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Temporary employees and outsourcing: Dos and don'ts from international examples

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Based on interviews with young professionals from all over the world a number of recommendations can be listed for managers implementing outsourcing and hiring temporary employees.

The recommendations are distilled into five simple steps that, if followed, should help executives manage these structural changes in a more sustainable way.

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Definitions

Temporary employee – A staff member that is hired for a shorter period of time and/or is hired through another company and therefor might have dual loyalties. This employee has a riskier employment and this might affect the employee's work.

Third party employee – An employee that is hired by another company and is then hired via that firm as a consultant. This creates a situation of dual loyalties.

Outsourcing – When certain operations are performed by a provider not linked to the company.

Sustainable Leadership – Can be defined in multiple ways. In this report the focus will be on how managers can make sure that a company keeps doing good and treats its employees fairly when the number of temporary employees is increased and/or outsourcing is performed.

“Sustainable leadership matters, spreads and lasts. It is a shared responsibility that does not unduly deplete human or financial resources, and that cares for and avoids exerting damage on the surrounding educational and community environment.”
(Hargreaves & Fink, 2003)

Following this definition, the focus will be to identify ways leaders can avoid damaging their employees, the business climate and the company while implementing the aforementioned trends.

Main questions

How should a leader act to make sure that hiring temporary employees and/or outsourcing does not affect the organisation and current employees in a negative way? What are the main risks one should be aware of when implementing these changes?

Interviews

For this study multiple interviews were performed. All interviewees were young professionals from different parts of the world and their views on how temporary employees and outsourcing has been handled in their countries will serve as examples of dos and don'ts for leaders.

The interviewees presented their own personal view of how this trend affects companies in their home countries. It might not be the perfect representation of reality. However, there are still important lessons to learn from their reflections.

The interviews were conducted over a four-week period during the Global Village of Future Leaders of Business and Industry 2015. All the respondents were either interns or guides at the program. The interviews varied in length dependent on how familiar the interviewees were with how outsourcing and temporary employees affected firms in their home countries.

Only a few of the interviews are mentioned in the study. The rest of the respondents knew too little of the subject.

Increased outsourcing

In AT Kearneys report *A Wealth of Choices* from 2014 the firm established three important waves in the global business climate – offshoring, outsourcing and automation. Offshoring was the most present trend prior to 2000, where as outsourcing became the key trend in the mid-2000s.

Outsourcing is traditionally seen as a part of the offshoring movement. The focus is to hand over noncore operations to third party employees. Ideally, this results in a leaner and more efficient corporation that can focus solely on the parts of the value chain that increase their competitive advantage (AT Kearney, 2014). However, thousands of cases show that it is hard for companies to outsource the right operations. What should be deemed as noncore and how do you make sure that these third party employees¹ actually work towards the same goal?

Traditionally outsourcing has been focused on back-end operations and IT. Yet, as pointed out by AT Kearney, many companies have today chosen to bring IT operations back and make it a core operation for the company. Since IT operations increasingly represent firms interface with their customers the function has levelled up and become a core business. Alas, within this field the development is reversing itself. It becomes more and more common to take care of the digital issues in-house (AT Kearney, 2014).

The important take away here is that what is outsourced today might not be what is outsourced tomorrow. Meaning that the third party employees you work with will not be the same ones in a few years. Making it even harder for companies to build a relationship with them. Thus, making it important to constantly communicate the company values to all regular and third party employees. As they are exchanged the sustainable leader must make sure that the values stay intact.

Consequently, some business critical questions arise. How does one create a business culture that is not shifted by the increased amount of third party employees? Is it possible to build loyalty among employees that are first and foremost hired by someone else?

¹ The employees at the company the operations are outsourced to.

Within the Nordic countries the outsourcing movement is still considered quite young. So far the focus has been almost exclusively economic operations, states Deloitte in an insight report for 2015².

“Almost all the companies who outsource chose to outsource account payable and account receivable, while four out of five companies have outsourced record-to-report. Only a third outsource other F&A functions. Outsourcing of other processes is fairly new and has been on the rise since 2011.” (Deloitte, 2015)

Worth noticing is that there has been a huge increase in the outsourcing of business process operations (BPO) during the most recent years. From 2010 to 2014 the signed BPO contracts increased with 386 %. This growth is likely to continue in the years to come, is stated in Deloitte's report, and according to 78 % of the respondents the main driver for outsourcing is still to lower costs (2015).

