

Appendices (Abridged*)

- * For brevity selected sample interviews and data are included for each organisation.
Other interview transcripts are available on request.

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Appendix A1 Interview Questions & supporting notes

A1.1 Semi structured interview questions for exploratory interviews

PhD Empirical focus and Methodology

University of Hertfordshire Business School

INITIAL RESEARCH FOCUS AND QUESTIONS

To what extent are German and UK multinational companies displaying different varieties of capitalism and how does that effect decisions and strategies related to the deployment of outsourcing and offshoring?

(Initial) Sub questions

1. What is distinctive about the governance of German and UK multinational firms?
2. How is the above reflected in idiosyncratic patterns of outsourcing and offshoring at both a national and sector level?
3. Which functions or processes are moved offshore, where to and why?
4. In what ways does the embeddedness of firms influence the motives, control and strategy of the parent multinational company?
5. To what extent are outsourcing and offshoring policies reversible, and what is the experience in Germany and the UK?

(Background on research for interviewee) Empirical Focus

Germany and the UK are the selected nations and the empirical focus will target two sectors, each will comprise of one German and one UK organisation. Subject to agreement they will be selected from four possible groupings. Possible pairings are Engineering, banking, Airline and Pharmaceutical.

By pairing organisations it is intended to draw direct comparisons between German and UK centric approaches, also by using two different sectors some overarching insights to the impact of government and economic policy on company performance. Limitations are likely to include access to confidential data and key personnel, also idiosyncratic patterns between companies within a sector whether German or UK based; hence the extent to which findings are representative and capable of further extrapolation?

A1.2 Introductory letter to interviewee:

September, 2011

Dear

I am currently undertaking a major research project and hope that your organisation would agree to take part. It is possible for the company name to be disguised or anonymous. If you are happy to discuss further then I can arrange to telephone yourself or a colleague and provide more information.

The project is to compare German and British multinational organisations and their approaches to outsourcing and offshoring of work activities. If I could have access initially to senior management then I would like to discuss the following four areas (the meeting would take one hour):

1. The history and timeframe of outsourcing and offshoring activity in your organisation.
What work was transferred? Where to? Why? When?
2. The decision making processes that were followed.
Who was it that had the idea? Was there a feasibility study? What was the process for getting agreement? How many times did it go to the board? Talk to the Works Council / TUs?
3. The experience? Tender / prior experience? Setting up the contract / external negotiations? Problems / sticking points? Cultural misunderstandings
4. How success was measured.
How does your organisation measure performance – Quality? Cost? Timing? Innovation?

If your organisation is then willing to participate further, I would like to agree with you who else, and which parts of the company to involve.

I have ethics approval from the University of Hertfordshire for this research which is eligible for a PhD. I also hope that the findings will be of value in our teaching and work in Executive Education at Ashridge Business School.

Yours sincerely

Anthony Mitchell

University of Hertfordshire, Business School Research Student

A1.3 Initial Telephone interview Semi-structured

Name

Role

Company

Date

Stages / Format:

A Establish Chronology - regarding organisation experience of outsourcing / offshoring

1. **What?**
What type of work has been outsourced or moved offshore to date?
How is this then organised – through preferred supplier relations, subsidiary divisions?
2. **Where?**
Was this activity confined to a particular division, or has the approach been adopted across the business?
Do you have preferred partners or locations e.g. for software development, professional services etc.?
3. **Why?**
What is the driver - Is this move driven by cost reduction, or the need for different expertise, competences / skills, innovation or part of a plan for regional expansion?
4. **When?**
What timescale would you put on these changes – how much experience of outsourcing is there in the organisation? At what stage of maturity are these changes?
5. **Evolution?**
Has the process of offshoring / outsourcing evolved further up the value chain e.g. from low skill to special skills? How do you see the activity developing?

B What process (decision making) – was associated with the plan?

1. **Who had the idea?**
Did the idea originate from within the organisation or from a consultancy review? Are close competitors following a similar path?
Do operating divisions have the autonomy to take such decisions?

2. **Was there a feasibility study?**
Could you describe the planning process and whether it included a pilot study?
How were the results assessed?

3. **What was the process for getting agreement?**
Was approval given by the board of directors or was the decision taken by local management? Were shareholders or other stakeholders involved e.g. institutions? Was a detailed business case required?

4. **How many times did it go to the board for discussion / agreement?**
Did the plan get referred and need further work?
What were the 'sticking points'?

5. **Did management talk to the Works Council / TUs?**
Were the consultations at varying levels and how long did the process take?
Were there specific obstacles that needed to be resolved?
Did jobs effectively get transferred from the home market to the host country – if so how many?
How did you / the organisation influence stakeholders / opinion formers?

6. **CSR / sustainability issues?**
Did customers or NGO's raise any specific concerns? Company reputation, responsibility – has that changed in any way?

7. **Networking / Collaboration?**
Do you work closely with colleagues in competing organisations, or is there collaboration with key suppliers? Do you engage with fellow ex-pats?

- C How was the experience? – with hindsight what has been learnt, would now do more of or less of?**
 1. **Tender / prior experience?**
Was work put out to tender – or did you prefer to work through established contacts – if so why?

 2. **Setting up the contract / external negotiations?**
Were other functions such as Legal, HR, Procurement and others involved? If so, in what way?
Were the negotiations protracted?

 3. **Problems / sticking points?**
What specific areas were seen as 'blockers' to progress? How were they overcome?

 4. **Cultural issues?**
Were problems identified in advance? How did any misunderstandings arise, and how were they resolved? Do you have any stories / examples of situations that arose?

D How successful was the venture?

How did the organisation assess or measure :

1. **The Quality of product or service?**
 Were there noticeable changes in customer satisfaction / feedback?
 Did you measure on-time delivery?
 Would you continue reversing the process if unsuccessful or circumstance changed (backshoring)?
 Was open book accounting considered as part of the contract?
 Were Service Level Agreement targets and incentives clearly in place?

2. **The comparative Cost?**
 Did you need to agree definition and common standards for some measures – please give examples?

3. **Timing of work transfer, training, pilot studies?**
 Did you stick to the agreed plan or were there delays, if so why?
 Were personnel from the host country brought to the parent company for training – what issues did this arouse?

4. **Process Innovation?**
 Who takes the lead on R&D / innovation – is this seen as your (or the host) responsibility or is the supplier encouraged to generate ideas?

E The Institutional context?

1. Are you aware of formal negotiations with central or local government to gain entry to the country / market?

2. Were you attracted to a particular location or zone by incentives / tax breaks?

3. What relationships did you have to manage?

4. Was there involvement with Universities or other institutions?

F Who would you suggest that I now speak to....?

Thank you very much for your time.

Should I have further questions may I speak / email / call you or a colleague again?

A1.4 Other Company interviews.

Further research and to triangulate initial findings.

Name Job Title
Organisation
Location

Date

It would be good to understand initially what experience and use there is within

.....

of offshoring / outsourcing strategies - how they are deployed and plan?

- 1. What are the differences in the geographical, functional and temporal patterns of outsourcing and offshoring?**
- 2. How far do mechanisms such as ownership, control, coordination and the degree of autonomy differ?**
- 3. Is this reflected in divergent managerial divisions of labour regarding the employment of indigenous or ex-pat managers?**
- 4. To what extent do preferences for cultural proximity affect location?**
- 5. What is the influence of trade unions in the process of outsourcing and offshoring and how is this reflected in the structuring of the firms' labour markets?**
- 6. Evidence of reversal in policy – 'back-shoring' / reversed offshoring / outsourcing and why?**

A1.5 Follow-up / Further interviews

Research Questions

AIM

To explore how businesses decide whether to expand and locate offshore for market growth and development reasons or to take advantage of lower costs than are available in their current configuration.

What experience do you / the organisation have of either outsourcing / offshoring?

Or setting up overseas subsidiaries?

This gives rise to a number of sub – questions:

- 1. What was the decision –making process?**
- 2. How are the feasibility / cost-benefit studies prepared?**
- 3. Did pilot studies take place and how were they tested?**
- 4. What consultations / discussions took place with trade unions / works council, at what stage – and what was the outcome?**
- 5. If work has moved then has the nature of the work changed i.e. becomes more complex / greater added value – and how has that influenced the cost-benefit case?**
- 6. How has the delivery time to market or have the supply chains and distribution channels changed – are there local suppliers, additional storage facilities?**
- 7. Has the strategy changed or been revised – and why?**
- 8. What lessons have been learnt?**

A1.6 Further / follow-up Questions August 2012

Points of clarification:

Lufthansa – Business Services

1. What is the difference between a shared service centre, call centre, business process outsourcing?
2. More detail on outsourcing of some revenue accounting services to India – why, what is the distinction – what are the business results and how do they compare?
3. Who is the third party?
4. Similarly call centres – South Africa and Dublin?
5. What were the problems with skill levels etc for the initial shared services in Germany – how did the approach differ in Krakow?
6. What are the issues that might concern the Works Council?

Lufthansa – MRO

1. What specific type(s) of work was moved to China, Budapest etc..?

BA – Business Services

1. When did BA sell NWS?
2. What is done in Mumbai / Pune – exactly which services are provided and how do the costs compare?
3. Evidence of spiralling pension costs and need to reduce headcount.

BA – MRO

1. Difference in BA of interpretation between efficiency and cost.

CompanyABC

1. Outsourcing of travel agents – more detail / other examples?
2. Not sure what is done about accounting / invoicing / IT etc. as opposed to embedded software business?
3. The extent to which government central or regional policy influences MNC strategy?
4. The balance of power between actors, knowledge of regional assets, policy interventions, institutional arrangements, cultural awareness and value creation?
5. Further clarity around intra-group collaboration and communication, especially with HQ and OEMs.
6. More specific information on employee numbers and skill difference over the period.

CompanyXYZ

1. The extent to which government central or regional policy influences MNC strategy?
2. The balance of power between actors, knowledge of regional assets, policy interventions, institutional arrangements, cultural awareness and value creation?
3. Examples of inter division communication and collaboration, also the relationship with the parent HQ group.
4. More information on headcount and productivity over the period.

A1.7 Draft interview questions BA Trade Unions.

1. At what stage were the trade unions first consulted about BA plans to outsource activities to a third party, or to move work overseas?
2. Did BA regard outsourcing as part of a 'package' of restructuring / other changes?
3. What were the various reasons given by management for wishing to make these changes?
4. Did you receive research or intelligence information on what competitor airlines were doing? In particular, did you have any comparisons of say BA in the UK with Lufthansa in Germany?
5. What was the forum or mechanism for negotiations, were any concessions made in terms of number or type of jobs, timescales, alternative employment etc.?
6. How long did negotiations take, and what were the contentious areas?
7. Was there support from other unions?
8. What form of agreement or settlement was finally reached?
9. Was the outcome ratified / agreed with the members?
10. What developments have more recently arisen:
 - a. Is the rate of job losses overseas increasing?
 - b. Is work coming back to the UK, and for what reason?
 - c. Has the type of work outsourced and /or moving offshore changed – e.g. is it more complex, of higher value, requiring different skills?

Appendix A2 Case Study One narratives.

A2.1 Lufthansa

A2.1.1 Lufthansa (1) Germany

Name xxxxxxxxxxxxxxxxx

Role VP International Business Services

Company Lufthansa

Date 21 October, 2011

Can you start off by telling me a bit about shared services? If this is a new part of the Lufthansa organisation or not.

No, it's not new, it's about now 10 years old. The idea started off in 2001 or 2002 as a direct reaction to 911. We had at that time a cost reduction programme in place, this cost reduction programme took up of course a lot of time and all departments are forced to do something about their cost, obviously, and one idea was to create shared service centres. Now to be honest the idea of shared services is an old one but the idea of having a shared service centre was at that time fairly new. To say that we can do accounting at a remote location and to have people who did it up to now to give up that task and to give it to someone at an offshore location was a challenge.

So it wasn't to help coordinate different parts of Lufthansa, for example Lufthansa Technique, Lufthansa Catering?

You have to understand that Lufthansa as a group is a very decentralised group and just now after the last CEO change, Mr Christoph Franz succeeded Wolfgang Mayrhuber and this is going to change a little bit in order to strengthen corporate governance and to create transparency for the board for the whole group, or about the whole group, that's a fairly new development and all shared service activities in the past have been purely and solely to create synergies.

A Establish Chronology - regarding organisation experience of outsourcing / offshoring

1. What? What type of work has been outsourced or moved offshore to date? How is this then organised – through preferred supplier relations, subsidiary divisions? Do you make a distinction in Lufthansa between work that is outsourced and work that is offshore, or a combination? Do you have your own terminology for this?

No, in Germany that is a bit difficult. So long as we are 100% owner of a company then of course technically it is still an outsourcing but it is being taken care of as part of the group so therefore for us it is internal outsourcing in the classical way. Outsourcing or the sourcing mix we talk about this normally if we have partners taking more than the majority.

Could you give me some examples then of work that has been outsourced or moved offshore for example you mentioned earlier accounting services and so on.

So the accounting services they have exactly been moved offshore but I have to make it clear that they were moved from abroad to abroad, I mean we do have, due to the fact that we are a Germany company, a very high complexity when it comes to laying off staff in a German environment. We usually do it a little different outside of Germany. You have to understand that Lufthansa as an airline is still one legal entity worldwide which means that Lufthansa UK is not a subsidiary in a classical way with its own permanent establishment and its own legal entity but Lufthansa in the UK is kind of Lufthansa AG. So you are registered somewhere but basically we are still the same legal entity. And in that respect, what we do when it comes to ... at that time we moved the local accounting from Lufthansa AG, or from the legal entity of the mother company, to 100% ... company in Poland, Mexico and Krakow which means we just kind of used some low cost advantages and this was done there. Other examples where we already did some real outsourcing to other ... is part of the revenue accounting which is in India

That used to be in Hamburg didn't it, revenue services?

It is still in Hamburg but they use a joint venture we do have with RDM (I think it's the company called that) to run some ... basic work there. We do have other things like the claim management, customer claims, they are being handled by in Liverpool actually and the is outsourced to Also our call centres still 100% subsidiary organisation which is called ... which has several locations like ... Capetown, Dublin, whatever but this is being run and managed by an external 100% subsidiary and of course the local sales force they are trying to transfer more and more tasks of their back office to those locations.

So these tend to be business services, rather than core bits of engineering or what have you so they are non-core activities?

They are non-core activities but I would say customer claims has a certain aspect of a core business for a service organisation like an airline I would say customer relationship is pretty much in the core of it.

Yes, that's true.

Also you know Lufthansa Systems as a general provider outsources a certain kind of programming to partners but as long as Lufthansa Systems is sticking on top of it then it is doing the final quality I think it is just the classical makeup issue where you are asking others to do it for you.

2. Where? Was this activity confined to a particular division, or has the approach been adopted across the business?

Do you have preferred partners or locations e.g. for software development, professional services etc.?

For Lufthansa services for example, is it certain kinds of software development or systems work that you outsource for example to India or a particular type of programming or particular part of the systems work?

We are doing this, yes, but the system owner, the process owner and the intellectual property is still belonging to the company.

And a lot of that work is still in Germany is it, in Frankfurt?

Interestingly enough the actual programming is pretty much not at all any more in Germany so Lufthansa Systems did what a lot of other companies did a long time ago.

And in India is it just a subsidiary business or is it a separate organisation that you have contracts with? How does it work in India?

To be honest I don't exactly know how they do it in IT I just know how they do it in the revenue accounting and I do know that it is also not only near(?) but especially in systems they do have own again 100% subsidiaries in Poland and Hungary where they do actually the programming for Frankfurt . You have to understand that Lufthansa and India are not on the best terms when it comes to legal entities and technical issues. Any joint venture and anything we did in the past in India went into kind of disaster mode, so we try to avoid India when it comes to founding legal entities and to found low cost locations.

It is interesting, Wolfgang, because we find increasingly there is evidence of what is now called near-shoring so, for example, you mentioned Poland and Hungary which would be near to Germany and the cultures are more similar and sometimes the languages used are easier and there is a lot of that happening now so American companies are near-shoring to Mexico or Central America rather than India and China.

We did the same, to be honest, Anthony. When we founded our shared service centres, the central part of the shared service, we founded them in the near shores so we do have one in Bangkok which is for Asia Pacific, we do have one in Mexico which is for the Americas and we do have the one in Poland which is for Europe and Africa. So we found out as well that, having the comparison between the three centres, that indeed it is way easier to discuss issues with the guys in Poland than with the guys in Bangkok. They are faster on the pick-up and they are obviously just more ... than the others.

That's clear, thank you.

6. Why? What is the driver - Is this move driven by cost reduction, or the need for different expertise, competences / skills, innovation or part of a plan for regional expansion?

It is mainly cost and then, of course, to have a platform and to use that platform for other issues. If you found a centre like the one in Krakow you have to have a business case which is in itself valid to have the one-off cost and the infrastructure, the organisation, the management and so on, and later on all the other relocations are then indeed relatively easy.

7. When? What timescale would you put on these changes – how much experience of outsourcing is there in the organisation?

At what stage of maturity are these changes?

You mentioned shared services started 10 years ago, have a lot of these things been phased in increasingly over the last 5-10 years with pilot studies, that sort of thing?

Yes and no. When we did the three centres they were a success and they are still a success up to today and they still have a kind of pull effect from the centre so it is not like huge pre-studies or huge business cases but smaller bits and pieces are being kind of ... into those centres. The HR guys in Germany they did a shared service approach also but due to the fact that it was Germany it was only in Germany and to have a business case within Germany with a shared service centre you need to pay the staff that you hire for this shared service centre with a fairly low contract which means in the end you get not quite the quality you want to have in the beginning. Which means the term "shared service" for the Lufthansa Group had a very bad reputation. This bad reputation is still there and only after the change from Mr Wolfgang Mayrhofer to Mr Christoph Franz was their the idea to do administration in a different way and different structures is setting foot right now. So I would say in the last year now, in this year 2011, there has been a tremendous change in the attitude at least from the Board towards shared services and towards partnering of functions. Before that it was clearly prohibited to speak about it at all.

