

***Externalisation strategies by European companies: the case of Austria***

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***Summary***

Technical innovations and the decreasing price of information technology and telecommunications are enabling fundamental changes in the international division of labour. Companies find it easier to relocate business activities to save on costs, to find skilled workers or to be closer to the customer. Yet only part of the current changes are properly understood if we look at the individual relocation decisions aimed at making individual establishments or companies more profitable. Maybe more important is the reorganisation of transnational corporations or networks of companies. The analysis therefore needs to be complemented by looking at global "commodity chains" (Gereffi) or "systemic rationalisation" (Altmann) of companies. Such an approach will make it easier in many cases to understand the motives, and to explain the processes of relocation of work.

This view is supported by research findings in Austria. Of course there is evidence of single relocation processes in the sense that, for example, local management decides to relocate data entry activities abroad to take advantage of lower labour costs and thereby increase profitability of the establishment. But given the high proportion of foreign ownership in Austrian companies we are more often faced with corporate headquarters' projects restructuring operations at European or global levels.

In my presentation I would like to illustrate this point with examples from Austrian companies. In doing so I will first give an overview of external restructuring of companies enabled or facilitated by up-to-date information and communication technology (ICT). Secondly I will mention some examples and procedures of "systemic rationalisation" at transnational level. The evidence is taken from the TSER-project SOWING and from the exploratory phase of EMERGENCE.

### ***External Restructuring: Findings from the SOWING-project***

The impact of ICT on the organisation stems from the fact that technology may facilitate particular organisational forms or even make organisational options feasible. This applies in particular to external restructuring and relocation of work. Although we are cautious to maintain that there is a general trend towards a "network enterprise" (Castells) our case studies partly revealed dynamic external restructuring. And ICT does actually play an important role in this respect.

This can be illustrated by a case study showing that distributed product development in a transnational company relies heavily on both communication and information technology. E-mail and file transfer are crucial for the co-operation between engineers in different locations, and central databases are used from which official versions of technical drawings or specifications can be retrieved. But it is not only technology that matters: the organisational preconditions for relocation or distributed working are of equal importance. At a transnational logistics company, for example, highly standardised business processes allow both for a single call centre for receiving customer orders and queries from all over Europe, and for the transport function to be outsourced to subcontractors. Not surprisingly, standardisation and "re-engineering" is generally on top of the agenda of outsourcing and relocation projects.

Lower wages in some of the neighbouring countries are of course a big issue in Austria. Although so far the relocation of work has mainly related to manufacturing, ICT does often play a pivotal role. This can be illustrated by the case of a manufacturing company whose headquarters, design and development and other functions are located in Lower Austria while large part of its production is carried out in the neighbouring Czech Republic. The remote production facilities are controlled from the headquarters' location via ICT. Without information systems and data transmission (via satellite) the "virtual plant" would hardly be viable and, as a consequence, the relocation abroad would be more difficult. But of course relocation and distributed working is also more and more encompassing "e-work" such as software development or accounting.

It is interesting to note that heavy reliance on ICT does not replace travel and meetings: For example, while "virtual" product development teams use information systems and e-mail extensively, they have to meet to clarify things on a regular basis. If product specifications are only circulated and discussed via e-mail, misunderstandings may occur because the information is understood differently. Only face-to-face communication in a group meeting is seen as effective under such circumstances.

Under particular circumstances the aim of safeguarding employment may play a major role in relocation processes. The major Austrian telecommunication company operates a distributed call centre. When the call centre was established, people from downsized operations of the company who enjoyed a high level of employment security were trained and taken on as call centre agents. It was the goal to deploy them in the town where they had been working before. Now the call centre has various regional locations, and the calls are routed automatically to the least busy one.

Overall, the findings indicate that while ICT facilitate relocation and while e-work is partly becoming delocalised, it would be a mistake to infer organisational and employment consequences from technological potentials. Rather we have to take into account a variety of objectives and economic as well as societal conditions.

### ***Processes of global restructuring***

Using the examples of three transnational companies with operations in Austria I want to summarise the processes or procedures of restructuring which include relocation of e-work. A basic distinction can be made between centralised decision-making on location issues on the one hand and internal market-like processes on the other. In the first case corporate headquarters or management of business divisions devise and execute plans for streamlining international business processes, for example by way of centralising business activities in one location. An illustrative case is the plan by a European engineering company to implement a single company-wide enterprise resource planning system and to run it at a central computing centre in Brussels. The company's policy is to have as few IT staff as possible in local establishments. Another case is the centralisation and outsourcing of a transnational company's accounting activities: accounting departments at all European subsidiaries are being closed and work is being relocated to a newly established operation in Scotland. In both cases restructuring and relocation would probably make little sense for the individual establishments. It might even be disadvantageous to them, in particular in terms of flexibility. Only at a corporate level and in conjunction with "re-engineering" do advantages become obvious. These can be cost savings or improved management control.

In other cases we see an internal market at work where decision-making on business locations takes a different form: restructuring appears as a consequence of competition between the establishments within the corporation. For example, a global company issues calls for tender for particular business activities. Local management who want to attract the budgets and jobs involved prepare a business plan and submit it to headquarters. Activities are relocated to those establishments that can make the best

offer. Assessments and repeated calls for tender keep up the pressure for efficiency and keep the spatial distribution of activities in flux. This means that the activities can move on to other locations with lower costs or more expertise; but they can also be moved back to the establishment they were originally outsourced from if plans are not met. In one company we visited this was the case with order handling: remote processing of customer orders turned out to be detrimental to customer relations.

For cost but also for language reasons Austria is not attracting new e-work investment, e.g. in call centres, on a large scale. Relocation from Austria to Ireland, Scotland or Hungary seems to be much more widespread. Yet, if we look at the international division of labour within transnational companies a different picture may emerge. Of course, there is a strong tendency to move labour-intensive activities to subsidiaries or sub-contractors in other countries. But examples show that establishments successfully capitalise on their advantages to attract business activities and jobs in the process of transnational restructuring on the basis of ICT. It remains to be seen how widespread this is and what the consequences in terms of employment are.

However, it is worth mentioning that relocation of ICT-related or ICT-based work is not such a new phenomenon in Austria. In particular, German companies such as Siemens have used their subsidiaries in Austria for many years to tap the labour market for software developers or technicians partly by co-operating with technical universities. Development projects or parts of them are passed on to the Austrian subsidiary or outsourced to independent companies. But it is not unusual or novel for workers based in Austria to be deployed in Germany, a proceeding that recently became known as "body shopping" in the debate.

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