It is clearly stated in the analysis that there is one common problem area when it comes to outsourcing in the Nordic countries – the relationship between the provider and the customer. Deloitte states that the main cause of this problem is that the experience level is drastically uneven. The providers are typically experienced and already have multiple outsourcing contracts. Where as the customers typically have no experience when it comes to outsourcing and no knowledge within the company on how outsourcing should work (Deloitte, 2015).

Even though the outsourcing companies interviewed in the report have encountered a lot of problems, 70 % of them state that they are currently looking into increasing their outsourcing (Deloitte, 2015). Therefore, one can assume that the market believes outsourcing to be a key to success in the future.

In other words, Nordic companies will keep on increasing their outsourcing at an even higher pace. Yet, many of these projects might become failures as there is a substantial knowledge gap between providers and customers. Therefore, this study will focus on what Swedish companies will have to learn if they want to successfully ride the outsourcing wave.

² Deloitte Consulting interviewed finance leaders of some of the largest companies in the Nordics in order to examine the landscape, approaches and trends concerning outsourcing.

Temporary employees

A European Trade Union Institute, ETUI, report from 2014 titled *Benchmarking Working Europe* shows that the development on the European labour market will upsurge the number of part-time and temporary employees in the region. As automation of industries get more common Europe will have to get used to less full-time jobs available. The change is not short-term, the likelihood of the part-time and temporary employments decreasing is truly low. As demand for labour drops, part-time jobs keep accumulate (ETUI, 2014).

In other words, companies will have to get used to having a greater amount of temporary employees. The full-time employment viewed as a standard today will become less common and if managers wish to keep the company values intact throughout this change, they need to understand the pros and cons with the new employment styles.

The growth of temporary employees in Sweden has also been substantial. In 2013 the number of temporary employees reached 697 000 people in the country according to an estimate by Arena Idé. According to the think tank this number was increased by 51 000 employees in just one year and the growth does not seem to slow down any time soon (2013).

In a follow up report from 2014 political journalist Eric Sundström charts how the trend is developing in Europe. The report shows that Sweden is one of the countries with the highest rate of growth of part-time jobs and temporary employments (2014). Thus, it is of great importance especially for Swedish managers to adapt to a less constant workforce.

International best and worst practices

In this section a number of examples from all over the world are presented. They all illustrate how temporary employments and outsourcing can either become a success or a disaster. None of these interviews can be used to draw any academic conclusions, yet they add very well needed insights into how temporary employment and outsourcing can affect employees. If management wishes to make sure that the company keeps on a sustainable course they must make sure that the employees are on-board with the changes.

1. A young professional from Spain

- High unemployment
- Outsourcing and temporary employees seen as a threat
 - Biases, lack of information/education

A young professional from Spain discussed how the local companies are struggling with making outsourcing work. The Spanish employees are desperate; almost 25 % of the adult population is without a job and the rest fears to lose their own. Therefore, when operations are outsourced and temporary employments become more common the employees see it as a threat to themselves. In general, the attitude towards outsourcing is negative and loyalty among the employees usually declines when the company starts to outsource parts of the business (Interview 1, 2015).

In Spain, the companies are under pressure. The economy is halting and firms are seeking out quick fixes to survive. The hasty adaptation of outsourcing might have made it harder for companies to succeed. It is clear that the typical employee does not understand that outsourcing and temporary employments are not equal to fewer jobs in the economy. The take away from this interview was clearly that the employees need to be educated on what outsourcing really is and how it will help the company. There are a lot of biases surrounding outsourcing that might make the employees scared of the concept. In other words, to be a sustainable leader and avoid employees getting hurt in the process one should focus on educating the workforce.

2. A business student from South Korea

- Loyalty is central
- Dual loyalties = Risk
 - Clear communication, moving slow

A business student from South Korea had a different story to tell. In a business culture where loyalty is central employees stay with the same firm for longer periods of time than what is average in the western culture. Driving through change can therefore be hard. Bringing in third party employees that have dual loyalties is seen as a risk. Yet, it is becoming more common. To handle the presumed risk managers are very direct and open about what is expected of both the regular employees and the third party ones. Since the change is occurring slowly it is usually successful. However, a quicker adaptation would give the companies a first mover advantage over their competitors (Interview 2, 2015).

In other words, the South Korean example shows that companies can benefit from taking in third party employees or outsourcing at a slow pace. The management team can also gain a lot of trust from their regular employees if they make sure to be almost too clear with how the development will affect the firm and the staff. Nevertheless, to be too slow might be dangerous considering that the company might fall behind other businesses on the market.