Really? Well, good luck with that Wolfgang.

Why?

Well, I think if it's a kind of turnaround of attitudes and then to build on a more positive base and to continue to bundle services and so on, if that's the right way forward.

Yes, but it is very, very difficult because obviously we have a group of 261 fully consolidated companies and that's not small, you know, it's a very diversified group of companies with different business models from maintenance and overhaul to logistics with huge differences and in the past all these companies have been staffed management wise with a full board and to come now even if the top board the CEOs and CFOs are saying "yes we have to do so" this does not necessarily automatically lead to open arms when it comes to that.

Is there a trend now to move more complex work, so did you start with the simple stuff and now it is becoming more

Indeed, I am running right now a preliminary study regarding a business service approach where we would say it is a global footprint, they are global service lines, including integrated services, including the process ownership for the processes that are being delivered and the So indeed we are trying now to build larger shared service units where due to the fact that they are larger that you have a certain kind of career for staff, perspective for staff you also could also drag in processes that only higher qualified staff can manage. In the end it is a kind of self-fulfilling prophecy, you know you give perspective and then you automatically agree a certain kind of pull and I think then we are in the right way.

So would this build on the earlier platforms that you mentioned?

Not necessarily. With the preliminary study of course we are describing the status quo, which is obviously describing the actual platforms, but there will be a future picture and the future picture will of course only be reachable if we come from the status quo we are right now. So therefore yes, we are building them in but basically at least told me you have to think completely open and you also could also think about outsourcing everything completely to, let's say, I don't know, Proctor and Gamble but I think this is fairly unrealistic to go that way.

8. Evolution?

Has the process of offshoring / outsourcing evolved further up the value chain e.g. from low skill to special skills? How do you see the activity developing?

B What process (decision making) – was associated with the plan?

1. Who had the idea? Did the idea originate from within the organisation or from a consultancy review? Are close competitors following a similar path?

Do operating divisions have the autonomy to take such decisions?

Was it consultants or internal senior management?

That's a difficult question because it is always both. You have to have somebody who is driving it internally and the someone who is driving it internally is asking an external consultant to ramp himself or herself up with a certain kind of argumentation and I think this was pretty much the case with us so we had the idea and then we geared up with external consultants in order to shape the idea into an agreed approach which was sellable to the Board. So the idea internally then gearing it up and then selling it to the Board to have a decision to do it. And then basically in the doing then we did have, of course, external consultants in order to avoid any

Can you remember were they big companies?

... the McKinseys of this world and we had at that time when we built the first ... it was Deloitte and right now we have Accenture.

2. Was there a feasibility study? Could you describe the planning process and whether it included a pilot study?

How were the results assessed?

Yes feasibility studies but not pilot studies so much. I think pretty much from benchmark of what other companies did and from our own status quo description we could detect let's say describe the future situation and also pretty much about the savings and the cost in order to get there so therefore no pilots, because I think pilots is a difficult thing you know. If you build up an offshore location you can't do it with a pilot and then after one country you find out that is difficult and then what do you do. No, that doesn't work. It has to work.

In terms of the decision making process, was it quick? I understand that Lufthansa is quite decentralised in many respects so did it take time to get decisions within one part of the business and then from the main Board?

The question is, what do you understand by the word "quick"? Quick is a relative term you know. In the end the decision has to be done by the Board and then the decision is, then this topic is on the agenda for half a day and then that's it. But the ramp up to get into a Board meeting is of course a bit longer and right now we reckon to bring it up into a consolidated business case within half a year for the whole group.

3. What was the process for getting agreement?

Was approval given by the board of directors or was the decision taken by local management? Were shareholders or other stakeholders involved e.g. institutions? Was a detailed business case required?

4. How many times did it go to the board for discussion / agreement?

Did the plan get referred and need further work?

What were the 'sticking points' with Works Councils?

We avoided discussion. We had one preliminary study I think 6 years ago where we said could we combine the accounting of Lufthansa Technik and and we said to the Board yes we could and we would save 11 million Euros per year but only if you do it in Poland and the HR business Director here said "I don't go into war with the Unions for merely 10 million per year, so forget about it. And then the idea was dead. So we will do it differently, we will certainly try to find a way give immediate quick wins by doing it internationally and then finding a road map in order to resolve the German issue either by going with ... or by going over different legal constraints(?).

This is a key part of one of the areas my research is focussing on is what is different about German companies and British companies and this is at the heart of it, isn't it?

Absolutely. It goes with the culture. I think it is probably because we Germans don't have, how shall we say, intercontinental history than the UK. I lived in London for 5 years so I do know that the internationality of London especially is quite unique and I think the British public doesn't have the problem with having certain kinds of services being done in India. For the German public that is a different story. It is not only a question about how the unions are gearing up or the Works Council, it is also a question of reputation and you don't really get a reputation abroad if you are outsourcing to India.

Yes, it is our colonial history as well

I don't know what it is but.....

5. Did management talk to the Works Council / TUs? Were the consultations at varying levels and how long did the process take?

Were their specific obstacles that needed to be resolved?

Did jobs effectively get transferred from the home market to the host country – if so how many?

How did you / the organisation influence stakeholders / opinion formers?

I wouldn't say so. Of course everybody knows and we do have proof within the group that of course the guys in Poland can do it. It is more do we want to have it there? And of course there are different opinions but of course everybody is politically correct in order to avoid any kind of statements that might be, that could

I understand.

6. CSR / sustainability issues? Did customers or NGO's raise any specific concerns?

Company reputation, responsibility – has that changed in any way? Partly because of quality and reputation?

No, but of course in the beginning yes. But I think, you know, in the end this war is ongoing. I don't know how other companies are doing it but I think as soon as you outsource a certain service to a legal entity that is not the legal entity anymore that it has been. Automatically the ordering company is very much into quality control issues. If you have your legal entity and you have two departments one department is doing A and the other department is doing B and there is no kind of service agreement, then KPI and what you have it is just a simple question of task split. And as soon as what is being done in department B is being removed to another company all of a sudden the department A is feeling entitled to check exactly what is the new company is doing. And then you have all these kind of SLAs and KPIs and whatever and then the claims about quality and blah blah but basically it is nothing else than organisational development I think, it is pretty inherent to any kind of organisational development that things like that happen and we are just right now trying to dam it in and to bring it back to a normal way of working together.

7. Networking / Collaboration? If you look at the work that is being done at the moment in India, or Poland, or Mexico do they work closely with other customers or with partners of any kind, suppliers that sort of thing? Do you engage with fellow ex-pats?

Normally not, so we are doing just 100% and we are not extending an external market and we do not normally have any partners.

So they don't sell services to other businesses?

We do have a very, very small section in Krakow that are selling services to Finnair but a very small section and it is basically not a business model.

Is Finnair part of your alliance?

No.

C How was the experience? – with hindsight what has been learnt, would now do more of or less of?

5. **Tender / prior experience? Very often companies would put work out to tender, so they would invite potential suppliers to bid for contracts. Did you have any of that?**

Very small. There are some tenders but there are two internal providers, we do have the LRS, the guys in Hamburg that are still of course a legal entity who can also you know make offers so therefore there are, but actually for those kind of services we don't tender. If we tender then only really to outsource it to someone else, which is basically not the way we run it.

6. **Setting up the contract / external negotiations? Were other functions such as Legal, HR, Procurement and others involved? If so, in what way? Were the negotiations protracted? Potential corruption?**

No. But we have a very small issue in Bangkok when it comes to are we allowed to have a business licence for doing accounting for countries that are not Thailand or do we have a licence at all for accounting in Thailand, but we resolved it.

7. **Problems / sticking points?**

What specific areas were seen as 'blockers' to progress? How were they overcome?

8. Cultural issues?

Were problems identified in advance? How did any misunderstandings arise, and how were they resolved? Do you have any stories / examples of situations that arose? We talked a little bit earlier about trying to work with people in India as opposed to Poland or elsewhere, are there any specific stories or issues?

Well, of course there are a lot of stories. My wife did her Master's thesis, she is a psychologist, about that, about the different way of how the people in Poland and Mexico are dealing with stress situations and ruminations and kind of psychological sicknesses and indeed there are differences. So, for example, we do understand that the Polish guys are way more proactive, they are really more into a driven way of not just doing what they are being told to do but more of taking the initiative and using their brains. So, yes there are differences.

Mexico is more Latin is it, so more “mañana,”?

No, not at all, they are also focussed but what we do see, and this is indeed interesting, we do see that Mexicans do have a different way of training, or the other way round, and when it comes to testing, when it comes to numerical logic thinking there are differences between the Americas and Europe. So when we do psychological testing, you know testing batteries, the guys in the Americas are always way below the average guys in Europe. It seems indeed that the school systems in those countries are completely different to the ones in Europe and since we are a German company we do much have the European way of thinking when it comes to logical thinking. That is really interesting and it is also giving us a bit of a headache if we want to transfer somebody who did a terrific job in Mexico to Germany then he runs through this diagnostics and he fails, it is not so easy.

So they don't tend to use and those kind of things which I know are very popular?

No.

D How successful was the venture?

How did the organisation assess or measure :

1. The Quality of product or service?

Were there noticeable changes in customer satisfaction / feedback?

Did you measure on-time delivery?

Would you continue reversing the process if unsuccessful or circumstance changed (backshoring)?

Was open book accounting considered as part of the contract?

Were Service Level Agreement targets and incentives clearly in place?

Yes, we do have SLAs. We do measure KPIs and we are normally in 98% of quality. We have to be very careful, you can measure everything and you can measure nothing. To make it manageable we don't really measure that much into detail.

Are there open book contracts? So you look at all the costs and margins and so on? And transparent?

a. Yes.

2. The comparative Cost?

Did you need to agree definition and common standards for some measures – please give examples?

Yes.

3. Timing of work transfer, training, pilot studies?

Did you stick to the agreed plan or were there delays, if so why?

Were personnel from the host country brought to the parent company for training – what issues did this arouse?

No, everything went up to now always to plan. I think we do now have the experience of how to set up a plan so I think that is the basic issue. The only delay in performance was one of the critical success factor failed, put it that way, if you have to really build down the retained organisation immediately and if you keep people for too long in parallel functions you are delaying the success of a transfer because then the guys that are giving up their job they are really very much into each and every voucher and booking line (???) and this is one of the most critical success factors of any kind of relocation. You have to make sure that the guys that are giving up that they are gone.

Yes, I have done some work here in the UK and in the States with a big hotel group and they were moving their accounting services from the UK and the States to India and then to the Philippines and they had a big problem with that where there were still people doing the old original jobs and they hadn't really been told about their futures and so on and that can cause massive problems.

4. Process Innovation?

Who takes the lead on R&D / innovation – is this seen as your (or the host) responsibility or is the supplier encouraged to generate ideas? You mentioned earlier Lufthansa Systems who retained the intellectual property, is more and more the innovation being done overseas?

No, by far not. I think the centres are still even if they are taking up a higher kind of higher qualification or higher level of competitive in their tasks they are still pretty much in a taking order mode. The question then we are in the middle of an initiative to empower staff also in the centres to bring up their ideas but I think we have a long way to go to really have an innovation centre over there.

So that still comes from Germany?

Yes.

E **The Institutional context?**

1. **Are you aware of formal negotiations with central or local government to gain entry to the country / market? Were there any formal negotiations do you know between Lufthansa and local or regional governments overseas for this ?**

The only negotiations I can remember when we built up these centres was in Bangkok where we had the discussion about the business licence with some kind of ministry whatsoever they have been called, but the rest was pretty much straightforward. We are looking for countries where we don't have to do some nasty things that we don't want to do so therefore we are only investing in countries where we are allowed to do so. That is one of the reasons why we are a little bit shy of India because in India the tax issues are always like a sword over your head so you can never really be safe. For example, you know, to give you an example the guys in Kabul we are doing import business since I think 10 years or 20 years and all of a sudden the guys are now coming up with the idea that ... is not tax free, which all the airlines did for decade and decades tax free. And all of a sudden the guys are saying that you have to repay tax for the last 20 years so, you know, completely out of the blue. And that is a little bit the Indian way with that kind of things and for us that is just not a stable business environment.

Yes, I had an interview yesterday with someone from CompanyABC who has just come back from running their Indian operations and they have a business unit which they set up to do a lot of their business services and particularly the accounting services in India but they had exactly those sorts of issues so there were lots of tax charges if you move work in between regions of India, if you are exporting you avoid that. So if the work is coming straight back to Germany I think that is OK. But if it is moving from one part of India to another then I think there are implications.

*Yes, the labour laws are not easy and
So, all in all, we are not that happy and of course we have to be a bit careful about what we are doing because in many countries the travel rights are the privilege is to fly there, you know, the traffic rights and investments and we want to avoid intermingling things that don't belong to each other. I think in Poland we do have the feeling that it is pretty safe and easier.*

2. Were you attracted to a particular location or zone by incentives / tax breaks?

3. What relationships did you have to manage? In Poland for example?

No, it is straightforward.

4. Was there involvement with Universities or other institutions for technology transfer?

No, we are just doing normal university marketing but nothing more. When we made the location studies for the Americas we also went to Costa Rica and it would have been quite interesting. We had a meeting with the Ministry of Education there and said we could adjust the curricula of the universities. It would have been interesting just for 100 staff members. But in the end it didn't play out and I think we are quite happy

in taking what the infrastructure is providing and that's it. I think we are just too small to have an impact here.

F **Who would you suggest that I now speak to....?**

I am hoping to have a conversation later with xxxxxxxxxxxx. Do you know xxxxxxxxxxxx, he is in Hamburg, part of Lufthansa Technic?

Yes, that is a completely different story because there we are not talking about administrative function, there we are taking about the Lufthansa Technic group where they try to make use of lower labour costs in the Philippines or anywhere to do some overhaul or things, but that is a completely different business and I can't say anything about.

Any other suggestions?

In what kind of things are you interested in? If you are talking about the outsourcing of all kind of industries then perhaps Lufthansa Systems but that might be a very sore point because we are right in the middle of negotiations with a partner from India in order to invest in Lufthansa Systems so I think right now if you talk about outsourcing they don't want to listen to you probably.

Okay, let me get these notes typed up and then we will try and get them agreed and think it through. Given the importance you have stressed on Poland, what might be useful for me is if I could talk to somebody who has got responsibility for one of those centres in Krakow.

Well, there is only one guy and that is my colleague Marc Ammelung who is running the business over there.

Would it be useful for me to have maybe a different set of questions so I could talk to him?

Absolutely, because he is also in a network of shared service centre managers in Eastern Europe so therefore I think they would also have other industries there. I can give you his home number if you want me to.

Yes please, or if you could email me his name and details that would be good. Is there anything else that you feel we haven't covered or that might be relevant?

One of the things that attracted me to this research originally was the idea that the economies have changed dramatically in recent years and that companies now are under pressure from their home governments to increase employment levels and that there was the first suggestion of work being

brought back so, what we call back-shoring or reverse offshoring, so work coming back from Poland or Mexico or India or China to create jobs back in Germany or in Britain or in America or wherever. Is there any suggestion of that in Lufthansa at all, work coming back into Germany?

No. I know that in many locations it comes back. I know that in the UK many call centres took their services back to somewhere like Manchester

Mainly because of customer complaints over language .

I know this trend was there but it is not there yet here in Germany, not at all.

Thank you very much for your time.

Should I have further questions may I speak / email / call you or a colleague again?

Follow up Interview contact:

XXXXXXXXXXXXXX

Krakow Poland

A2.1.2 Lufthansa (2) Germany

Name **xxxxxxxxxxxxxx**
Role **Director of Engine Lease**
Company **Lufthansa Technik**
Date **28 October 2011**

AVAILABLE ON REQUEST

A2.1.3 Lufthansa (3) Poland

Name **xxxxxxxxxxxxxxxxxx**
Role **MD of LH Airline Accounting Centre Sp.zo.o. Krakow, Poland**
Company **Lufthansa**
Date **17/1/12**

AVAILABLE ON REQUEST

A2.2 British Airways UK**A2.2.1 British Airways (1)****Name** xxxxxxxxxxxx **Heathrow, Waterside****Role** **Manager Procurement Development, responsible for strategy in procurement****Company** **British Airways****Date** **4/11/11**

AVAILABLE ON REQUEST

A2.2.2 British Airways (2)

Follow-up interview xxxxxxxxxxxxxxxx 27th November, 2012

AVAILABLE ON REQUEST

A2.2.3. British Airways (3)

xxxxxxxxxxxxxxxx, Operations Manager, Gatwick

June 2014 Heathrow. Waterside

Mark, could we start off by talking about what experience you have had in British Airways of offshoring contracts and outsourcing arrangements and so on, just in very general terms?

In very general terms for the most part up until a couple of years ago I didn't have any particular experience of it, obviously I was aware of some of the changes that had taken place within British Airways previously but about 2 years ago at Gatwick we came to a decision, following consultation with our trade unions, to outsource our ramp operation at Gatwick to a number of different suppliers and as a part of that I took part in that consultation, I worked on some of the details behind the scene in terms of what we might do and then saw that through with other colleagues to implementation.

So you were involved at the outset and saw the project through to completion?

