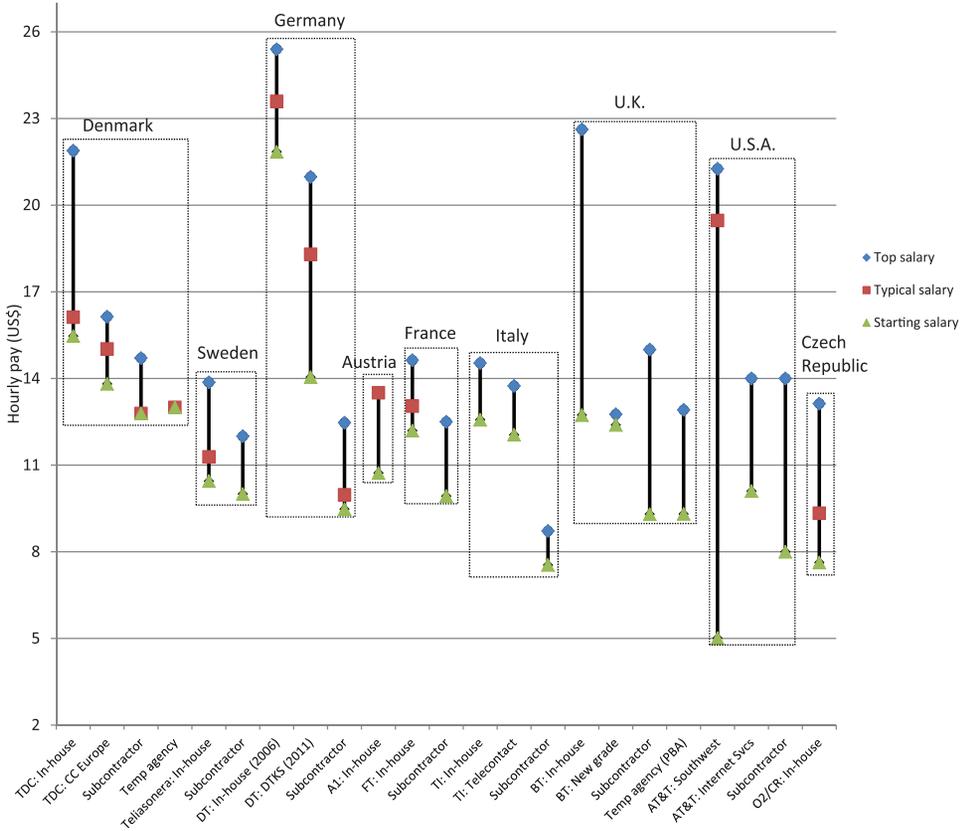
This comparison illustrates that different combinations of labor and restructuring cost structures can have a significant impact on patterns of labor-management contestation over boundaries. Although some contestation occurred in all four cases, the AT&T case stands out for both the high strategic priority the union placed on limiting or reversing outsourcing and the size of its concessions.

The Relationship between Wage Differentials and Concessions

In four of the cases—TDC, DT, BT, and AT&T—worker representatives negotiated significant concessions in exchange for agreements to reverse externalization or halt outsourcing plans (see Table 2). These cases had in common a large cost differential between internal and external labor and a moderate to high ease of exit. This suggests that these cost differences are particularly important for understanding the political dynamics of concession bargaining over externalization. A closer examination of pay structures across the firms provides further support for this argument. Figure 4 illustrates the starting, typical, and top pay levels for in-house call centers, call center subsidiaries or second-tier contracts, and subcontractors for which these figures were available. We include pay levels for agency workers when these rates were allowed to deviate from those for equivalent permanent jobs. At AI and O2CR, we have pay figures only for the in-house call centers. We were not able to obtain pay data from OP.

As Figure 4 shows, TDC, DT, BT, and AT&T are distinctive in having very high pay for their in-house call center workers relative to the call centers in other European countries. The other case study companies had lower and/

Figure 4. Comparison of Hourly Pay Levels for Call Center Workers (Customer Service and Sales, Consumer Segment) in U.S. Dollars, Based on Purchasing Power Parity, 2011–2012^a



Sources: Collective agreements, management and union surveys, and interviews.

Notes: Comparison categories for each case include: in-house, subsidiaries and new pay grades (when present), subcontractors (when used), and temporary agencies (when used and when pay was allowed to deviate from in-house pay). Employees were no longer hired onto the AT&T Southwest reported “starting salary.” We do not have figures for the top salary at AI; however, the typical salary is close to the top of the pay scale. Temporary agency workers at TS, DT, AI, FT, and TI were on the same pay scale as permanent workers, but they were typically paid close to the starting salary level. The in-house pay rates at DT (2006) no longer apply because all call center workers were moved onto a lower pay scale at the DTKS subsidiary.

^aExcept for DT pay levels in-house (2006).

or more compressed pay scales for in-house staff and smaller differences compared to pay rates for the externalized groups of workers. In addition, concessionary or second-tier agreements had the effect of lowering the pay levels in these four cases (at least for some groups of internal workers) to levels closer to the external market in each country. TDC’s subsidiary Call Center Europe had pay rates similar to those at subcontractors. DT’s call center subsidiary DTKS, BT’s new lower-tier job titles, and AT&T’s new call centers under the Internet Services Agreement all paid from 30 to 50% less than the level in past agreements. All of these agreements were strongly

influenced by employer benchmarking of labor costs and terms of collective agreements or individual contracts for similar externalized call center jobs.