3. A young entrepreneur from Ghana

- Sharing resources and employees
- Familiar approach to employees
 - Personal connections used to limit risk added by dual loyalties

A third example was presented by a young entrepreneur from Ghana. As a developing country the business landscape of Ghana is very different from what one is used to see in the western world. In Ghana, local businesses share employees, resources and customers at a much higher rate than what is common in western economies. Getting help from third party employees is a natural part of operations and is often handled in a relaxed way. Since many of these temporary staff members are relatives, friends or friends of friends, loyalty is not considered an issue. Instead, the entrepreneur states, the key to success is welcoming these third party employees with open arms, which will motivate them to do their best (Interview 3, 2015).

So, by making the temporary employees feel as important to the company as the

regular ones motivation can be increased. In the interview cultural differences between Sweden and Ghana were brought up and the following conclusion was that in Sweden management is not as keen to connect to the employees on a personal level as they are in Ghana. In Ghana the personal connection and friendship is used as a motivator, something that makes bringing in new people easier. In Sweden, this personal connection is instead seen as unprofessional and instead Swedish managers try to make the employees connect with a set of core values of the company to create the same loyalty and motivation. It is hard to say what benefits the employees more. Maybe it is time for Swedish managers to become more personal?

4. Student from Egypt

- Personal story – no communication
- Drastic loss of initial employees
 - There is a negative reputation, work against it

The interview with an Egyptian student showcased a real worst-case scenario. The student told a story of a local firm that lost almost all their employees as they started bringing short-term staff into the business. “The real problem was that the employees felt betrayed. No one told them what was going on.” There were no open discussions about the changes, no way the regular staff could express their views about it and when issues related to the staffing changes were brought up the managers avoided answering. In the end, the initial employees painted their own horror picture of what the development would do to the company and decided to jump the ship (Interview 4, 2015).

Change is always hard for employees. Not discussing the negative perceptions of the change at hand will only make that perception grow. Employees must be empowered by being allowed to raise their concerns and get answers to their questions, even if they are solely based on fear. It is common in media to describe outsourcing and automation as movements that will “take away your job”. This negative picture has been underlined for years and managers must take this into account when bringing in third party employees. The initial reactions might be negative and staff might need time to change their minds.

5. Marketing student from Hong Kong

- Personal story – the startups do it right
- Open work place = Inclusive business
 - One team, even if employees comes and goes

Lastly, a positive story from Hong Kong. The interviewed student claimed that the regions start-ups had found a successful way to treat the growing amount of temporary employees. A lot of the start-ups in the city are young and grow quite quickly, which results in them being built around this trend rather than adopting to it. The student states that the younger companies design both their organizational charts and their offices to allow for third party employees to come and go. Employees do not get personal desks and chairs instead everybody rotates. When people come and go the rotation still continues as nothing happened, resulting in the consultants blending in and the initial employees feeling that the new guy is part of the team right away. The interviewed student add that this solution might not be used everywhere (Interview 5, 2015).

Even if the way the office is designed might not be the key for Swedish managers this example pinpoints something of great importance. The goal is to still work as one strong team as team members come and go. One way to visualize this for the employees is to make sure that the office forces them to look like a team. If the temporary employee is seated in the middle of the group, that clearly shows that the person is to be seen as a colleague and not a distant provider of a service. In the same way corporate culture could be built around the trend, allowing for temporary employees to blend in as quickly as possible.

Cultural aspect

In all the aforementioned cases the companies' cultural setting has played an important role. Employees in South Korea and Sweden expect different things from their employers and when planning for a larger structural change within the company the cultural setting must always be taken into account.

How do swedes regularly view their colleagues? Do they care that someone is an temporary rather than regular employee? If that is the case, this will be an important bias to handle. A Swedish leader will have to create a context in which the employees at the firm willingly let go of this cultural bias in order to make sure that the temporary employees can come and go with ease.

When studying the presented cases a Swedish executive must have the Swedish cultural setting in mind and decipher the dos and don'ts so that they would fit a Swedish organisation. In the same manner, one must also study the corporate culture before any changes are implemented and identify which biases and problems that have occurred in the past and will have to be tackled this time as well.