Pretty much at the outset yes, it wasn't led by me, I was one of the team, it was led by the Head of Ground Operation but it basically came about from a reorganisation that effectively let me take a step back. Several years ago it was recognised that there was a need for Gatwick to re-equip its fleet of aircraft come 2014 because the life of the aircraft, the cost of flying them and the cost of maintenance that was starting to build up. With the move to IAG, corporate parent of British Airways, decisions about re-equipping the fleet at Gatwick are no longer British Airways decisions, because IAG are responsible for sourcing aircraft and it was recognised that Gatwick as a business, if you like if you look at it separately from British Airways, had always struggled to make a profit and certainly short haul has always been a heavily loss-making part of the business. Now there were various other reasons why British Airways decided to keep short haul operation, or any operation, which were primarily strategic but it was recognised that if IAG was going to invest money effectively then they were probably only likely to do so if they could see that they were going to be able to make a return on that money and that Gatwick would no longer be a loss-making concern. Therefore there was a need to fundamentally address both the issue of revenue and the issue of costs at Gatwick. British Airways has always struggled against the newcomer airlines in terms of its staff costs, because we are what is colloquially known as a legacy carrier and therefore we carry a lot of contracts and terms and conditions that are a product of history and which put up against the new competition just do not stack up. And that therefore drives an inability for us to be able to match the competition on price when it comes to selling tickets. So it was recognised that fundamentally there were several different strands of work to address this issue but one of those was for us to become more market competitive on cost and therefore we entered into a discussion with our trade unions around what that might look like and how they could effectively save their roles at Gatwick and what they needed to do, because the prospect dangling in front of all of us was if IAG cannot see British Airways making a profit at Gatwick then it has several other options where it could still maintain a presence for IAG but not necessarily in British Airways colours or British Airways staff.

So outsourcing the ramp operations, was that just one outsourcing or restructuring project out of a whole number or was this one of the main ...

Every area basically had to look at its costs and look at whether it could stack up against the market, so that meant ground operations, it meant flight operations and it meant cabin crew. So we restructured out cabin crew operations about a year or so before that where we introduced a new contract type at Gatwick for new

crew coming into the business and therefore if you looked at that against market rate you could actually say that cabin crew was reasonably ... it was not a cost issue. Flight crew was a slightly different proposition because flight crew is an organisation which stretches across BA and is driven very much by what you might call a "seniority principle" which determines a lot of low cost of business, however again previously they had moved to a process whereby newer younger pilots came in at Gatwick, did their time and then moved on to Heathrow or other fleets, so Gatwick in terms of cost was pretty much at the bottom of the British Airways' costing. Pilots also seemed to be reasonably market competitive so the big issue was within ground operations, which covered both the customer service side of the business, the support side of the business and the ramp operation.

So this was around 2011 / 2012 was it?

Round about the end of 2011 we started having these conversations and the way the conversations started was very much along the lines of based on work we had done around benchmarking, based on whatever available information we could get, we had a rough estimate of what we believed the gap was between what we could buy these services for elsewhere and what it was costing us to manage them internally. And that was the conversation that we started off with the trade unions. We said "look, overall this is the figure" and we translated that into effectively a manpower cost, and we said these are the things that actually we are open to any ideas that you could give us about how we might reduce that cost and close that gap.

So you had some benchmarks, you had costs, for BA operations elsewhere or other airlines?

This was for other airline operations at Gatwick, so that was primarily the market, but to a certain extent we had to estimate some of those because you can't just go out and ask your competition what the situation is but initially we did it by looking at the available information we could get that was in the public domain around what people like Easyjet or Ryanair or other carriers at Gatwick were paying for their ground operations.

And you could tell what equipment they were using compared to yours? What the manning levels were, that sort of thing and the number of flights per day?

Yes, we could certainly estimate that and go out and observe it and we could get some ideas about how that works, what we couldn't figure out was obviously because it is a ground handling agent rather than us so we have numbers of people to manage our operation, obviously when you are part of a ground handling agent they have a wider community of people that service a number of different airlines so what we couldn't see from that is what sort of benefits of scale they were getting.

So at the end of the project what was the outcome, were there several contractors or was there just one in the end or what?

Well we went through a number of different things, so the interesting bit about how we got to where we did in the end, because bear in mind we started of talking to our trade unions about how they could close the gap and we had a lot of the trade unions at Gatwick, certainly in British Airways, are in a slightly different place to the rest of the trade union representation of British Airways. So they have been used to having these type of conversations over many years, they have been used to Gatwick being effectively under threat because it loses money, they are aware that they sit separately from Heathrow, they know that they are always under scrutiny and they have been used to talking to us about how they can meet that challenge.

It wasn't adversarial then?

It didn't start of being particularly adversarial no, in fact it wasn't adversarial all the way along, we have a good trade union relationship at Gatwick, it is very different to the relationship elsewhere in the company. But they have been used to having this conversation, but not on this scale. I think the scale of the gap was a shock to them and we started off by trying to explore lots of different ways in which they could reduce cost.

What was the gap then please?

The gap we were talking to them about at the time was we estimated it was somewhere in the region of about £6 million difference.

So what does that mean, 600 people?

No, we were looking at losing something in the region of 120 or the equivalent cost of in employee cost terms.

So that was simply in different manning arrangement, rosters ...

Well there were a number of ways in which you could skin that particular cat and we were trying not to be particularly directive about how we thought it could be done but our trade union colleagues were very aware of the sort of thing that would be on the table so you are either looking at different manning levels or you are looking at different ways of working or different terms and conditions or, ultimately, you could be looking at different wage rates or changes to paid leave and other arrangements. So we started off with conversations about that and we explored ideas and we would cost them and we would be effectively saying this will get us so far toward that figure but bear in mind the trade unions were very non-committal about these things at that time, because they are always nervous about how they are going to sell our concept to their members. Part way through those conversations they asked us a very crucial question, which was how do we know that the 120 people was the right figure to get them to a market rate, how do they know that we weren't really bumping it up effectively. So we offered to go out and do an exercise of tendering with the various ground handling agents in order to understand if we were to do this exactly what would that gap be, so we were no longer shooting in the dark. Ultimately I guess they probably wished they had never done that because when we got the quotes back I think that even we were surprised at the size of the saving, which was almost double what we were looking for.

So you had quotes from external suppliers?

We had quotes from five different companies, three of which were already operating at Gatwick, two of which were operating elsewhere in the UK but would have been prepared to set up an operation at Gatwick if they could have been given an operating licence.

And what was the range there, what was the smallest difference?

I can't honestly remember, Anthony. At this particular stage I wasn't involved in that bit of negotiation, so I don't honestly remember. I don't think the range was huge, not as big as the average

But the average was typically double what you were looking for or towards double, so around 200?

Yes, or the equivalent of, yes. So we put that on the table in front of the trade unions and we carried on the conversations really but I think what quickly became apparent to them was there was nothing they were going to be able to do and be able to sell to their members that would close that gap or get anywhere near to closing that gap, certainly on the ramp, which arguably had less to give. We went through this process both for the ramp and for customer services. The difference for customer services wasn't quite so great. We did them at different times, so it was different tenders, because that was just how the conversations went. However, the difference from a customer service point of view was about 50-60% differential.

So the 120 was purely ramp, what was the customer services difference that you referred to?

The 120 that we were looking for was both at the time but obviously they were interesting conversations because we had them both in the same room, the reps for ramps were different to customer service, and if course we were effectively trying to split it up half and half. The total, certainly for the ramp when we looked at the actual ramp cost against the handling agents was about half the amount really, for the customer

services it was probably about two thirds of the amount. So we effectively got to a position whereby both the trade unions accepted and we put it to them that the only option we had was to outsource the ramp operation. It was a different outcome for customer services. Customer services said they could accept the challenge of reducing that 15% and we translated that into a figure which in their case turned out to be something like 100 manpower equivalents out of about 300 and we carried on with the conversations talking to them about how that might be done.

So for the ramp it wasn't possible for them to restructure the teams or change terms and conditions to give the equivalent of

The amount they would have had to do either would not have met the operational challenge, so in other words they could have halved the teams in terms of numbers but they would then not have been able to deliver in our view the operational performance because they wouldn't have had enough people or robustness in the operation and they could not deliver the contract or terms and conditions changes they believed would be necessary to meet that goal.

So in the end did you award several contracts to different suppliers?

We did, so we had several things that were all covered in-house, part of it was the loading and unloading and general baggage handling. We had a separate unit doing aircraft pushbacks and towing. We had another unit that used to do coaching / buses so when aircraft were on remote stands and then we had a separate function which was around de-icing of aircraft in the winter. So we actually outsourced the majority of the ramp operation, the loading, unloading, baggage handling, pushback and towing to Swissport, we outsourced the coaching part of it to a company called Airlinks which were at the time pretty much a monopoly operator airside for coaching

Coaching – is that the buses?

Yes, it is the buses. When we have to bus people from the terminal to the aircraft or vice versa we have to use a coaching company, or we do now. They also do a little bit of crew coaching, so carrying crews between aircraft and gate. And then the de-icing, we outsource to a specialist company called Airline Services who do a large part of the airfield as far as de-icing is concerned.

And the reality at the end of the day, was there job losses or was there are TUPE arrangement where some of your people went to work for Swissport and Airline Services?

So, the outcome in the end was, obviously the trade union wanted us to try and find as many alternative jobs within British airways as possible to stop people having to leave so we entered into discussions with our colleagues up the road here both in Heathrow and in Heathrow Cargo and we managed to find about 100 positions for people for the ramp up here

At Heathrow?

At Heathrow

So that's subject to people being willing to transfer?

Yes and that was of course a voluntary arrangement, they moved up the road, we paid them differential travel expenses for I don't know if we ended up with one year or two years, and then obviously they just become Heathrow members of staff. We offered TUPE, so we reached a TUPE agreement with Swissport but subsequently only one person decided to take that up, which is interesting.

Really – why?

I think it was primarily because the voluntary redundancy deal that we also struck with the trade union was quite generous. It amounted to the equivalent of about 75 weeks pay and that was made up out of a normal redundancy package that would normally apply around the rest of the business

So about a year and a half

Yes, plus a bit of a top up because of the circumstances, plus we attached to that a performance bonus because we recognised or believed that once we announced that this was going to happen, bearing in mind we were going to announce it in the summer, there could be a degree of poor discipline, sabotage or at the very best lack of enthusiasm xxx working

So as long as you don't do this we will pay that

Exactly, so it was pretty much if you keep the operational performance where it is today, and that includes safety related issues, it includes operational performance, all those sort of things, if we don't see any drop-off in all of that then we will pay you x number of weeks per month of the period until we outsource the business. So the overall package was about 75 weeks, so most people chose to take that money and then a number of them quite separately went to one of the three companies and got a job because they were of course increasing in size so they had a number of jobs on offer. We facilitated that process so we had almost like a jobs fair, if you like, where we invited the outsourcing companies in and they effectively put their jobs on offer with their terms and conditions and people decided whether they wanted to apply for them.

So at the end of the day, how big was the reduction in head count?

The reduction in head count was something like about, because we took the whole ramp and we took the turnaround manager community which was the dispatchers, the loaders and other businesses, we took all of them out including overtime, equivalent headcount, it was something like 450 people.

And then you have a contract to pay a fixed sum to the three agents.

Correct, so we pay for de-icing, because that's a simple one, we pay a certain amount for each piece of activity they do and we pay by the litre of de-icing fluid that they use. For coaching we pay by the customer, effectively, so 100 people at x number of pence or whatever per person

Which is why the driver stands and watches the people come in

Well there is a certain safety element that requires us to do that but we feed the information to the coaching company so they know how many people we have on a flight, and then Swissport is paid effectively per aircraft turnaround, which varies by aircraft type and we pay them a fixed amount for that.

So at the end of the project what would you say were the savings?

The savings were about £12 million.

Is some of that a one-off and then there is an annual cost saving?

No pretty much that is an annual cost saving, because bear in mind we are talking staff costs so you could probably set against that in year one the fact that we paid 400 people the equivalent of about £30-£40,000 each or whatever it worked out to be. That would be the one-off bit but really effectively the £12 million was the reduction in the costs to our business, of running our business year on year.

And the relationship with the trade unions now, is it still reasonable?

Well the relationship with the trade unions was very cordial throughout really. Obviously there was an upset, it's not the outcome that they would have wanted but I think they were realistic enough to realise that they

didn't have an option and they probably, to put it in emotive terms, they probably milked the cow for long enough. Interestingly enough, the conversation we had with customer service was very different so bear in mind we still had to make significant reductions in that area but they went along with various measures which they could do to do that and although we didn't close the gap entirely, so in other words they were still about 15-20% more expensive than we could have got if we had gone outside

So you have got a 35% drop there then

Yes, there were two things that played into that. One was that we said we can live with that because we recognise there was a difference to the product and service that we offer in British Airways as opposed to the product and service that, say, Easyjet would be offering, so there is a complication in our business. So for instance we have to man business lounges whereas Easyjet doesn't have that cost – there are certain things that we offer our customers – segregated checkin for first class and business class, that's not something that Easyjet have to offer.

Although now they have the speedy boarding which has become a bit of a joke

Well, it has, but that's just a different way you manage your boarding, it's not fundamentally different .

You can check in at a different counter though

Yes, exactly. But certain things drove different cost, plus there was an emotional argument to be had with the rest of the business here about the principle of outsourcing your customer service business at such a large hub, so while we do it pretty much everywhere else in the world we operate to there was a difference of opinion at a high level in British Airways about whether that was a step that we really wanted to take at somewhere else not just at Gatwick but that wasn't a conversation that we could have in front of the trade unions because otherwise they would have seized on it

And how long did it take to talk through or resolve?

So improve productivity but kept in-house.

Yes.

Would you say there have been lessons learned from the early days of outsourcing from BA? So are these contracts now with Swissport, Airlinks, Airline Services – are they managed differently to what was Gate Gourmet.

I can't really make the comparison because I don't have the knowledge of previous. I do believe there is a difference in the way we structure our contracts now, so there are now financial penalties built into them based on performance whereas I don't think that was necessarily there before going back a number of years but beyond that I couldn't really comment.

How do you from your point of view as the Operations manager, how do you manage the contractors? Do you have regular meetings, do you review targets, do you have joint operations in any aspect?

So as part of the contract we set up a Service Level Agreement that was reasonably specific about the targets we expect them to be based on punctuality, based on baggage delivery times, based on what we call short ship baggage in other words if baggage doesn't make a flight it is supposed to be on and a number of other

Would that have been lost baggage?

Yes it would have effectively been what people regard as lost baggage, so baggage that doesn't travel with the customer and we express that as a number per 1,000 passengers. So we have a fairly stringent SLA and fairly stringent penalty payments around failure to achieve that.

So how do you manage it, is it fairly hands-off, do you have a weekly meeting, do you have one of your people on their site all the time?

I think we believed it was going to be fairly hands-off. I think we had an expectation that they were going to be experts in the business and that we were really going to be able to get rid of all the problems that we ever had managing our people and managing our own productivity and our own performance and we were going to be able to give it to this company and they would be the experts and we would effectively have to monitor them a little bit, effectively to make sure that they were doing what we wanted but at the end of the day everything would be hunky dory. That didn't turn out to be the case. One of our realisations, I guess, and lessons learned is when you outsource the people you also outsource all the problems you had to a new company. And I guess we believed that the new company would deal with it differently to the way we did but in actual fact that hasn't necessarily been the case and they haven't necessarily been more effective than we might have been in trying to manage difficult people and a difficult operation. On top of that, certainly in the Swissport case, we effectively doubled the size of their business overnight, on the night we outsourced to them we did it all in one hit, so we had resource issues because most of the resource they were relying on were British Airways people who were joining them from BA, so they were in BA uniform on Sunday night and then they reported for work in a Swissport uniform on Monday morning but some of the processes had changed but they had not had any time to brief them or train them, there was a lot of concern about whether some of them would actually show up because when we had done this in the UK regions before when we outsourced places like Manchester and Glasgow people had done exactly the same thing, they had taken the money, signed up to join the new company and then not shown up on the morning. I think that was a deliberate ploy because at that stage they probably never had any intention of showing up and they knew they would drop us in it on the first morning. To be fair that generally didn't happen with Swissport but what we have had to do it to put an awful lot of effort into managing the contract with Swissport and trying to get levels of performance that we need and that is still going on to this very day.

So there is a hidden cost.

There is a hidden cost yes.

So in terms of your overhead or management cost or whatever, the management cost for that operation had perhaps gone up rather than

You could say that but we took a lot of management out of our business as a result of outsourcing and we put some of it back in to actually manage the contract and we are not really particularly using any more numbers now than we were then to be able to do that. However, you would have to say that we are also not seeing the level of operational performance from Swissport in particular that we would deem acceptable, let alone comes up to the SLA.

So with hindsight, you started off looking for 120 you in fact found through the benchmarking comparisons and by forcing contractors perhaps to submit lowest cost bids they were perhaps coming up with much bigger targets do you think that perhaps going for the 200 rather than the 120 you might have settled at 130/140 and had fewer problems? Was there a little bit of greed, if I can put it that way, temptation, too good to turn down?

I think there was a bit of necessity, so in actual fact if we had never done the benchmarking exercise, or the tendering exercise, we might never have never known what the true benefit we could have got was. And therefore we may well have settled for the 130/140 if they could have delivered it, although I really honestly don't think they could have delivered it. That would have changed our financial position over the 5 year course of our plan and the imponderable in that is as a result of that I am not sure whether or not we would have persuaded IAG to re-equip Gatwick with British Airways aircraft effectively. Now it is an imponderable, we will never know quite what they would have done. It was one element of the overall turnaround plan was becoming market competitive on cost but without becoming market competitive on cost we couldn't have driven some of the other parts of the plan which were based on – and if you give us new

aircraft then we can reduce the cost of operation of our fleet, we can fly to different places, we can sell more seats because these are bigger or whatever so there was a crucial element that said we had to get over that line with IAG in the first place. If we had simply said if we tweak the edges of our current contracts and had done this and we believe we are at market rate I think a conversation with IAG might have been more challenging.

How much is a new aircraft?

Pass, I don't know. But basically the cost of re-equipping the fleet, certainly for Gatwick, was something like half a billion pounds, so £500 million.

Do you know how many aircraft?

We are talking about roughly 22 or 23, so you are talking about £20 million aircraft roughly.

What happens next – are there more projects on the back of this do you think? Because sometimes when you make a radical change to the work, you go from little quality chiefs to big step changes and changes in the process or the contractors or whatever it opens up new opportunities. Have there been further productivity proposals on the back of this?