This further supports our argument that when the cost differences between internal and externalized labor were larger, employers were more likely to seek and to secure concessions that reduced the internal workers' pay and working conditions to the level of the external market. At the same time, worker representatives across our cases also adopted a range of strategies whose aim was to improve the pay and working conditions in externalized workplaces—essentially raising this market-based benchmark. Thus, whereas employers were able to manipulate boundaries to gain power over internal workers' pay and working conditions, worker representatives pursued strategies to limit that power by extending institutional protections to externalized groups. Across the cases, we see examples of these strategies. The unions at BT increased union membership rates among temporary agency workers through organizing and advocacy work, and they led a series of campaigns aimed at closing the loopholes in the equal-pay rules for these workers. At OP, unions successfully opposed management's plans to introduce lower pay rates for workers transferred to the company's new call center subsidiary in 2010, using member mobilization and protests to improve their bargaining position.⁴

TI represents the most successful example of these strategies. Historically, TI's major subcontractor, Atesia, employed most of its workers on temporary "freelance" contracts, with low levels of pay (mainly based on performance) and lower social contributions. In the early 2000s, following mounting public pressure and worker protests, union representatives and the TI management negotiated an agreement in which TI purchased 20% of Atesia and integrated 1,350 workers into its subsidiary Telecontact, converting all freelance contracts into training positions and agency contracts.

Atesia, however—similar to other subcontractors—continued to employ many workers on freelance contracts, and the unions started lobbying the government to restrict their use. In 2006, a new legal ordinance came into force that required companies to offer inbound call center agents permanent contracts. Atesia subsequently agreed to turn the freelance contracts of inbound call center agents into permanent part-time contracts at a lower pay grade (Panici 2013). A second ordinance came into force two years later that required evidence of "autonomous work" for outbound agents on freelance contracts. Atesia then agreed to move its 6,000 outbound freelancers to permanent contracts, mainly with part-time or apprenticeship status. Nevertheless, the company immediately started hiring freelancers again. The unions responded with a series of strikes and by helping individual workers bring their cases to court (Info Atesia 2008).

These campaigns had the combined effect of raising pay and improving working conditions in the call center subcontractor sector and, in

⁴See Doellgast, Sarmiento-Mirwaldt, and Benassi (2015) for more details on these case studies.

particular, at a major TI subcontractor. They were also associated with some internalization of call center work, with minor initial concessions for internalized workers, which were then mitigated by the union. Thus, this represents a successful example of worker representatives adopting a series of strategies to extend negotiated and legal protections to externalized workers, effectively shrinking the cost differential between internal and external labor.

TI falls squarely in the middle of our framework (Figure 3), with both moderate cost savings associated with externalization and moderate ease of exit. The pay for internal TI call center workers is also relatively low and compressed when compared to the other case study firms (Figure 4). As we have argued, these conditions make using the benchmarking of costs to gain concessions more difficult for employers, thus altering the political dynamics associated with negotiations over the re-internalization of work. Unions also played a central role in further increasing the costs of external labor by organizing new groups of workers and constraining exit through increased internal job security at TI and its subcontractors. Italian unions were able to achieve these objectives because of the (relatively) encompassing collective bargaining institutions and high union density in externalized workplaces, as well as through activist leadership by militant unions committed to pursuing broader equity goals. This demonstrates the importance of both strategic choices and broader power resources in explaining the different outcomes from patterns of contestation over organizational boundaries.

Conclusion

This article contributes to debates in the employment relations literature concerning the mechanisms connecting labor market and collective bargaining institutions to organizational boundary decisions. We have shown that cost structures not only influence how employers weigh the efficiency of alternative boundary decisions but also can affect patterns of contestation between labor and management associated with changes in boundaries over time. The outcome of conflicts over boundaries proved to have significant implications for pay and working conditions. Externalization was most strongly contested by worker representatives where labor costs differed significantly between internal and external workers and where employers experienced high ease of exit from internal employment relationships. These conditions were also associated with large concessions from the internal workforce in exchange for the re-internalization of work.

Our empirical findings are not intended to represent a typology of national models of contestation that can be generalized across sectors and workplaces in the countries studied. Instead, the case studies illustrate the usefulness of the framework that we have developed in this article for analyzing the effects of heterogeneous national, sectoral, and company-level institutions on the political dynamics of collective bargaining about

boundary decisions at the organizational level. This study is the first to gather equivalent wage data and information on externalization practices from such closely matched companies across a large number of countries. Moreover, we focus on an industry in which parallel changes in markets and ownership encouraged the rapid and radical restructuring of work. This has given us a unique opportunity to examine the relationship between cost structures and patterns of contestation over boundary strategies with some degree of control for competing explanations.

Further research should seek to test the generalizability of the arguments developed here in other organizational and employment settings. Our findings suggest that, when cost differences are largest between the core and externalized workplaces and the ability to exit is high, more downgrading of pay and working conditions will occur over time. These changes are likely to involve concession bargaining in unionized organizations, but they may also be expected in workplaces with no or a weak union presence. For example, Weil (2014) observed similar dynamics in large, non-union U.S. firms, in which the shift of work into complex networks of suppliers contributed to increasingly market-driven wage-setting processes. Over time, these processes lead to downward pressure on pay and working conditions for workers in easily rationalized jobs, contributing to growing inequality at a societal level.

More generally, our findings provide empirical support for the argument that encompassing institutions are a crucial tool for worker representatives as they seek to preserve high pay and good working conditions in large firms and across their production chains. In all our case studies, employers sought to exploit opportunities to reduce labor costs, when they were available, by moving work across organizational boundaries. In cases in which cost differences were large and exit options were increasing, unions came under pressure to reduce the firms' internal costs through concessions. The case of TI demonstrates that this is not the only way in which cost differences between segments can be reduced. TI's unions were successful in improving pay and working conditions at call center subsidiaries and some subcontractors through organizing and legislative campaigns. Worker representatives pursued these strategies across the cases. The conditions for success were rooted in their ability to mobilize heterogeneous power resources to increase the costs of externalization and establish new barriers to exit.

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