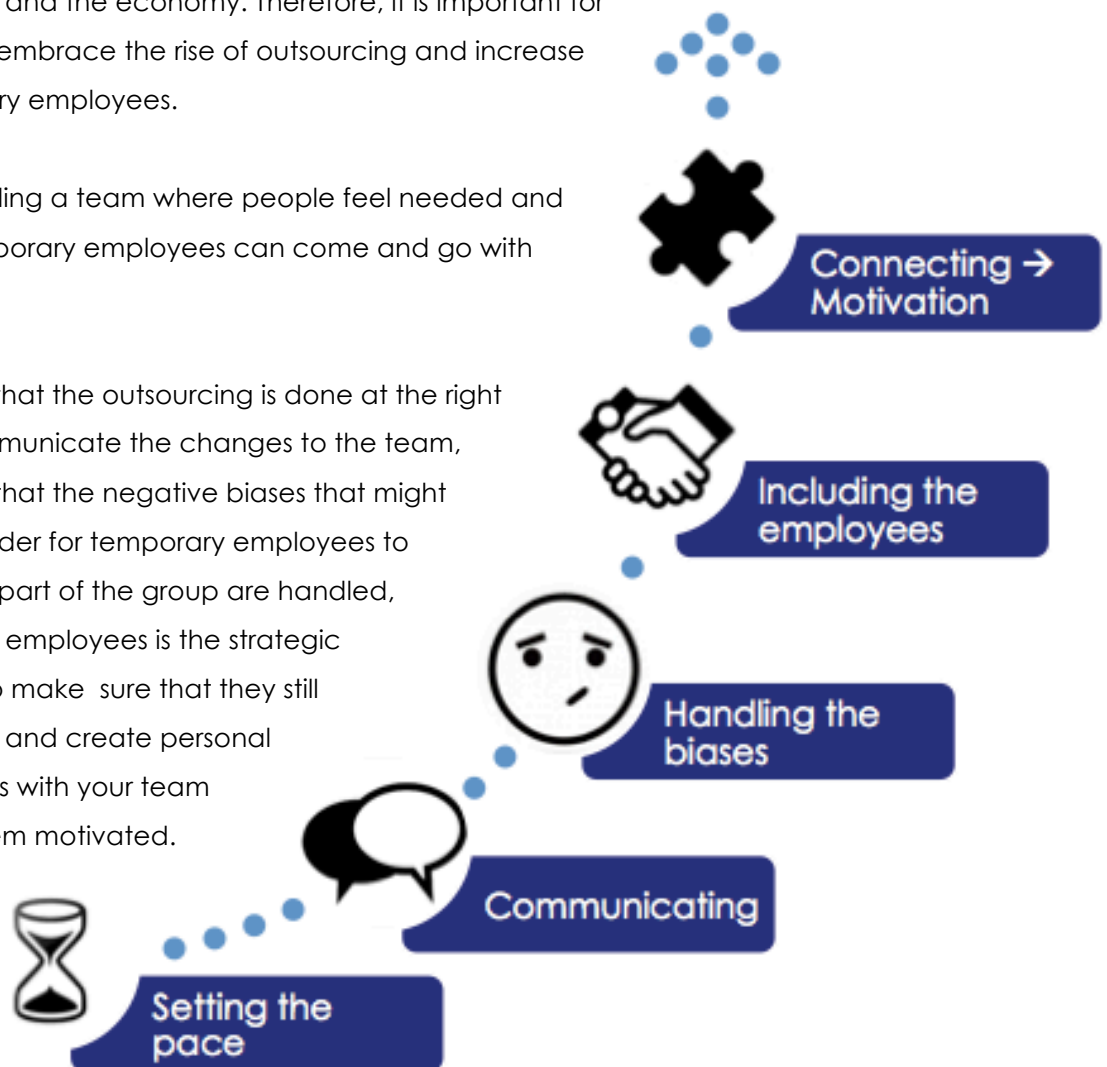
Conclusion

Almost all examples and suggestions point in the same direction; communication is key. Risk areas include employees getting scared of what the changes will bring, temporary employees having other loyalties and the rapid exchange of staff making it harder to keep values intact.

As a sustainable leader one should aim to avoid these risk areas to ensure that no employees are hurt and keep the company on the right track towards doing good. A stable firm that adapts to the changes in society in a positive way will benefit the community and the economy. Therefore, it is important for leaders to embrace the rise of outsourcing and increase of temporary employees.

GOAL: Building a team where people feel needed and where temporary employees can come and go with ease.

Make sure that the outsourcing is done at the right pace, communicate the changes to the team, make sure that the negative biases that might make it harder for temporary employees to become a part of the group are handled, include the employees in the strategic decisions to make sure that they still feel valued and create personal relationships with your team to keep them motivated.



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