No, we are following a line with our customer service staff that is we will no longer recruit anybody or fill any positions that become available with people on old style contracts so effectively anyone who now comes into customer services, and we took people into temporary contracts for the first time since 1997, anybody coming in now comes in on new starter rates and more importantly new starter terms and conditions which are very different to the old style contract. And the challenge to that is and what we have said to that to the trade unions is, while we give you trade union recognition the current staff are covered by a particular national central panel and these new staff will not be covered by that panel, we will deal with them as a different group of staff.

Which trade unions were you involved with?

Unite and GMB.

As part of the plan xxxx and then the signing of the final contracts, is there any kind of contingency plan where you would say under these circumstances we would bring the work back in to BA?

There is not a particular one that says we would bring it back in to BA, there are break clauses in the contract that say based on performance British Airways could walk away from that contract at any stage during the five years but we would more likely go to another handling agent rather than It would be a point of consideration I guess at the time, we would have to go through that loop again and say actually, would it now be more cost effective to bring people back into British Airways if we could do so on new starter rates and new starter terms and conditions because that might make a fundamental difference to the flexibility of the cost of the workforce.

I think there is an engineering and maintenance overhaul example where work has come back into South Wales, was being moved out of Lufthansa Technik or whoever

I think the slight difference about that is that that is work that could be done anywhere, whereas when you are talking about ground handling it has got to be done at Gatwick, there is evidence that says you can fly your aircraft to anywhere you want to in the world and get them maintained but actually this is something where you can do. And I guess you have got to look at the likelihood that says are we likely to get it for a price if we were to in-source it again that would be competitive with the ground handlers and you have to build into that of course the cost of managing it. And effectively the loss of flexibility you get because you are then managing only your own approach and that was one of the things that made it difficult for the trade unions to come up with any productivity measures that would effectively bite because when you are one

company the shape of your workloads tend to vary at different points during the day, we have about three specific waves, lots happening in the morning, a bit more at lunchtime and a bit more in the evening with some troughs of work in between. The glory of being a ground handling agent is you can fill those peaks and troughs across the day if you get the workload right across a number of different customers. We didn't have that option so therefore we had built in inefficiency just in our schedule alone, but you can't afford to change your schedule to match your resource because actually your schedule is what drives your revenue and actually the revenue impacts are generally larger than your cost impacts.

Any other thoughts in terms of looking back on this, the cost benefit analysis, the negotiations, the contract development and so on. Is there anything that you would have changed or done differently?

I think a lot of it is with the benefit of hindsight. I think at the time we thought we had done a really good job if you like. Part of the reason we went to Swissport as opposed to the other two was not just on cost, they were actually the middle cost quote out of the three people who were already at Gatwick. We discounted the newcomers if you like, I think primarily because their costs were high because they had start-up costs. So we went with the existing supplier. To some extent our choice was slightly limited because the cheapest was Menzies, who handle Easyjet, and we didn't really want to be handled by the same people who handle our biggest competitor, especially when your biggest competitor is twice the size of you, because how loud a voice you have round that table is going to be quite different, and we went with Swissport because we believed that they would be seen as a more acceptable business by our own staff as well, which was interesting in terms of reducing the emotional impact of the decision, so I think again if we had said to our people we were outsourcing to Menzies who had a reputation of being a very slightly aggressive fire-type organisation then the impact on our people might have been very different by saying we are going with someone like Swissport who had a slightly softer image if you like with our people.

Because on the other hand, because they are working for so called low cost airlines they are not necessarily low cost are they?

No.

They have got the efficiencies and the capacity haven't they to turn around very quickly so there might have been fewer start-up issues on the day of the transfer.

Yes, there might have been, with the benefit of hindsight.

Who looks after Ryanair at Stansted?

Stansted is Swissport.

And at Gatwick?

Now it's Swissport.

So that's interesting. A middle cost provider and yet Ryanair have a reputation for being the lowest cost

Yes, absolutely. And interestingly, one of the things we have seen is actually the efficiency of Swissport at Stansted is quite different to the efficiency of Swissport at Gatwick, so one of things that happened fairly soon after taking on ourselves was bringing in a new General Manager. So the General Manager who negotiated the contract and who put the implementation in place was moved one month after the implementation.

Why was that do you know?

Again, with the benefit of hindsight I think there are a couple of elements to it. They had a very difficult first month because they hadn't got the implementation right, so I think there was an element of they had

messed up that bit of it. I think they probably fairly quickly realised that they had maybe underpriced the contract in their keenness to get the business and they are tied into a five year fixed price contract with no increases over that five year period so I think they realised they needed someone else to come and run the business. He came in from Stansted, funnily enough, and I think he quickly realised that actually the whole setup at Gatwick needed revision so effectively over the last 18 months they have been putting in a policy right from the top to the bottom of restructuring their business and restructuring their job roles and that is part of probably what has impacted on our performance so interestingly we are broadly supporting, we believe they are doing the right things for their business but we struggle with the fact that actually they are not necessarily particularly effective at managing them into place. So it has been a slightly fractious relationship.

If you look now at Gatwick as a business are you pleased overall with operations?

So bear in mind the challenge was to turn Gatwick into a profitable business and in particular to make short-haul profitable in its own right, so last year, 2013, so one year into the contract, Gatwick was profitable as an overall business and this year we expect for the first time in almost ever that Gatwick short-haul will turn in a small profit in its own right and that therefore over the next two years up until the end of the business plan that will get delivered and as a result of that IAG has agreed to re-equip the fleet with Airbuses before next summer.

Very good – so that’s another big tranche of investments.

That’s a half a billion pounds or whatever.

Do you think there would be any benefit in my talking to some of your colleagues, maybe the trade union people?

I am certainly quite happy knowing the one chap who is still around. Many of the others left so many of the trade union reps who actually negotiated this deal left and didn’t take up other jobs, they were just getting close to retirement age. That may have driven some of their own decisions.

Is he from Unite?

He is the Unite rep yes.

Do you recall his name?

He is called Sean Collins. So I can certainly try and get in touch with him and ask him if he would be willing to do talk to you.

That would be useful. Would you mind? It would be very similar to this, just to explore the process of going through those tenders and the impact on jobs and discussions on the options and so on. That would be really helpful.

Is there anything else you want to add?

No, I don’t think so, I think that’s fine thanks Anthony.

Maybe just one final thought. I think you are aware that I am making some comparisons with some German companies and in this case with Lufthansa. Are you aware of how Lufthansa manages ground operations and the ramp and so on, and in particular from comparisons with them at all?

Not entirely, although I have observed them in Hamburg as part of some work we were doing around prior to this looking for different ways to restructure our operation, and even then they had a slight ... a lot of their business was outsourced, it wasn’t actually Lufthansa people on the ground it was certainly on the ramp it

was funnily enough it was the same model that we are now at so they had their own customer service people but they used the airport handling company for their ramp operation. Now Hamburg is not a Frankfurt or a Munich or whatever

So you wouldn't know if that was true

I don't know if that was true of Frankfurt

Because the impression I have had is there is very little outsourcing traditionally. Stuff is off-shored where there is cheaper labour rates, so particularly back office operations, they have a lot of processing centres in Prague, for example, or in Krakow, and then in Singapore and in South America somewhere.

Certainly when they did their what they called centralised local xxxx production, low sheets for aircraft, again I have been to see these, they did that in Capetown, in Bruno in Czechoslovakia and in I think it was Istanbul again they went very much for cheap labour destinations where you can move the work, so going back to my point about aircraft maintenance – where the work can be done anywhere they take advantage of cheap labour rates but they keep it in-house as opposed to external but I think it would be interesting to know when it comes down to where they are Targeting. And you may see that change over the next few years because they are now starting to experience the level of competition from new carriers that they have been slightly immunised from before so I think that's part of what has driven it in the UK a lot in that we were the birthplace, if you like, of low cost carriers and we faced a lot more competition.

So this is Air Berlin and so on, Wizz etc.

But now they are starting to get the Air Berlins, they are starting to get Easyjet and Ryanair really biting into their marketplace so I think yes they are starting to see the level of competition that we used to have and they drive some different decisions for them, because they are starting to struggle. I don't know if you know but they have just put out a profit warning for this year.

Yes, that was this week or last week. And I get the impression that just in the last year or two under the new Chief Executive they are missing or they are finding it harder to hit the productivity targets, so they are again talking to the unions about outsourcing which they haven't done before.

Thank you very much indeed, thank you xxxxxxxxxxxx for your time, that's very interesting. What I will do, it may take a little while over the summer because Eileen's away on vacation shortly but when I can get this typed up I will edit it and then send you a draft if I may and then please feel free to make changes and then it has yet to be determined but what I may have to do is in the final report hide all the company names and the names of the interviewees which is a shame.

A2.2.4 **British Airways (4)**

Xxxxxxxxxxxxxx Head of Alliances
27 July 2014 Heathrow, Waterside

AVAILABLE ON REQUEST

A 2.3 Interview with former TU National Officer 19/11/2013

XXXXXXXXXXXXX is Senior Lecturer in Employment Relations, at University of Hertfordshire.

(Prior to this XXXXXXXXXXXX was the national officer for the GMB representing some 90 per cent of the BA employees who were most affected by the restructuring in British Airways (BA)).

- 1) At what stage were the trade unions first consulted about BA plans to outsource activities to a third party, or to move work overseas?
Did BA regard outsourcing as part of a 'package' of restructuring / other changes?

The trade unions had regular and on-going discussions with BA management during the 1990s on a wide range of cost cutting measures that included outsourcing and offshoring possibilities. BA needed to cut costs and claimed that some activities were non-competitive and could no longer be afforded. WNS was then initially created in Mumbai as a wholly owned subsidiary with 300 employees in 1996 as a pioneer venture for the outsourcing of back-office operations. BA sold its final share of WNS in 2006. Severance packages were discussed. Some sensitive computer work and systems were retained in the UK rather than moved to India.

(Today WNS has 25,500 employees in 31 delivery centres worldwide including Costa Rica, India, Philippines, Romania, Sri Lanka and the UK).

- 2) What were the various reasons given by management for wishing to make these changes?
- 3) Did you receive research or intelligence information on what competitor airlines were doing? In particular, did you have any comparisons of say BA in the UK with Lufthansa in Germany?

Ed also represented union members at Lufthansa operations in the UK and regularly met with management, also KLM and Globe Ground (part of Servisair – Lufthansa sold a 51 per cent stake in in 2001). The union did have intelligence data on comparative airline sector costs and performance.

- 4) What was the forum or mechanism for negotiations, were any concessions made in terms of number or type of jobs, timescales, alternative employment etc?

We had meetings locally with management involving myself and the senior union lay rep's along with formal discussions at the national 'A' scale panel which I led for the unions and which involved around 50 stewards/senior reps and 60-70 BA managers.

- 5) How long did negotiations take, and what were the contentious areas?

Discussions on outsourcing and restructuring continued to take place over many years in the form of both negotiations and consultations. The CFO and other senior management were involved and the tone reflected changes in leadership and style at BA during the timescale. (Bob Ayling succeeded Colin Marshall in 1993, Rod Eddington in 1999 and Willie Walsh in 2005 as the current CEO).

The Gate Gourmet dispute (2005) was very disruptive with unofficial action taken by the T&GWU (Ed not directly involved). Today, BA has multiple suppliers of catering services at different airports.

- 6) Was there support from other unions?

The GMB had 90 per cent membership of the employees most affected by outsourcing and offshoring, the T&GWU and Unite (previously MSF and Amicus were also party to discussions).

- 7) What form of agreement or settlement was finally reached?
a) Was the outcome ratified / agreed with the members?

A final settlement as such was not achieved. BA management were determined that the company would go ahead with outsourcing and offshoring plans – and so it was up to the membership whether or not they chose industrial action in response. As stated above the union were of the opinion that BA would not be able to control how WNS would behave, that there would be concerns regarding data confidentiality and a level of risk to BA. Some (but very few) jobs have returned to the UK. It is suggested that further discussions take place with Danny Faith and Neil Bennett who are GMB shop stewards at BA for white collar staffs. They can also advise on who to speak with regarding HR management at BA (David Lebrecht may have returned on a consultancy contract).

- 8) What developments have more recently arisen:

- a) Is the rate of job losses overseas increasing?
b) Is work coming back to the UK, and for what reason?
c) Has the type of work outsourced and /or moving offshore changed – e.g. is it more complex, of higher value, requiring different skills?

Job losses have continued to increase from the UK to overseas, and there is still an on-going drive to reduce costs. A tiny number of jobs are returning in some key IT roles. There is no substantive change in the job mix of those areas most affected, particularly for back office where there is still at times there is pretence that work is actually undertaken in the UK.

- 9) Other thoughts:

BA has taken on a huge gamble with separating WNS – over whom they now have no control but remain increasingly reliant. Outside of BA, there have been changes and problems associated with industrial relations in China and India, and labour costs have risen sharply. This represents an on-going risk for BA.

Big losses were incurred with the GO venture.

BA members are disappointed with BA management rather than their TU representatives (as seems to be the case at Lufthansa).

A2.3.1 Summary comparison of Lufthansa, BA, alliances and the TUs (Adapted from Doganis, 2006)

Lufthansa	British Airways
<ol style="list-style-type: none"> 1. Lufthansa developed an integrated ‘aviation group’ strategy, (‘beneficially constrained’) by company-based employment systems that are embedded at the national level of German industrial relations and the institutions of social partnership (Doganis, ibid). 2. This is further reinforced by the national level of many unions and the union leader’s attitude towards disputes, often settling on the side of management. 3. An equally important contrast can be drawn between the success of Lufthansa’s Star Alliance and the more limited achievements of the oneworld Alliance of BA.) 4. Over the period 2011 to 2013 there have been a number of challenges for Lufthansa with a ‘cost cutting strategy which challenges employee demands for increased wages and benefit packages on the one hand, and a desire to reduce non-core activity on the other hand. There has been an increasing level of outsourcing activity, also moving work 	<ol style="list-style-type: none"> 1. BA however, does not have complementary institutions which preclude more innovative (longer-term) strategies, hence labour-driven, cost-cutting strategies become a more attractive proposition for corporate managers (Doganis, ibid). For BA this approach was represented by a ‘virtual airline’ model, the very antithesis of (social) partnership. 2. In BA, partnership may have been management rhetoric, and to a lesser extent trade union officials (given the adversarial relationships between the parties) intensified competition. There is an absence of (state-sponsored) institutions to support social partnership and impose effective constraints on unilateral managerial action .This often leaves members aggrieved with management. 3. The potential saving from a ‘coordinated alliance’ such as Oneworld is less than 2 per cent of an individual airline’s total cost base. (Doganis, ibid). As oneworld does not enjoy antitrust immunity or the full array of transatlantic code sharing which allows carriers to share profits and revenue and more fully integrate their operations, it must focus on ‘passenger-friendly’ activities such as frequent-flier programmes, branding, lounge access, easier connections, and customer support. 4. More importantly, BA’s competitive strategy was based on a ‘virtual airline’ model, whereby the airline focuses on ‘core competences’ (a network of air services) and outsources as many ‘non-core’ activities as possible (including ticketing, in-flight catering, ground-handling, and even maintenance)

offshore and considerations of joint ventures or disposal of secondary activity. Lufthansa Group CEO Christoph Franz announced that the company had fallen behind ‘in achieving the targets of its “Score” austerity program, which aims to boost company profits by €1.5 billion by the year 2014’.
(Doganis, ibid)

(Doganis,ibid). BA’s response to the changing organizational environment was therefore diametrically opposed to that of Lufthansa, leaving BA more exposed to any downturn in the market (Doganis,ibid).

A2.4 Summary of initial findings in the transport sector

Focus, Approach and Issues - Airlines

	UK	Germany
Focus	<p>Non-core processes / activities and business processes may initially be outsourced and moved offshore.</p> <p>Strategic partnerships and divest business, free to trade with third parties.</p> <p>Engineering, as above, but restructure alongside major productivity improvement studies.</p> <p>Reverse outsourcing when capacity is freed.</p> <p>Catering –single source / multi source lessons learnt.</p>	<p>Largely two pronged:</p> <p>Initially, non-core processes / activities e.g. revenue accounting - Consolidation, centralisation and restructuring.</p> <p>Secondly, Engineering and maintenance - Business processes. Specialist skills & use of temporary contract employees.</p> <p>Own catering business, grown through acquisition from competitors offers third party contracts. Loss making for many years until turnaround in 2007-8</p> <p>(http://www.lsgskychefs.com/en/newsroom/information/lsg-sky-chefs-confirms-sustainable-turnaround-and-strives-for-further-expansion.html).</p>
Approach	<p>Internally driven, contract and led by procurement. Cost cutting is key – but may be material driven rather than labour cost dependent so location independent.</p> <p>Willing to develop and spin off the business.</p> <p>Spread risk with different providers.</p> <p>Major concern over high pension costs and number of full time employees.</p> <p>Use open book accounting and will exploit tax incentives.</p>	<p>Wholly owned legal entity is preferred. There is a selective choice of countries which are to be a preferred partner.</p> <p>Target improvements in :</p> <p>Cost reduction, efficiency improvements, common IT systems.</p> <p>Keep the office and staff small – this may avoid works council Issues.</p> <p>JVs are by exception – major supplier / customers.</p>
Issues	<p>Productivity improvements – free up capacity so can reverse decisions to outsource when appropriate.</p> <p>Best value / cost of service</p> <p>Maintain control but encourage suppliers to add value – loose / tight control.</p> <p>Procurement / Contract led with specialist legal, HR, Finance support as required.</p>	<p>Nearshore on a regional basis.</p> <p>Use consultants to build a business case.</p> <p>Avoid conflict with TUs.</p> <p>Added value still from Germany.</p> <p>Locations common to shared services (clusters). Providers’ benchmark and exchange of ideas.</p> <p>Big local skilled cheap workforce</p> <p>Improvements kept in-house not shared with alliance partners (to date).</p> <p>Big benefits in man hour rates.</p> <p>Tax incentives are not always exploited.</p>

Appendix A3 Case Study Two Narratives

A3.1 CompanyABC

A3.1.1 CompanyABC (1) Germany

Name: xxxxxxxxxxxxxxxxxxxx

Role: Deputy Vice President, Fuel Supply (Global manufacturing coordination.

Each business unit has a board of management and my responsibility is the manufacturing)

Company: CompanyABC

Date 20th October, 2011

Stages / Format:

A Establish Chronology - regarding organisation experience of outsourcing / offshoring

1. What type of work has been outsourced or moved offshore to date? Or transferred under a different name. How is this then organised – through preferred supplier relations, subsidiary divisions?

What we did is the entire business process of accounting, so here I think has been done a lot of offshore movement, accounting is there, IT services are there, then we are running in terms of our business processes SAP and the consultancy services for SAP which is the part of the IT services if you want that has been moved also offshore. We do have call centres now for various, the content varies in this so it is IT call centres but for some of our product services also we do have call centres so this is also moved off shore. Then there is the big subject of software development and software development which is part of our product, it is not part of the business processes it is really part of our products what we then offer to the customer. So when we do our products there is very often embedded software included so this has completely moved offshore and I think our travel services, this is also something which has been outsourced.

2. Where was this activity confined to a particular division, or has the approach been adopted across the business? Is this right across CompanyABC or just for gasoline systems? Do you have preferred partners or locations e.g. for software development, professional services etc.?

The accounting, IT services, SAP services call centre and travel services this is across divisions, across business units and also across business sectors.

3. So it is across CompanyABC business centres?

Yes, but the company makes the difference for the 3 different business sectors, the one is automotive, the one is industrial goods and the one is consumer goods. Most of these processes have been really decided and implemented across business centres but there is always a big discussion among these business centres because they do differ so much, so what is good for automotive this might not be good for industrial goods.

Is that in terms of location, how do they differ, so does automotive go to India and industrial go to the Philippines?

No, I think it is not so much in terms of location, it is rather that if certain accounting standards are implemented then from the automotive side it is various customers, global customers, everywhere different xxxx, building this and that. If it is for example industrial goods the number of customers is far lower and then these guys say that our practices are a bit different from what you have in automotive, it is less standardised, it is more a smaller group of customers so I remember from my time in headquarter when these services were outsourced and the projects were managed that they always made the difference between the business sectors.

OK, and for consumer?

The same here. Because for example if we take power tools, then they do have a lot more marketing focus, it is more b2c than b2b so also here they do have certain voting right or veto right where they are ok but this will not fit to our structure.

4. Why? What is the driver - Is this move driven by cost reduction, or the need for different expertise, competences / skills, innovation or part of a plan for regional expansion?

Basically it is cost driven. Primarily it is cost driven. The second level would also be if new regions come on the plan, these regions are ... or the business is too small to install immediately all the functions so what is done is then they need shared services, they don't have the infrastructure, they don't have ... so I would basically say it is cost driven but it also partly because of regional expansion.

Yes, that makes sense. We will come back to that later. Has there been a problem recently with costs going up, for example, in India or china. So has that reduced do you think part of the benefits?

I doubt whether, I mean I think one question is also the implementation work, the studies done and whether investment appraisal has been done.

5. So we'll come back to that then....

It is we did it full fledged but what I doubt is that someone is really capable of following this up and then giving a set saying the original estimation we have now achieved so much or we have not achieved our target, so this I don't know and partly we see it because the billing, the hourly rates

which these subsidiaries are billing, this might be a part where you can see where it goes up or it goes down and it has been actually quite stable over the years.

Really? There is much in the press about the costs going up dramatically.

What they could do is they could also they had some economies of scale and they could manage with certain productivity to keep it more or less at the same level.

6. When?

a. What timescale would you put on these changes – has it been going on for a long time, has it been fairly sudden, has it been phased in, you mention the shared services. How much experience of outsourcing is there in the organisation?

b. At what stage of maturity are these changes?

When we speak about these business processes, like accounting or IT, the discussion I think 5 to 10 years ago it started on a larger scale. When we talk about those more business specific processes like the embedded software etc. This has a longer history. Here we have a history of 10 – 15 years. The India from an organisational point of view most of that stuff has moved to India and it is covered in this subsidiary which is called CompanyABC Business Solution and Engineering so the accounting is there, also their set up is on one side they have offshore services and that does not differ much to the other big players what you have in India but we do have and also when we talk about the second leg we talk about this embedded software this is driven very much by the product responsible by the divisions because it is more product related and their structure is exactly this twofold, on the one side the general outsourcing offshore and the second is the specific business related one. And this has a longer history, this has a history of 10-15 years I would say, of course on a smaller scale but it started quite early.

c. In India or has it moved from India to the Philippines or Eastern Europe?

This is a process which is upcoming now, so from risk mitigation point of view and also from a cost optimisation point of view they are talking now of the Philippines, some of the call centres are established in the Philippines, Vietnam is also one region so it moves further now. Or at least one says that we have reached a certain number now in India and we would not like to go beyond I think it is 10,000 people so they have said we want to mitigate our risk and we also want to have other areas for cost protection.

That makes sense.

7. Evolution?

Has the process of offshoring / outsourcing evolved further up the value chain e.g. from low skill to special skills? How do you see the activity developing?

B What process (decision making) – was associated with the plan?

1. Who had the idea?

Did the idea originate from within the organisation or from a consultancy review? Are close competitors following a similar path?

Do operating divisions have the autonomy to take such decisions?

Did one division start and then other divisions copied?

I am not aware that some consultancy work was done here, I would say rather not. How did competitors structure this I do not know. When we talk about not the general offshore services, when we talk about the embedded software then I know the competitors are following the same way.

So they are following you

Yes, I know they are also located in India, I know they have also their offshore centres so here I know it in terms of their business accounting, I don't know exactly.

OK, are they also going to India or are they going somewhere else, do you know?

No, so one can summarise here that for these non product related offshore services this is decided by headquarters, for the product related ones this is more decided by the division then they do also have also a certain autonomy in order to decide on this scale.

a. That makes sense.

2. Was there a feasibility study?

Could you describe the planning process and whether it included a pilot study?

How were the results assessed?

Very much so.

a. Over a long period of time?

Yes, this I remember from my time when I was in headquarter that some time over years, normally I would say such implementation project 2-3 years and they do start with a pilot, they do pick one region and they check whether they do work and then they do investment appraisals and they follow this so it is done on a full fledged scale.

So is it possible that the feasibility is tested much more rigorously once work is actually confirmed as moving offshore and that then they are basically left on their own if that makes sense? So you don't do regular checks now so much but you did at the start, is that the case?

I would officially think the people will deny this process. The feeling is that the proof of the

effectiveness measure it is a complex subject because the boundary conditions once flowing into the appraisal they have also changed, so one actually has to check external influences and one has to check whether the operational performance then later achieved the target. So I think it is not so much the point that the people are not willing to do this it is more the point that later it is very difficult to distinguish between the different influencing factors.
Okay.

3. What was the process for getting agreement?

Was approval given by the board of directors or was the decision taken by local management? Were shareholders or other stakeholders involved e.g. institutions? Was a detailed business case required? Did you think about how the decision was reached? Do you remember was it the main Board, you say headquarters do this and Divisions do that but was the decision basically a quick decision, did it take lots of reviewing, were lots of different stakeholders involved, was there a business case?

Yes, this definitely for the entire business processes like the accounting, Board of Management was involved, full Board of Management, a lot of their views, detailed analysis and implementation. It follows for all these projects I think even a specific process handbook where there are also quality guides like the Cooper one where this is valued so very very structured. For product related if here there is more autonomy so this does not follow such, this is more small boardroom driven what the business requires.

4. How many times did it go to the board for discussion / agreement?

Did the plan get referred and need further work?

What were the ‘sticking points’?

Did you have to go back and change things?

Not really, what I was following up when there was the Board of Management they met on a bi-weekly basis and one of the agenda points was always the different projects on off-shoring. I cannot remember really some sticking point that we say okay we have planned 100 people competent doing this and that, no I doubt that they were really some big obstacles.

5. Did management talk to the Works Council / TUs?

Were the consultations at varying levels and how long did the process take?

Were their specific obstacles that needed to be resolved?

Did jobs effectively get transferred from the home market to the host country – if so how many?

How did you / the organisation influence stakeholders / opinion formers?

This is a good question, I am not sure. They had to involve the works council but the offshoring and outsourcing never led to any substantial layoffs.

So there were no job losses?

It led probably to restructuring and so on but it never led actually to layoffs but in general I would say whenever issues are decided, discussed which include impact on the workforce it is in general discussed with the general CompanyABC Workers Council so I think if you really asked the question was it discussed with the guys then I would say yes it was discussed, or it was at least they were informed.

So when we talk about re-construction, were there people who did the embedded software design and development before in Germany and then that work moved to India for example and so the people in Germany were they given other work to do of a different type, is that what you mean by restructuring?

They managed the growth so the existing workforce was not reduced, it was kept stable, in other words the fixed cost was more or less stable and the growth which was driven over the last years mainly china, India, emerging markets and this was done then from India or also from china, in the first phase that is something which is very interesting, in the first phase the control of all this we are always we use the word platform, something is done for a platform, so there is one department and they have to complete overview and that was still located in Germany and then the work which was from the competent level a bit lower that was executed by offshore and slowly it changes now, we are just in the process where also the steering of this work, of this software work, of new projects, of platforms, is also transferred to the region. We are exactly in this process. To use negative words it was a bit like India and China and it was like lemmings and they executed what was on their plan, they need a detailed description of what to do but the innovation was rather still controlled by Europe and Germany and this is exactly changing now.

6. CSR / sustainability issues?

Did customers or NGO's raise any specific concerns? Company reputation, responsibility – has that changed in any way?

No because the customer clearly understands because he is global and he is actually asking and pushing for cost reduction and pushing of this localisation in the region, so therefore it was never seen critical on a b2b it was rather a requirement. On the b2c here I don't know but I think that from this perspective we have never any bad image or CSR topic, it was always.....

How about power tools?

This is some area where yes, but they have such a good brand strategy where they cover the professional segment and they cover the do it yourself and the very local segment so for the poor image yes probably here it was also they still kept the quality and they still also kept probably their location but for do it yourself and lower segments only price driven and in terms of CSR also it was never an issue because the argumentation is the growth comes from these emerging markets, we have to be there and the business there also creates secure jobs in Germany or in Europe. So therefore it was always quite a good balance, at least not a negative.

7. Networking / Collaboration?

Do you work closely with colleagues in competing organisations, or is there collaboration with key suppliers? Do you engage with fellow ex-pats?

When you were in India, for example, were you working closely with competitors and colleagues from other businesses?

You mean now from competitors? First of all what I know is that the subsidiary which is basically providing all these offshoring services they do have restrictions to work with competitors and suppliers, only in certain areas they are allowed to also offer services at the complete market. So for the entire embedded software they are not allowed because of one of our USP for SAP services and for other IT services the traditional offshoring work here I know also more for the sake of economies of scale and also somehow getting experience in these fields they do.

So this is the group in India, CompanyABC Engineering & Solutions?

Yes, so they are doing the accountants work, they are doing all organising, they are also doing providing the IT services and SAP services so many of the stuff is actually allocated there.

And this is in India?

Yes, correct, and their task is also they are profit centre and they are also given the freedom to make offers provide offers and challenge the existing organisation by offering better services.

Okay, very good. How many people work there roughly?

10,000

So that's why you are saying this is enough people?

They are growing every year by 10-15%.

C How was the experience? – with hindsight what has been learnt, would now do more of or less of?

1. Tender / prior experience?

Was work put out to tender – or did you prefer to work through established contacts – if so why?

Most of the work has not been outsourced, it is offshore. So that makes it a bit easier and it also makes it more flexible in terms of if something was not correct you can still change it because it is under your control. I am not aware of big outsourcing activities except travel agency and that stuff, but in terms of business processes and in terms of product related software it has only been put offshore. If it was clear that it had to go to this established subsidiary in India mainly.

So where is this Travel Services then?

They have I don't know exactly to which company they put it but earlier it used to be CompanyABC employees but now they have transferred the CompanyABC employees and they have sold some off.

a. Is it still in Germany?

For Europe yes, for the regions they have then also created subsidiaries there, so this is then done by local, it is outsourced but on a local basis.

b. But Travel Services is the one bit that has been outsourced really?

Yes

c. Okay, just so I am clear on that. So to summarise, there is not much of a tender, not much of a competition, there was one organisation created, this organisation has been there and it was planned for expansion and services were allocated there.

Yes, okay, it is a different approach isn't it.

2. Setting up the contract / external negotiations?

Were other functions such as Legal, HR, Procurement and others involved? If so, in what way? Were the negotiations protracted?

Yes.

3. Problems / sticking points?

What specific areas were seen as 'blockers' to progress? How were they overcome?

That is a general topic. The culture, the set-up of this company, the leadership of this company is of course completely different to our traditional operating business and it became very visible in India where we do have then on the one side this operation and where we have on the other side the traditional operative divisions, so salary level is a different one, there were also, yes, we had some people the fluctuation was completely different so this operation is competing with the other offshore businesses in India like the forces, like ... there is plenty of them, and the operating business is then operating under completely different rules. They have also developed different recruiting methods, they have developed different training methods, their DNA is a different one completely, completely. Interestingly the buildings are probably 1 km away and the people are working together on projects of course but you can see this is a completely different mind-set, this is completely a different structure, it is actually completely different people.

So when you say 1 km away, that's from other CompanyABC places?

For example, where I was working all that stuff is located in Bangalore,

Which is gasoline systems?

Yes, or diesel or whatever is there, even some power tool stuff, that is located in the one road and then two other buildings where a separate legal entity, a different management, a different reporting structure, and here we do have offshore guys, we do have the software guys, and there is a different DNA, if you enter these two buildings, in the one you will smell fuel and you will need machines and this and that and in the other it is like the offshore, there is meeting rooms and this

and that and different facilities.

So do you know if those people were recruited in India to join this organisation or were they CompanyABC people already in diesel power that you then transferred across?

No, basically what they do is they recruit, they do this campus recruitment, they recruit batches sometimes 5,000 people, they have special training programmes where they get up to speed in a very short time frame and some expats are there very little among these 10,000 people there are not more than 5 expats. Very flat xxxx and these people for this not so much for the business process offshoring but more for this embedded software, there is where these expats are placed in order to build the bridge head, to xxxx

a. **So that's to provide a link back to Stuttgart or whatever?**

That is correct.

4. **Cultural issues?**

Were problems identified in advance? How did any misunderstandings arise, and how were they resolved? Do you have any stories / examples of situations that arose?

D How successful was the venture?

How did the organisation assess or measure :

1. **The Quality of product or service?**

Were there noticeable changes in customer satisfaction / feedback?

Did you measure on-time delivery?

Would you continue reversing the process if unsuccessful or circumstance changed (backshoring)?

Rather not. I think it is not going beyond the normal fallout, no quality whatever, no fire fighting project or something

a. **So no worse than anywhere else?**

No

Was open book accounting considered as part of the contract?

Were Service Level Agreement targets and incentives clearly in place?

Between HQ and the offshore service provider?

b.

Yes, and the divisions or corporate or whatever?

What do you mean by “open book accounting”? Whether we thought their cost calculation was ... Yes, so what their margins were and if they were making enough money?

Full, complete. Very very transparent and of course as a separate standalone entity they have from tax perspective they have to generate their own margins and this is very very transparent. And of course also there are also contracts how this is dealt with, they show a profit and show margins, and very very transparent.

One of the things that attracted me to this topic initially, Andreas, was the suggestion that some American firms and some European firms are now bringing work back from India, China, Philippines and so on partly because of cost increases in those offshore countries but also because of political concerns at home that there were high levels of unemployment, that the economy was poor, that the growth, they were bringing work back. Are you aware of any suggestions of backshoring or reversing any of these processes in CompanyABC?

So far, how shall I say, somehow motivated from a political or CSR background no. I remember that when I was in India where Obama he put this campaign where he said it should be Americans supporting America blah blah blah and from this motivation no, and the argumentation is always on the b2b level the customer requires it, we would not become competitive without and the future growth is actually then providing the work for this. So from a political point of view there has never been any backshoring. What I know now is from I am involved now in the Czech Republic because we have one entity over there and I know that a commercial guy in Czech Republic he is planning to make a proposal for some of the accounting operations where he would like to provide service for Europe. So the communication of course gets more difficult, there is some cultural misunderstanding the people what they get is there is some Indian guy xxxx he is scanning the bills and he is putting it in the system and then he forwards it to someone else and then he has to check the bill. So sometimes it is a bit awkward for the people that this goes around the world and I know this Czech colleague he is planning to provide at least for a very small scale where he says I could do this actually at a similar cost level and he is somehow trying to make this proposal but it has no very very xxx stage. But otherwise as of now no political topics for getting this back and also no cost xxx for getting this back.

There is an interesting distinction here, Andreas, in the sense that that would not necessarily be backshoring but that would be what is becoming what is called near-shoring, so in other words it is just being brought back closer to the home market. Some American companies are bringing work back to Central America because it is closer, and there is a common culture and common language and it is cheaper. So they are trying to get most of the advantages for bringing it closer.

Yes, that is exactly what my Czech colleague is proposing. So as of now, not as far as I know, probably we can see first signs here and there of going in this direction.

2. The comparative Cost?

Did you need to agree definition and common standards for some measures – please give examples?

100%. 150%.

3. Timing of work transfer, training, pilot studies?

Did you stick to the agreed plan or were there delays, if so why?

Were personnel from the host country brought to the parent company for training – what issues did this arouse?

Mostly yes, and then in a very thoughtful approach where the competent ramp-ups were required, the experts were brought in.

So more an exception?

Yes, but also why so many of these guys they have been brought into Europe to ramp up their competents to very good.

4. Process Innovation?

Who takes the lead on R&D / innovation – is this seen as your (or the host) responsibility or is the supplier encouraged to generate ideas? Is this largely the specialists in Indian or does it come from Germany and then the idea is give them to people in India?

So as of now it used to be like this and I think now we are on the verge of changing.

So it used to be self sufficient?

No it used to be the innovation it used to be Germany and Europe. Now we are in the process of changing and the reason for this is also that to be more successful it has to come from the region because the innovation what is created in Germany it is not the right innovation what is required in the market.

Do you have a similar place in china or is it mainly India?

There is nothing actually in China, no it is mainly in India.

E The Institutional context?

1. Are you aware of formal negotiations between CompanyABC with central or local governments in Bangalore or Indian governments to gain entry to the country / market?

Yes, I think there are always, this is a requirement because also then it leads to number two I know that we have put basically two locations in India for this business solution entity and the second one is also in a special economic zone where the service taxes also are very limited they can also say it is for export

purposes and then you don't need to pay these special taxes so it is, I am not so sure in terms of a, from a legal point of view this I don't know but the legal negotiations were definitely there in order to get special benefit like all the other offshoring companies as well.

Do you know what the two locations are, is it Bangalore ...

The one is Bangalore and the second is Coimbatore.

Do you know if there were special relationships that had to be managed with trade officials or politicians or banks? Are you able to give any examples?

The authority for providing special economic zones with very little tax payments was always done by the Government, they are official from the government exactly dealing with this, I mean the background is of course also because there is a high level of corruption but they are special representatives from the state government and with the state I don't mean the central government. Central government would be across India state government they have a very federal system

....like Germany?

Yes, more or less, even worse because even if you sell, I mean even we have a general sales tax but what they do have if you produce in one state you ship to another there is a special tax what you have to pay. So therefore the representatives from these local state governments there are negotiations, they are providing special tax breaks.

But if it is exported rather than moving to a different part of India then you avoid those taxes?

Yes

2. Were you attracted to a particular location or zone by incentives / tax breaks?

3. What relationships did you have to manage?

4. Was there involvement with Universities or other institutions?

There are ties/tie ups. They have special management colleges and universities where they do also campus recruitments. India has also some, there is the Indian Institute of Technology, the Indian Institute of Management and these are very qualified high level people and they do recruit in full batches.

F If I wanted to go deeper into these areas, Who would you suggest that I now speak to either by telephone or by face to face interview. Is there somebody at more of a functional or departmental level, more junior to you and maybe somebody more senior to you?

I thought about this. What I thought is that the best is the boss of this local CompanyABC Business Solution, he has the best overview basically on what he is providing. Because it is his function he sees all the levels and he sees all the subject. On the other side it is very diverse because of the number of stakeholders. He is the stakeholder on one side but on the other side he has of course various stakeholders. So there it would be very difficult to somehow speak to a number of various stakeholders but if you could speak to him then I think he would be a very good partner in order to understand the different levels, in order to understand the different subjects and to understand the different directions.

What is his name please?

I will send the contact to him and if you want to talk to him I could also try to establish a contact. He would be open to discuss this. He is not a CompanyABC guy, we bought him from xxx, from a background of offshoring.

Okay that would be perfect. If I was to speak to him do you think I would need different questions or similar?

Yes, similar. I think the questions are very suitable.

Thank you very much Andreas, this has been fantastic. Where I am with this I am hoping to develop some contacts in a UK engineering group, they made instrumentation for cars and for aerospace. They have sold off those businesses now and it is mainly instrumentation and control systems, and they have a subsidiary who do a lot of stuff for offshore engineering oil platforms, so oil and gasoline companies. It is a different kind of engineering sector and business to yourself, so I am hoping to do some discussions with them to see if there are differences in the approach. And then I am talking to a German Airline tomorrow and then I am hoping a week or 2 weeks later because someone is on holiday at the moment to have a conversation with a UK airline but again what I am trying to do is look at different areas Engineering, shared services and Procurement .

Of course, because, how shall I say it, people have a big insight in their function and in their specific subject but it is very difficult to get someone to see what is going on on a broad level. What I could recommend is if you could somehow manage and if by chance you are somewhere close to India, the best would be that you could even go there and have a chat with this guy one on one. It would be good first to have some kind of telephonic interview and I also believe he will do this. I will have to explain to him the relationship CompanyABC with Ashridge and also what you mentioned in your trailer that this will also flow later in education. He needs to see how is it all coming back, but I think we can manage this, he is a nice guy and normally this should work. And also if some further depth is required then it would also be quite interesting to go there and see this so then because here you really have the chance is there this is the one organisation who deals with it all.

Well, what I would like to do you see is to have similar conversations similar to the one you and I have just had with some of the other companies where we may be able to develop potential case studies and then it will be easy for me to see if I can visit different parts of India or different organisations, then I can use my time effectively. But this is fantastic as a first interview. What I will do is get it typed up and edit it, I am hoping Eileen will do that for me to type it up and as soon as I have something that is reasonably coherent I will send it back to you, Andreas, and if it is possible for you to contact this boss of the CompanyABC Business Solutions unit, give him my background and if you could put his name in the email so that I can see it that would be terrific.

Thank you very much indeed. If you think of anything afterwards please don't hesitate to email me or telephone me. Let's try and keep in contact.

I will do. If you have this in the back of your mind there will always be the one or the other mail or topic or subject that is related to it.

Thank you so much.

Thank you very much for your time.

A3.1.2 CompanyABC (2) India**Name xxxxxxxxxxxxxx****Role President & MD****Company RB Engineering & Business Solutions Ltd, CompanyABC, India****Date 22/12/2011**

AVAIULABLE ON REQUEST

A3.1.3 **CompanyABC (3)** **Czech Republic**

Interview: **xxxxxxxxxxxxxx** **Engineering gasoline systems**

Budweis **January 23rd, 2013**

AVAILABLE ON REQUEST

A3.1.4 Follow-up interview CompanyABC Stuttgart

7th November, 2012

1. Outsourcing of Travel services etc. Initially an internal department (approx. 20 persons) – now handled on a SAP system via a Travel Agent covering all staff travel. Also outsourced call centres for IT support to Slovakia, Romania and Thailand. The central department responsible is in India.
2. Catering is kept in-house with kitchens at all larger sites (>2000 employees). Pre-cooked and delivered to smaller locations within a 20km distance. If more remote then catering is outsourced.
3. Business Services (accounting, invoicing etc) is handled in India alongside the embedded software business. Largely set up as a replica of Infosys. A senior executive is currently investigating a change in policy which would result in more platform responsibility with added-value design work etc.
4. Impact of local policy on headquarter strategy – adhere to corporate regional policies. In Brazil there is a free trade area (Manaus) with zero import tax. Look for the best cost of ‘total ownership’ including all secondary costs, not necessarily the cheapest. There is a component engineering business (to compare with embedded software) in Czech Republic with three legal entities (business units) called Budweiss. Interview arranged for January 2013.
5. At the moment it is deliberate for the business in India (embedded software) not to have direct contact with the OEM. There is an intranet across the group / headquarters. However, the engine control unit and others want to have more platform responsibility to work with the OEM on system design. Vertical integration of software in Bangalore to hardware to OEM is envisaged first half of year 2013.

A3.2	CompanyXYZ (1&2)	UK
Name	xxxxxxxxxxxxx	xxxxxxxxxxxxx
Role	VP Operations EMEA	UK Operations Director
Company	(Group: UK-Engineering plc)	
Date	12 December 2011	

Stages / Format:

A Establish Chronology - regarding organisation experience of outsourcing / offshoring

1. What?

What type of work has been outsourced or moved offshore to date?

How is this then organised – through preferred supplier relations, subsidiary divisions?

If you go back to the first attempt that we had many years ago taking work out of the West and moving it to the East we had a factory in Reading and China, I think 15 years ago at least, we took a runner repeater type range and we moved it into our Chinese factory. Our Chinese factory in Xiang Jin, just south of Beijing, it was a relatively small affair at that stage, but we moved this range there and that is actually still running out of Xiang Jin, they have subsequently outsourced that to a local Chinese supplier. Quite a lot of machining in these parts so relatively high labour content to material, usually then done in such a way I think we ship that in and I would say that has been pretty successful.

So these are engineering machine parts / components? And where have you moved them from?

Yes, just components from Reading to near Beijing, and that was really about price.

And was that outsourced? That wasn't part of a Smith's group?

Yes, it is another CompanyXYZ plant.

So that was just off-shored – just so we get the terminology right, you still have some control but it is moved off-shore so it is largely cheaper labour, outsourced is where it is then to another company that is not part of the group and it could be at home or it could be abroad.

Yes, and there is a whole variety of those that we have gone through. They have subsequently outsourced that so they have moved that to a local company and they did that in terms again really uncluttering their factory, they felt that wasn't core to what they were developing or how they felt their development was going in China so they took a decision, CompanyXYZ China, Asia Pacific Region, to outsource that to a third party.

Maybe this is part of a later question but one of the trends just recently has been China has been moving further up the value chain in other words they are not doing very cheap commodity type stuff now they are doing more complex manufacturing and they are becoming more strategic about what they do and what they don't do and their labour rates are going up quite dramatically.

Yes, and we are seeing that absolutely. Ours has also changed a little bit – we had a factory in Xiang Jin for many years, a basic factory just doing local market and some of these things for the European market but very limited in terms of what it was exporting so we didn't really take a huge advantage of that supply chain. Then we bought another Chinese company, again in Xiang Jin, but that made internal machinery. Yes, it was probably our highest tech product that we do – they have really taken CompanyXYZ seals and really reverse engineered those so they were a company that were really doing copies and we went in and bought them.

So that is an acquisition.

Yes, we acquired that and then we put the two together. So, we bought a new building and we put them all into the new building.

So you have been able to integrate them successfully?

Reasonably successfully, I was out there 3/4 months ago and they have done a very good job. The early days were quite difficult because again quite a different culture but bringing them together into the new building and moving people around and the rest of it they have ended up with a reasonable job I think of integrating those two companies.

Because this is part of Alex's MBA Project, looking at mergers and acquisitions. It is fascinating.

Yes, that's right. We have done quite a lot of acquisitions so we will come and talk to you about that another day.

And I am happy to talk to you about that.

So that was our very first attempt, I would then say that we went through a whole series of other restructuring initiatives. Yes, the next one would have been when we closed Reading. I have been here 13 years now and when I came to this plant this plant was doing everything, so it made its own pins, it made its own boxes, it did its own labouring, it ran its own canteen, it had its own security on the desk at the front, all those type of things were CompanyXYZ at Slough. Slough was self-sufficient. Just a brief bit of history, CompanyXYZ himself was the guy who invented the product, he was a maintenance guy in Chicago, came up with the idea which came from the back of his cigarette packet, but he did all this type of stuff, invented the product, somebody else took it on, no mention of XYZ afterwards, he disappears, we kept the name and then the brothers actually bought the idea from him, the patent, they are the guys who took that on and one of them came to the UK in 1923 and set up on the Slough industrial estate, so 88 years ago and we subsequently moved around lots of different positions here in the UK.

So he was an American then XYZ? I thought you were a British ...

Yes, he was an American. CompanyXYZ were an American company but we were acquired by TI

(Tubes Investments), then part of that was divested, so I think we sold part of, well XYZ in the States ran as CompanyXYZ Inc. and XYZ over here ran as CompanyXYZ or XYZ Packing and they ran as two separate companies for a number of years. Then TI bought CompanyXYZ Inc. and bought them back together again, which would have been 20 odd years ago, and then subsequently TI were then merged with UK-Engineering to become UK-Engineering Group so that's where we come back to being a British company, so TI were a British company but the actual CompanyXYZ itself was an American company.

OK, so you were talking about Reading then.

So, I guess we went through a series of outsourcing projects, because we outsourced our labouing, our canteen, all the non-core stuff, we went through a long period of time one after another outsourcing those kind of activities to third parties. And then we did Reading. So the Reading facility was again an acquisition going back a number of years, it was a sub-contractor CompanyXYZ Bull, and then developed that for machining and core products. We then set up a business unit, we spent a lot of time in Reading kind of developing that, but then ultimately we had a decision from our top management within XYZ which said, really, too many buildings in the UK you need to concentrate everything into one building, reduce overheads, the only way to do that you have to take a complete building out otherwise if you only take half the people out you won't get the benefits of certain elements. There were 3 factories in Reading and we closed all 3.

And that was a mix between outsourcing, domestically, repatriation into the Slough site and we did a small amount of outsourcing into the Czech Republic. Just assembly.

Yes, we took assembly and we took all the machining of the 50 600, we went via a third party actually. We actually outsourced a lot of stuff. In order to do it fast we took some of that product line, moved it to a third party and then we gradually filtered that back into the Czech Republic facility which is also ours.

a. ***OK, so that's a wholly owned subsidiary?***

Correct, yes, again that was a JV in the Czech Republic with Sigma Parts and we are still on the Sigma Parts site but we bought that as 100% going back 15-20 years ago.

So how many jobs were involved there – how many people worked at Reading across the 3 sites?

60-70 people, quite small in the scheme of things.

The UK operation used to be about 280 people, was it? Yes, something like that, probably a bit more. Yes, because we had Ballymena.

Ballymena?

Yes, we had a plant in Ballymena.

Well, we moved a lot of that activity into Czech and our site in Antrim and we have just closed that site in August this year.

I suppose in terms of the scheme of things there was the outsourcing here, there was the Reading plant which as Stuart says was partially outsourced we took some of it and moved it to third parties here in the UK but a reasonable chunk we moved into our own facility in the Czech Republic. I think the next thing we did, was an exercise here of moving a lot of the wet seal / PTFE machining into the Czech Republic.

We moved a lot of PTFE to subcontractors yes, that was out of Reading, wasn't it. So we then went through a phase here

Again, components?

Yes, Reading was predominantly components ...

PTFE used to press their own raw material, didn't they. So really machining.

Yes, they did. Again, we didn't really consider that as being a core activity for us.

So do you retain here on site the design and development and intellectual capabilities?

Yes, it lies between here and the Manchester site, doesn't it?

Yes, in the UK and in each of our European subsidiaries, like France and Germany, there is the design, intellectual property resides there even though we have moved a lot of stuff around from those factories as well so we have currently not moved any pure engineering, I wouldn't say, out we do a lot of drawing office stuff in India, but not necessarily the design.

So we did that, then we did more movement of material, again of components from here to Czech Republic, then I think the next major one was Ballymena which is when we closed our Ballymena facility

We did the Flexibox There were two acquisitions which was Flexibox and Sealor, there was a big manufacturing site, which was Flexibox in Manchester and Ballymena and that's when we moved more out of Manchester, put more into Ballymena, some into Czech and bought all of their warehousing activities to Slough.

Also at that stage because we had acquired Sealor, so that would be 20 years ago, XYZ were no. 1 in the world, the biggest in the world, and they bought no. 3 and no. 5 biggest seal companies and tried to put them all together at the same time.

2. Where?

Was this activity confined to a particular division, or has the approach been adopted across

the business?

Do you have preferred partners or locations e.g. for software development, professional services etc.?

Maybe we take the BPR process that we went through. In 2005, we established an operations strategy, Neil has got some slides out, and that was about being competitive on price and lead time. With that operations strategy we then embarked on a BPR project and once we had agreed how the business was going to work we then underpinned that with a ERP system, SAP, and the reason we did that is we had a huge range of systems across Europe, Asia and Africa

particularly through the acquisitions I guess everybody had their own inventory S/W?

and bespoke, we used to have a team here that used to write the software, it was in-house but every site worked off the same “software heading”, they were all slightly different in terms of what they did so locally developed, or the development was controlled here but every country could be slightly different. So then, in 2007 we then rolled this site out onto SAP and we’ve just finished the last country out of 43 countries.

Pretty much the question now is whether because that covers us for Europe, Middle East, Africa and Asia Pacific but Americas are still on MFG Pro so we now have to go through another phase of SAP for the Americas, which is going to be interesting. It is the same process. We went through a new coding system, so master data was reviewed which was a huge project.

Yes, don’t believe the consultants from SAP, it’s never that easy is it?

We had a partner which was Atos / KPMG.

Stuart was in the middle – Stuart was actually part of the team with business process re-engineering, the SAP roll-out, so ultimately it has been painful, for sure, the usual type of thing, but where we are now is we are a million miles away from where we were prior to SAP implementation, it makes an enormous amount of difference and opens up still masses of opportunities for the company in terms of waste elimination and improvement of our cost base so that is why the customer service is so great. That was why they did this because, I can’t remember the name of the company, but we had consultants we had come in but they looked at us and compared to our competitors we were by far and away the biggest in terms of relative market share.

Was it Bain or BCG?

Yes, it was Bain. They came up with a report all this other stuff which said you are not achieving your full potential, take up to year to achieve a 20% return on sales; whereas we were running 15%, UK-Engineering when they took us over you had to be an 18% company minimum in order to stay within the UK-Engineering group so I am sure you can pick it up from all the various literature that is out there at the moment in terms of the market but we are knocking around 20% now.

Good, well done, in difficult trading conditions.

Difficult trading conditions, yes we do benefit from being on the back of oil and gas but we have also done an enormous amount of things in terms of the restructuring, the SAP thing, all those types of things have meant that we have got ourselves in much better shape.

And oil and gas is about 60% of your turnover.

60% might be a bit high at the moment.

Are they confidential or would it be possible to have a copy of those?

We probably need to run some of these slides past Louise first.

OK, it is just some of them might help get some of the names right and the chronology right.

3. Why?

What is the driver - Is this move driven by cost reduction, or the need for different expertise, competences / skills, innovation or part of a plan for regional expansion?

Ours was driven by price, lead time and delivery performance.

I agree, I think what we probably tended to do in terms of the operations strategy up until maybe probably until David came, the new boss of the EMEA I think we were predominantly looking for cost reduction and I think we paid a little bit of lip service to the fact that yes we could do all these things but it wouldn't impact service, in fact it would make service better but we didn't actually put that many things in in terms of the operational strategy of offshoring or outsourcing to ensure that we did actually improve that. We just said it will be fine, it will be better but we didn't actually take actions to make sure it would be better.

So, in a way, it is a kind of implementation route, it is a delivery channel, it is a means to an end rather than an end itself, so it's not "we must go to China" it is "we have got to cut costs" and then the internal cost reduction, how much will that give us and what else can we get.

Yes, and it wasn't until we had SAP that we had the visibility of what we were doing was the right thing, because we couldn't get the data.

Yes, because there are different kinds of offshoring and outsourcing, so you can get EDS to come in and run your computers, you keep the computers, you keep the software, the same staff are still there but they transfer off your payroll so then if you screw it up it is very easy to bring it back but if you are manufacturing and engineering and you are trying to cut costs and you close the plant and you sell off the equipment and you fire the people it is very hard to bring back.

We have just been through a big UK-Engineering initiative on information systems so we now have AT&T and Cap Gemini to support us and we have a lot less in house software development so that's exactly what you just said, so that's now a UK-Engineering level rather than at CompanyXYZ.

4. When?

a. **What timescale would you put on these changes – how much experience of outsourcing is there in the organisation?**

b. **At what stage of maturity are these changes?**

15 years but I would say the really big drive to do that was around 2005/2006, so we have really been on the hard push this way for about 6 years. I would say we changed tack after about 3 years and the pure outsourcing as fast as we could to try and get cost reduction was then balanced with trying to improve our customer service, so we had as many projects running on that as we did have on outsourcing and so everything was xxxxxx

Yes, and that's the next bit that we will come to so that makes sense. So you kind of get a feel for or you learn what the problems are, test the infrastructure.

Yes, in all honesty as I think most companies will probably tell you the UK once became unstuck, we have had some bad experiences, we have had some good ones but I think we now have a much better idea of what works and what doesn't and where the levers and the buttons are that we need to make sure that we pull and press when we are going to do one of these projects. Not to say we have a cast iron, full-proof method of doing this but I think we are in better shape to be able to do these things today than we were 5 or 6 years ago.

5. Evolution?

Has the process of offshoring / outsourcing evolved further up the value chain e.g. from low skill to special skills? How do you see the activity developing?

Yes, for example one of the last major offshoring projects to CompanyXYZ Czech was when we took gas turbo machinery, it was the manufacture of that which is very tight tolerance, non-repeating so we have a lot of programming,

one-offs ...

very low batch size, we looked at a number of times in the past, it is too difficult to outsource or it is too difficult to offshore but we moved that 3 years ago, is it 3 years ago?

We started probably 6 or 7 years ago but not quite the high end stuff so a bit simpler but it wasn't until about 3 years ago we went the full

Yes, 3 years ago we took the big chunk of it

So that's exactly the lead time, the 3 years gradual slowly, slowly and then go the whole hog

Yes they are as good if not better than what we have now.

B What process (decision making) – was associated with the plan?

1. Who had the idea?

Did the idea originate from within the organisation or from a consultancy review? Are close competitors following a similar path?

Do operating divisions have the autonomy to take such decisions?

I guess if you look at the things that were being done at this stage to try and address this, so going back to the improvement on return on sales, at that stage we had an Operations Strategy Director here which was Andy Caffin, and Andy working with David they were really looking at what we needed to do to address that gap between where we were and where we needed to be so I think it was probably driven within EMEA (Europe, Africa, Asia) so that was driven by that part of the company really looking at what we needed to do. So I think it was predominantly kind of operational people that were involved in it but they had a kind of strategy view of what was going on with the senior guy here running the whole of the EAA facility.

The first strategies were Head Office but there were lots of local, but a lot of the locals were only servicing their own market weren't they, we were quite regionalised or country based or whatever you call it in our structure, because we used to be UK region which had this manufacturing site and sales so we had an MD for the UK, then we moved to a sales and operations structure so we are no longer anything to do with the UK sales office we just have an operational site here that comes under EMEA Operations, so I guess they were probably fairly big changes for us that were probably a bit more

Yes, the one thing we did was the two sides of the business still carried on running fairly independently in terms of strategy so EAA did one thing and the Americas were kind of doing their own strategy because at that stage in terms of where it really reported it didn't report until it got right up to the TI or UK-Engineering so there was no one boss of CompanyXYZ. Now that's changed and we have moved to a global setup so we have a CompanyXYZ President and we are moving towards a more global CompanyXYZ setup, (1) because that makes more sense on efficiencies and (2) because that's what our customers expect.

2. Was there a feasibility study?

Could you describe the planning process and whether it included a pilot study?

How were the results assessed?

There was a lot of stuff, it was the Cambridge model which the guy who was doing his MBA with Cambridge/Judge, he did a lot of looking at the various different strategy stuff and then we did some pilots looking at certain product ranges about how we would go about maximising the return on sales as well as, in theory, improving our service with those. Probably slightly too much on the theoretical side and probably we would have benefitted more from kind of piloting and checking the feasibility before we went the whole hog down that channel.

3. What was the process for getting agreement?

Was approval given by the board of directors or was the decision taken by local management? Were shareholders or other stakeholders involved e.g. institutions? Was a detailed business case required?

Yes, it was certainly done at CompanyXYZ level, so it would have been approved by UK-Engineering, because any of those type of activities, like for example when we moved from Ballymena, we moved a lot of that stuff to India, and that would have all been on the back of a capital expenditure proposal.

So, the Ballymena stuff, you say it moved to India, where in India?

There were two big chunks. The factory did two ranges of product. The coupling side of it moved to India, almost entirely, and we did put a little bit of that in Czech in terms of finishing and then all the manual work (engineering, adaptive hardware?) moved to Czech.

And we kept one part which was a business unit for a local customer who was in Belfast and again that was moved to a CompanyXYZ India company, not outsourced.

4. How many times did it go to the board for discussion / agreement?

Did the plan get referred and need further work?

What were the ‘sticking points’?

It has really been in terms of the strategy, the strategy was presented to the board, the board signed off against the strategy and then each individual additional move has been subject to a separate capital expenditure proposal, so each one of those, depending on the value of it, hits the CompanyXYZ board or hits the UK-Engineering board.

For the BPR project that was UK-Engineering board and CompanyXYZ’s execs, and then they had all the MDs and specific process owners signed up to it as well. They had something like 50 names that signed it all off.

5. Did management talk to the Works Council / TUs?

Were the consultations at varying levels and how long did the process take?

Were their specific obstacles that needed to be resolved?

Did jobs effectively get transferred from the home market to the host country – if so how many?

How did you / the organisation influence stakeholders / opinion formers?

Not for BPR at that stage. Each move has been done with discussion with union and works councils obviously in order to apply the protocols.

So once the move is approved?

Yes, I would say we have always gone through that first of all, get approval, then sit down with the unions with sufficient kind of wriggle room that the unions can negotiate something. It is not just a fait accompli. And there have been some adjustments to programmes plans.

Could you give me some examples, specific obstacles, concessions

For example here, I think when we moved a big chunk, I think it was small concessions, we started talking around about 50 people and we mitigated that back down to 40 or something like that, so it was a small concession in terms of heads, in terms of we never got to the stage where we said this is what we are going to do and the unions said “ah, we can do it a different way” so we had gone a different way. What we have generally done is we have probably gone in with maybe more heads and then cut back

So it is more a negotiation

It is more a negotiation and that hasn't resulted in us going back and fundamentally changing the capex case.

We have never changed the strategy of the commodity that is moving, have we?

No. Across Europe we have had some fairly interesting discussions with the Works Councils on that.

6. CSR / sustainability issues?

Did customers or NGO's raise any specific concerns? Company reputation, responsibility – has that changed in any way?

We are faced often with comments from the sales force and from some of our customers which actually say things like “I don't want product coming out of India”. If you really look deep into that it tends to come from things like where there has been radioactive material mixed up in lift buttons and all that type of stuff, people making compressors from the wrong type of material which was sourced in India, things like that, so a nervousness on a quality control point of view. Clearly we get some other more interesting ones when we move into Asia Pacific like Japan not wanting China sourcing and all that sort of stuff but we would be here for ever and a day if we talked about those types of things. Generally, and to my knowledge, we have had nothing from shareholders saying things like “you shouldn't be working in this country or that”

Just price discussions when you mention low cost countries

Yes, it involves a lot more negotiation on that. A lot of the reason why we would say we have done a number of these things is our market at the first fit is unbelievable competitive, our model is you get as many seals and as many products into the marketplace as you possibly can

So it is volume driven, volume push

Yes, as much as we can so that we can service the after sales market, that's where we make the money and that's where our competitors make the money, and they run exactly the same so it becomes incredibly cut-throat at the first fit generally and if you are talking about big projects then you are virtually giving away your first fit.

7. Networking / Collaboration?

Do you work closely with colleagues in competing organisations, or is there collaboration with key suppliers? Do you engage with fellow ex-pats?

In Czech Republic there is a certain exchange. They are not competitors, they are just competitive in the process. Yes, but they are on the same site so they do Vacuum work, which was previously part of BOC - BOC Edwards (that's where I think you will recognise the name) so there are a number of those type of American or British companies that are present in that local area within Czech Republic, they do talk to each other, there are lots of kind of learning that go on between the others, we do talk quite closely with Edwards and we have various agreements in place about not poaching and all this type of stuff.

And where in the Czech Republic is this?

Lutin is where the factory is and the closest city is Olomouc.

C How was the experience? – with hindsight what has been learnt, would now do more of or less of?

1. Tender / prior experience?

Was work put out to tender – or did you prefer to work through established contacts – if so why?

I think we learned a lot with Czech Republic experience because I think our early days with Czech Republic was we would take a product from here or components or whatever and we just throw it overboard and said catch it, make it, here's the drawings, here's the ...

So your problems just get moved on to them.

Yes, absolutely, and really we went through probably, I don't know, the best part of 6 years of doing that sort of type of approach and then felt the pain from it because every product that we transferred over there came back, and when it came here we had quality problems, we had delivery problems, they would get completely swamped in terms of capacity because there was no information sharing in terms of this is what the product range does, in terms of looking forward so I think it was very much that kind of view which said, well, you know, you are taking the work, because we didn't have structure then which made it all under one umbrella, did we?

No we didn't, that was a separate organisation that came until it got quite high up in the company and then the focus was lost there I think. 3 years ago we established European operations so things like Czech Republic, our main operational plants now report into just one person which is me nowadays, so nowadays that helped a lot because now you are saying we need a sending site, a

receiving site, they are in it together as a team they need to work together and they need to make sure that that project is successful. And I think that works a lot better and the latest transfers we have done have been very much more successful from that point of view and we haven't dropped the ball I would say

we sent machinists over there to train and it has been a pretty good process.

We all said it was a two way thing as well because we have learned culturally that has been quite a lot of the learning as well as the fact that if you send something to Czech Republic it is very different than sending something to India and it is very different to sending something to China. It is obviously very different if you take something out of Germany and move it to Czech Republic than it is from moving it from the UK so understanding the cultural differences and how you operate it is very different approaches that we would adopt. We would broadly follow the same pattern but in terms of the touch that we would use and the politics that we would play and all those type of things would be very different and I think we have learned a lot from that.

This comes through very strongly as well from Lufthansa. You can imagine that in German companies there is a tendency to prefer Eastern European countries, partly from language but also from cultural point of view. But the thing that has surprised me that came out of some of the previous interviews is that India is seen very much as a UK colonial extension, so it's all right for the Brits and that's another reason why the Germans won't go there because they see India as being very pernicky and very fussy around detail, around contracts.

We see that as well and it is taken to the extreme in a lot of cases, but very different. We found in the early days in the Czech Republic we would be very prescriptive and say you need to do it this way. They don't like being told how to do that, they like to make their own mind up about what is wrong, they will take the best of what you send over and then they will develop their own and I think it was really quite difficult for us to get our head around that they would operate in that way, especially as we had a very naive view in those early days which is well you are communist, you were told what to do in the past therefore if we tell you what to do xxxxxxxx But they are very very clear in terms of what they should add, and that actually helps us quite a lot because now we send something over, we understand that they are going to pull it to pieces and they are going to start from scratch but they are going to take the best bits, we keep involved in that process and make sure they don't go off at some sort of ridiculous tangent but ultimately that has meant that

you give them some rope and let them ...

yes and there have been some good things that they have developed and we have brought them back to the UK in terms of learning, so I think we are further down the road there.

2. Setting up the contract / external negotiations?

Were other functions such as Legal, HR, Procurement and others involved? If so, in what way?
Were the negotiations protracted?

No, we have to involve HR, they have to be in the middle of the negotiation process.

And fiscal as well.

So tax, is that Group Finance as well?

Certainly in terms of transfer profits and all this type of stuff it has to be

So internal pricing and costing

Yes, and obviously if you then suddenly decide I am going to take this out of here and move it over there then all you have is one of the tax companies from the equivalent of the Inland Revenue knocking on your door and saying “thank you very much, here is a bill for xxxx”

You have to be careful with India because if stuff is sold within India as opposed to bought back here there is a huge difference.

Yes, so we involve these types of companies, just in terms of lessons learned. India has been difficult for us, exceedingly difficult and I think we underestimated how difficult that was going to be and I think most of that has been around continuity of management in India so what we are finding in India is they are very keen, they do actually learn but then they go and then they start over again. So we are going through this kind of phase in all the aspects of India – train up, lose, train up, lose.

And is this because costs are going up quickly as their reputation grows, they become more mobile

All those type of things and there is a general view I guess from UK-Engineering is there is probably too much of this is XYZs, this is the pay rise that you are going to get, therefore maybe in India you are going to be paying 15% pay rise or 20% in order to keep up with the market but we will pay more than we would in say Italy or in the UK but maybe not quite enough to keep us ahead of the market and the consequence of that is that the better people are leaving so we have a fairly significant turnover within India and that means in terms of continuous improvement we are not. It becomes very frustrating for the people involved as well because you are going through the same learning exercise with people.

3. Problems / sticking points?

What specific areas were seen as ‘blockers’ to progress? How were they overcome?

4. Cultural issues?

Were problems identified in advance? How did any misunderstandings arise, and how were they resolved? Do you have any stories / examples of situations that arose?

The latest one is putting in a help desk and you get all the usual issues of which language, and that has been fairly recent.

So that is with after sales stuff is it? Pre-sales, customer orders, technical?

Technical, yes.

And that surprised me as well because we used a company that are used to doing this. If you did it yourself you would say that was the type of typical thing that you would say, well yes about that but outsourcing it you would have thought that would be one of the things that would have been able to sort out. Stuart is saying from his own example that when he phoned up and he couldn't understand the guy at the other end of the line at all

.... his written English is perfect but on the phone

In fact very often in my experience almost colonial, almost prep school, it is very precise, they take great pride in correct grammar and spelling, old fashioned.

Culturally wise it is the typical type of thing that I am sure you have come across so many times. India say "yes" to whatever, absolutely no question, do you understand, tell me you understand, repeat it back to me, all that kind of stuff, come to the next meeting you say OK, you agreed you would do this and there is complete silence. And then you have to go back over it again. That is one. China we are finding that because we are now doing a lot more work in China at the moment and we have got some more business continuity actually, we are putting some stuff into China right now. China is almost the opposite in terms of almost when you have finished, before you have finished a sentence they are almost off doing it, then how do you actually control to make sure they have really got and understood the message and they are doing it the right way. We are finding it probably easier with the Chinese, because we are getting action, whereas in India it was taking an awful long time to actually get things moving and changed but we have to be careful we put mechanisms in place now to just check that they are doing as we thought they were going to do.

D How successful was the venture?

How did the organisation assess or measure :

1. The Quality of product or service?

Were there noticeable changes in customer satisfaction / feedback?

Did you measure on-time delivery?

Would you continue reversing the process if unsuccessful or circumstance changed (backshoring)?

Was open book accounting considered as part of the contract?

Were Service Level Agreement targets and incentives clearly in place?

Yes, absolutely, we measure everything to death.

The main driver is delivery performance to customer request.

In our old systems we had some sort of measure that we ran which said we were about 90% delivery performance to our promise and it was nonsense, it was complete made-up rubbish, it clearly didn't add up because you had all sorts of things, you were allowed to do this, you would change the date and then consequently But nowadays with the SAP system clearly that is much more rigid from that point of view. We dropped to a very very low level of customer service

45% out of this site when we went live on SAP. We have now seen we are probably 90-92% to our promise, which is a real measure and we are somewhere round about 85% to customer request so whereas in the old days 40-50% to customer request was actually probably fairly good.

So no making up volumes later, expediting and stuff, it is ordering full on time, efabs????

Yes.

2. The comparative Cost?

Did you need to agree definition and common standards for some measures – please give examples?

If you look at headcount since SAP has been in we are about 20 heads lighter

for a significantly increased level of business as well.

So it's a double

Well, you can see, something has happened. Your ROS doesn't move from 15 to 20 without some fairly significant changes. In terms of you were talking about your comparative cost changes moving from one location to another, 30% reduction out of Czech roughly, slightly more from India in theory, it should be 35%. Certainly labour wise we should see about an 80%, by the time you add on the effects of the material contribution to that and freight we normally find that it comes in slightly better than Czech. If we are prepared to challenge and keep making sure that we lock down the prices, otherwise they will move.

And China?

China depends again on product. We are seeing something probably like about 40% reduction in China, depending again product wise.

Because one of the issues has been almost irrespective of offshoring and outsourcing long supply chains with deliveries from Asia in particular, oil prices going up, labour costs going back up, container costs so logistics costs almost outweigh labour costs, has that taken its toll?

Yes, and it has had an impact in terms of our thinking as well

that just makes our inventory management strategy different

The product range that we outsourced from Ballymena into India we predominantly tried to go for shipping so we used boat rather than plane, we get away with that on some, not all of it, then your model says this is built in and then your actuals come in much higher

And it depends how it is 'costed' as well, doesn't it, whether you use a standard figure or it is

We have looked at what we can outsource and what we can't outsource a lot based on lead times, so if we have got a long lead time we have said that we can use China or India. I think we are probably coming to the conclusion that if it is a stockable product, something that we can manage through inventory, then that figures pretty well for India or China. If it is something which is heavy, bulky it is really not an ideal product range for us and it is causing us to rethink and look at some of the things that we have put out there.

So you would keep that here.

We would probably move that back into somewhere like Czech Republic, so nearshore rather than inshore. I don't think we are at the stage of thinking, I don't think there is anything that we would bring that has been outsourced into either Czech Republic or if you look at the Americas Mexico, which is their equivalent, back into America or back into the UK but you would probably bring it back into Czech or you would outsource it entirely, but probably outsource it nearby.

So any examples of reverse offshoring or backshoring at the moment or not? You have got the nearshoring bits but you haven't actually ... you got fed up with and you brought it right back to

Yes, the Americas did. This was about 5 years ago they had an exercise into San Fernando. They tried to move too much into Mexico and then brought a bit chunk of it back to Chicago, because they virtually closed one of their factories, (Chrystal Lake, Mexico) and then they opened it all back up again.

a.

Was that related to political issues?

I don't know, I am talking a little bit about what went on the other side of the pond. But that's the only one that I am aware of that we have actually said no, this hasn't worked, now we are gradually going back into ramping that up again in a more progressive fashion.

3. Timing of work transfer, training, pilot studies?

Did you stick to the agreed plan or were there delays, if so why?

Were personnel from the host country brought to the parent company for training – what issues did this arouse?

We have had months of delays for sure. I think the more recent projects have gone essentially to plan.

The Antrim, Northern Ireland one overran by a number of months but that was really around customer and volume, wasn't it. That was moving that from Antrim back into here.

Again, the things that plays very heavily we do quite an intensive risk assessment nowadays and try to address those things. We looked at that product range, the customer had closed his facility so we were left with a facility left in Antrim that was supplying to North America, which actually made no sense at all. When we did the risk assessment we looked at moving that to North America but all the supply chain exists here and it is a very very complicated, by our standards, an exceedingly complicated component, or set of components, so from a risk point of view we felt it was right to bring that from Antrim to here and establish

that and get that working correctly.

We did an audit on some of the processes to check

Yes, we did, we took some of the easier processes but not that easy.

4. **Process Innovation?**

Who takes the lead on R&D / innovation – is this seen as your (or the host) responsibility or is the supplier encouraged to generate ideas?

R&D is all being done, there are only 3 or 4 centres that do R&D. Pure R&D if you are talking about research and development of our products, then that's being done by the engineering function entirely. Obviously there is some element of operational involvement in those R&D products, testing, pilots, involvement in design for manufacturing assembly, those types of things that go on in our type of operational input but in terms of R&D it is being driven by the Engineering department.

And largely still here in

Here, Manchester, Chicago and that's pretty much it.

But you do get more and more suggestions coming back from the Czech Republic and so on

Not on products, no. On process yes.

Not on design.

The other activity that drives us to change is sales and operations planning, we run that on our specific, on our turbo machinery product and then we can see what volume is coming through and off the back of that we have invested in machinery

Yes, it has allowed us to be more in control of our business for sure, it is one of those essential elements that we didn't have before but it has made a big difference to us.

E **The Institutional context?**

1. **Are you aware of formal negotiations with central or local government to gain entry to the country / market?**

I guess in the Middle East there would be.

We have got a new factory that we have just built in Dubai which would have been heavily involved with negotiations around what we could and couldn't do there.

Some of them have local policy on ex-pat volumes, like Saudi only a certain percentage of the workforce can be ex-pat.

If you think about the things that are influenced in that, we have got now the localisation argument or aspect is coming into play a lot so Russia, for example, we have been present as a Joint Venture for probably the best part of 10/12 years, we do a certain things within that JV but not enough to satisfy our customers and our customers are now saying you must, otherwise we won't buy from you any more. So that is driving the strategy, the local strategy, and that is quite a difficult strategy because they are diving that on a product range which is actually quite difficult but we are having to find ways and we are investing in our own facility within Russia and we have just set up a wholly owned CompanyXYZ Russia facility in order to do some of these things. The same applies in Saudi, so we have had to develop a lot more in Saudi than we would otherwise have had to have done for localisation requirements. Dubai was really driven by more about customer service than the Government saying you must localise but there is obviously a lot going on in Latin America as well on that front.

2. Were you attracted to a particular location or zone by incentives / tax breaks?

It has done yes.

For example in Thailand there is a region where all the car manufacturers are.

It has done in the past. For example there were grants available in Ballymena, which is why we set up in Ballymena and certainly our facility in Shannon in Southern Ireland, was purely driven out of the fact that it was a tax-free zone there but that has gradually been eroded but that was why we went there. A number of things, we will consider that and we did consider that when we were setting up Central Parks warehouse, we looked at Belgium for whether we should set up there because there were several grants available so we do take that into consideration.

3. What relationships did you have to manage?

4. Was there involvement with Universities or other institutions?

We have just taken on with East Berkshire College apprentices, ...

... the first time in 10 years. We are very happy – we have been trying every year.

I think they call it NVQ3. Czech have got a big Technical college next to them

yes, and we grow a lot of our own in that way in the Czech Republic because we are recruiting, we have been growing that site very fast and that helps us a lot by taking on apprentices or the equivalent of apprentices. Universities there is certainly a lot of tie-up between Universities around our facilities from an Engineering point of view so we will have some quite close ties here in the UK – I would have to find out which Universities - we have got some very senior guys here from an engineering point of view and we do a lot of work with Tsinghua University in China, there is some big development stuff that has been going on there, which carries its own risks as well seeing as they actually fund the university through the aftermarket, stripping down seals, selling those and actually becoming a competitor. Intellectual property as always in China is one of the biggest kinds of concerns.

F **Who would you suggest that I now speak to....?**

In the first instance I think it would be best to come back to ourselves. It would depend what it is. If there is a measured gap in terms of we came to the edge of our knowledge when you start talking about Engineering, R&D and some of the commercial aspects so it may well be that if you find that is a particular area where there are gaps we might have to get you to speak to somebody else.

Is there a central strategy unit here?

Yes, there is within XYZ. UK-Engineering have taken on a Strategy Director for I guess mergers and acquisitions, strategy, that type of stuff in the last 18 months and also both XYZ Medical Detection they have their own Strategy Directors and that is a relatively new thing for us at a global CompanyXYZ level.

So is that XYZ Medical?

No, not XYZ Medical, UK-Engineering Medical have their own Strategy Director, UK-Engineering Detection have their own. UK-Engineering are made up of 4 business units, so the third one is Flexitech and Interconnect, they are counted as two divisions, so there are probably 5 or 6 divisions, and then XYZ, but each of those as far as I understand, certainly Medical and Detection, I know they have Strategy Directors so if you wanted to get up to the next level we would have to find a way to introduce you to those sort of type of guys.

So I will get this typed up and we can then edit it so correct facts and spellings and we will have it in this sort of format but nothing is being published at this stage because I then have to pull all this together and then think through what the next stage would be. In some cases, for example for Lufthansa and CompanyABC, I am probably going to visit India and talk to some of the people there so if I am doing that it might make sense then to say do you have a unit in Czech Republic or India because if I am visiting there for Lufthansa then obviously I can do that. Is that OK?

Yes, I think we probably need to have xxxxxxxxxxxxxxxx involvement just to make sure that I know that will take a little bit longer but ... She is the Marketing Communications Manager.

Thank you very much for your time.

A3.3 Summary of initial findings in the engineering sector.

Focus, Approach and Issues - Engineering

	UK	Germany
<i>Focus</i>	Start off with basic cost cutting and outsourcing – become more ambitious with offshoring. The aim is to improve return on sales and survival.	On moving important but non-core business services and processes offshore. Cost reduction still a key driver. Create specialist subsidiary business and carefully track target cost savings. Co-ordinate and control inter-group business globally.
<i>Approach</i>	Grow through partnership, alliances and then acquisition. Integrate to gain further cost reductions and then revisit outsourcing offshore. A continuous drive. Seek external consulting help when appropriate	Cost driven – approach varies by group division. Wholly owned subsidiary established. Close cooperation with institutional partners. Avoid outsourcing – control over product. Established over a 20 yr. period – rapid growth in past three yrs. Now further expansion from India to Vietnam.
<i>Issues</i>	Shift from cost reduction to value add, efficiency and service delivery. Care taken with choice of preferred country destination for relative ease of working / cultural fit for offshore activity. Careful monitoring and reporting of actual v target performance. Politics, local policies and fiscal breaks all play a part but may be time limited. Have to work hard to recruit good people – even in a recession.	Timing of cost reductions coincident with global growth – so protection of jobs in home market. Customer pressure for lower costs and supply nearshore in key markets. Avoid outsourcing to retain control. Sensitive to cultural differences and market sensitivity. Little networking – collaboration is between OEMs and first level supplier. Young workforce, extensive training. Strict monitoring of cost savings

A3.4 Manufacturing and Engineering trends

Ref: <http://www.oecd.org/sti/ind/38558080.pdf> ,

<https://www.gov.uk/government/publications/future-of-manufacturing/future-of-manufacturing-a-new-era-of-opportunity-and-challenge-for-the-uk-summary-report>

AVAILABLE ON REQUEST

Appendix A4 Related Research Interviews

The researcher had the opportunity to work in Shanghai on two occasions in 2013 and 2014. The following interviews have followed a similar semi-structured interview to that of the four case study companies. Each organisation is also positioned in either of the airline / transport, or the engineering / manufacturing sectors; and as such can be used to help validate and triangulate some of the propositions and findings developed in the main study. Each company is a global multinational corporation and its headquarters country base can again be assumed to represent either a LME or CME style of Variety of Capitalism (VoC). See SUMMARY Table A4-1 below

A4.1	MNC-A interview	Shanghai May 20, 2013
A4.2	MNC-B interview	Shanghai April 15 th , 2014
A4.3	MNC-C interview	Shanghai April 28 th /2014
A4.4	MNC-D interview	Shanghai April 28 th 2014

AVAILABLE ON REQUEST

Appendix A4-1 Comparative summary from other interviews. Thematic / content Analysis

INDUSTRY SECTOR	TRANSPORT		ENGINEERING	
	TRANSPORT MNC-A (AUTOMOTIVE)	TRANSPORT MNC-B (AEROSPACE & RAIL)	ENGINEERING MNC-C (ROBOTICS)	ENGINEERING MNC-D (BUILDING PRODUCTS)
HQ LOCATION	SWEDISH / US	FRENCH CANADIAN /GERMAN	SWEDISH / SWISS	US
NO. EMPLOYEES & COUNTRIES WHERE OPERATING	56,000 employees in 29 countries	Aerospace 76,000 employees in 26 countries Rail 34,900 in 59 countries	147,000 employees in 100 countries	8,500 employees in 8 countries
CURRENT OUTSOURCING INITIATIVE	Training of procurement staff	Use China as a wholly owned low cost base from which to export (especially for Rail). Good local supplier network in China.	Factories are all wholly owned subsidiaries. There is international (becoming global) sourcing of parts / components. Now a gradual shift towards sub-assemblies (added value). Will require adaptation of supply chain and a change in supplier skills / capability.	Laminate flooring is 100% outsourced. <10% of total cost is labour so policy will now be reviewed with lower costs in the US (70% of total sales). Ceiling products are manufactured local to market.
CULTURAL PROXIMITY	Follow the customer – wherever market need	International management team. Culture, language and geography are regarded as important. Railway is conservative and expect suppliers to work in local language.	Shanghai serves Asia market, Sweden the European and US the Americas. Fit with supplier regarded as key. Very international management teams.	
TRADE UNIONS	Work closely with local management	Discussions take place but no current issues.	Trust is important especially between Europe and China.	'Employee Club' reviews work conditions, pay, holiday. Turnover is high employees return to their rural village and do not

				then come back to work. Government Policy under review on rural versus urban entitlement to health, education and property.
DRIVER		Low cost, some innovation. Little added value at moment but expected to increase.	Strategically identifying changes in core and secondary supplier parts. More added value in a shift to sub-assemblies.	
COST / BENEFIT		Supplier Enumeration Approval Process. Total cost of ownership is reviewed and there are comprehensive QA systems. 30% average saving.	European Committee reviews local cost versus India / China benchmarks. Review total cost of product.	
TRENDS / CHANGES			Supply chain becoming more important and consolidated. Different suppliers with different skills and capabilities required for the future.	
CONTROL / LOCAL DEVOLVEMENT		Orders placed on a regional basis – in-line with legal entity. Close relationships with local suppliers.		Product managers in US have P&L responsibility. Close communication and regular travel to meetings.
LABOUR COSTS				Senior management costs in US, Europe and China are similar but blue collar workers costs in China are much cheaper 2500 to 3500 yen per month.
BACKSHORING	A number of instances. Process and control and quality the main reason.	No evidence yet in rail. Prevalent in automotive. No political pressure to date.		

Key messages from 'other' multinationals interviewed in China:

- Transport and Engineering sectors are reasonably homogeneous. Sub sectors e.g. Transport: automotive, rail, aerospace display similar characteristics as does Engineering: Power, automation, building products.
- Wholly owned subsidiaries preferred, outsourcing currently largely limited to components but expected to move towards sub-assemblies that offer more added value, consolidation of complex supply chain, higher skills and different capabilities needed.
- P& L responsibility retained at HQ but sourcing concentrated regionally.
- Consideration given to reduce manufacture in Asia when local market labour rates are attractive. More consideration given now of total costs including material and transport.
- Management teams very international, mixed nationalities with wide experience.
- Culture, language and geography considered important.

Appendix 5 Conference papers

- Conference papers (plus interim papers at University of Hertfordshire – the following three are stored as working papers at the University; and at Ashridge)
 1. **Cambridge June 2014 Restructuring of Global Economy**

Mitchell, A.J. (2014) *International management: A conceptual framework for comparison of offshoring and outsourcing strategies by UK and German multinational corporations*. ROGE Conference, University of Cambridge.
 2. **Thessaloniki Sept 2014 Doctoral Student Conference:**

Mitchell, A.J. (2014) *Globalisation: Managing Multinationals - A comparison of offshoring and outsourcing strategies in UK and German multinational corporations*. 9th South east European Doctoral Student Conference, University of Thessaloniki / University of Sheffield.
 3. **Cambridge Sept 2014 Institute for Manufacturing**

Mitchell, A.J. (2014) *Re-shoring & Offshoring trends: Managing Engineering Multinationals - A comparison of offshoring and outsourcing strategies in UK and German multinational corporations*. IfM Conference, University of Cambridge.

- Miscellaneous
 - GEBRU and Ashridge presentations

Journal Articles

- Mitchell, A.J. & Honore, S. (2007) Criteria for successful blended learning, *Industrial & Commercial Training*, Vol. 39, No. 3, pp. 143 - 149
- Van Hoek, R. & Mitchell, A. (2006) The Challenge of Internal Misalignment, *International Journal of Logistics Research and Applications*, Vol. 9, No. 3, pp. 269 - 281, September

Articles and Reports

- Mitchell, A. & Jones, M. (2007) Rethinking business risk, *360° The Ashridge Journal*, Spring, pp. 30 - 35
- Mitchell, A. & Jones, M. (2007) Rethinking business risk, *The Economist Intelligence Unit Executive Briefing*
- Mitchell, A. & Honore, S. (2006) Critical success in e-learning: the human factor, *360° The Ashridge Journal*, Spring, pp. 32 - 39
- Mitchell, A. (2005) Keeping the Customer Satisfied: The Brand's Not Everything!, *360° The Ashridge Journal*, pp. 27 - 33, Spring
- Mitchell, A. & van Hoek, R. (2005) Learn to walk before we run...Listen to the voice of the organisation. Why do Supply Chain efforts fail to realise the benefits?, *360° The Ashridge Journal*, Autumn, pp. 20 - 29
- Mitchell, A. & Hill, S. (2004) The Great Mergers and Acquisitions Gamble, *360° The Ashridge Journal*, Autumn, pp. 23 - 31.

Books/Chapters

- Mitchell, A. (1994) *The Quality Pocketbook*, *Management Pocketbooks*, October (reprinted 1996 & 2001)
- Binney, G. & Mitchell, A. J. et al. (1992) *Making Quality Work*, *Economist Intelligence Unit*.

Case Studies/Learning Guides

- van Hoek, R. & Mitchell, A. (2008) More of Less Product Choice? Stock Keeping Unit (SKU) Management and internal alignment at Clorox, published by CSCMP - Council of Supply Chain Management Professionals, as part of their Academic case study series, Spring
- Mitchell, A. (2000) *Benchmarking Learning Guide*, *Ashridge Learning Resource Centre Learning Guides*

Conference Presentations

- Mitchell, A. (2011) A comparative study of German and UK offshoring practice: An institutional approach, 5th SAHRI Research Student Conference, University of Hertfordshire, 2 June
- Mitchell, A. (2011) A comparative study of German and UK offshoring practice: An institutional approach, PhD Summer School, University of Hertfordshire, Friday 2 September
- Mitchell, A. (2011) A comparative study of German and UK offshoring practice: An institutional approach, Global Economy and Business Research Unit (GEBRU) Workshop, University of Hertfordshire, Thursday 22 September, Session 2: Firms and Employment Across National Boundaries
- Mitchell, A. J. (2010) Success and failure in outsourcing: is backshoring (part of) the answer?, Conference, University of Hertfordshire, 2 - 3 September
- Mitchell, A. & Honore, S. (2006) Critical success in e-learning: the human factor, First Annual Blended Learning Conference, University of Hertfordshire, 15 June
- Mitchell, A & Honore, S. (2006) Critical success in e-learning: the human factor, Higher Education Academy Conference, University of Nottingham, 3 July.
- Van Hoek, R. & Mitchell, A. (2005) Why Supply Chain Efforts Fail - The crisis of internal misalignment, *Logistics Research Networks Annual Conference*, Plymouth, September.
- Mitchell, A. & Hill, S. (2003) M&A Best Practice Learning from Mistakes, Research seminar with Results Business Consulting, London, November.
- Mitchell, A. (2003) Experience, Lessons & Ideas for Running Consortium EMBA Programmes, AMBA MBA Director's Conference, Juan les Pins, France, June.

