

# Global Restructuring of Value Chains and the Effects on the Employment

by Monique Ramioul, Catholic University Leuven, Belgium

**This article looks at the current intensified globalisation of the economy from the perspective of the restructuring of global value chains, changes in organisations and the impact on work and workers. Economic globalisation today implies a restructuring of global value chains and a changing inter-organisational division of labour. The essential characteristic is the decoupling of business functions to relocate them in different organisational and geographical configurations. Therefore it seems more accurate to analyse restructuring at the level of global value chains rather than at the level of individual firms. Although effects on work and workers of these tendencies are still relatively unexplored in research, several assumptions can be made. The blurring of organisational boundaries and the fragmentation of work, the triangulation of the employment relationship, changes in the autonomy, new qualification and flexibilisation strategies and a different time use for individuals are some of the expected outcomes.**

## 1 Introduction

In recent years there is a growing interest in globalisation both by politicians and by academics. One reason for this is the intensified corporate restructuring of activities at a global level. The liberalisation of international trade, the extreme mobility of capital, the growing importance of supranational regulation, the availability of an educated workforce in some parts of the Far East and the apparently unlimited possibilities of information and communication technologies stimulate organisations to re-think what activities will be organised where and under which organisational configurations.

The development of interregional trade and of a global division of labour is as old as capitalism itself. The global relocation of activities, involving the outsourcing and worldwide relocation of parts of production processes has become an accustomed management strategy and busi-

ness practice by multinational companies during the last decades of the previous century. But today we face a new phase in the progress of the global division of work: the acceleration and intensification of relocation and outsourcing of information processing activities, including high-skilled work. In particular information technology (IT) and IT enabled business services, such as software development and support, customer relation services, accountancy and financial services, are increasingly outsourced and offshored.

Relocation however does not involve the closure of entire firms that are then simply moved from one area to another. The reality is much more complex. Business functions as separate units within organisations are decoupled from one another and located on different sites, scattered over the globe to allow a 24 hour service provision and to reach a diversity of local markets. Or they are, on the contrary, concentrated to serve clients globally and located on the sites, where the most favourable economic conditions can be realised and where the required resources are available at the required scale (Flecker 2005; Ramioul, Huws, Kirschenhofer 2005). More and more it becomes clear that the decoupling of activities to relocate them in different organisational and geographical configurations, has become a fundamental characteristic of corporate restructuring. Therefore it seems more accurate to analyse restructuring at the level of global value chains. The impact on workplaces and on employment of this restructuring of the value chains are the central research questions of the EC funded WORKS project.<sup>1,2</sup>

## 2 Business Functions in Global Value Chains

G. Gereffi and M. Korzeniewicz have developed – among others – the concept of the global commodity chain which can be defined as “a network of labour and production processes whose end result is a finished commodity” (Gereffi, Korzeniewicz, 1994, p. 2). Central to their work is the description of inter-organisational networks that emerge around the production of commodities and that link together states, organisations and consumers. The global commodity chain is the complex of linked steps in

the production process of a good where each step involves inputs, processing and outputs (Gereffi, Korzeniewicz 1994, p. 96). The description of 'classical' commodity chains, for instance in textile or in the food industry, allowed to analyse the distribution of production factors amongst countries and to map the flows of goods and capital in order to better understand the international division of labour and the uneven distribution of capital, profit and power between countries and regions.

However, the complexity of production processes and trade flows and the intensified globalisation of the economy urges for a revision of the traditional model of the global commodity chain. The growing importance of services and the capabilities to trade them internationally has to be taken into consideration. It is the information-processing business services supported by ICTs that nowadays are increasingly subject of restructuring, outsourcing and/or relocation. Further, authors such as Porter stressed the importance for the competitive advantage of other than the mere primary, core production activities. Porter distinguishes different business functions within the chain that can be divided into primary activities (design, production, assembly, transport & distribution, sales and customer services), and business functions that are supportive to the primary process (such as finance and accountancy, human resource management, training, product development) (Porter 1990). Since all of these activities add economic value to the finished commodities, the value chain of a good or service has to be conceptualised as a complex configuration of mutually linked business activities.

But Porter's value chain analysis was essentially focussed on the description of activities within the firm and his concept of business function refers to the different stages of the intra-firm production process. Given the specificities of global restructuring that we witness today, it is necessary to redefine the business function to indicate a segment of activities that can be performed both within the firm or outside, in different legal and spatial configurations. In so doing it is possible to include the inter-organisational division of labour in the analysis.

The role of ICTs in this process of outsourcing and relocation of business services is one of the main enabling technologies. ICTs

have the technical capacity to contribute to the codification of knowledge in a cost-effective manner, and to allow for the storage, processing, communication and retrieval of this codified knowledge (Soete 2001, p. 152). Linked to this, the innovation of products, services and processes involves a growing standardisation of tasks, including the systematisation of production processes. Once the information required for a particular production activity is documented and digitised, it is much easier to isolate and separate these tasks within the overall processes in which they have previously been embedded. This is how ICTs make it possible that time and space are bridged. In addition, ICTs allow for the coordination and integration of the divided business function, at least in principle.

### **3 Some Trends in the Global Division of Work in Business Services**

Three key characteristics of the current corporate strategies on restructuring business services can be distinguished. First, the dynamics of the 'core business' in corporate restructuring, second the trend towards 'global sourcing', and third the strategies of multinational service providers. These combined trends lead to a speeding up of the inter-organisational and global division of labour.

#### **3.1 Core Business Mania?**

In the continuously evolving dynamics of capitalist restructuring, specialisation and standardisation, companies typically identify their strategically important tasks and competences and focus their in-house production on these. Outsourcing is a managerial solution that accommodates increased organisational complexity, related to the continuous diversification of products and services, whilst maintaining cost effectiveness and efficiency through mass production (World Trade Organisation, 2005). Outsourcing can relate either to standardised and codified activities that can be purchased cheaper elsewhere, or to specialised business functions that require specific knowledge and organisational demands (but are nonetheless not a core activity of the company) as can be explained by transaction cost theories. The observable historical trend is that an increasing

number of business functions are considered non-core and may be shifted from the core to the periphery of an organisation (WTO, 2005). Looking at this trend from the perspective of the inter-organisational division of labour in global value chains, this implies that activities that are 'peripheral' in one value chain, such as business service activities of a manufacturing organisation, may become the 'core' activity of another value chain, for instance in the case of business services, in an organisation operating within the business services or IT sector. The concept of the core business is therefore both a relative and a very dynamic one as is the composition of the value chain and of its constituent organisations. The implication is an accelerating disintegration of the vertically integrated firm or sector, or – in other words- the restructuring of global value chains (Huws, Ramioul 2006, p. 22; Flecker 2005, p. 8).

In practice, most companies are well able to define what activities are strategically important and to decide on how these should be organised. Corporate control over business processes directly linked to their competitive advantages on the market usually implies that these are kept in-house. 'Outsourceable' jobs, on the other hand, are made up of standardised tasks, not requiring regular face-to-face contact, to be delivered with a minimum critical mass to legitimate the overhead costs, not requiring specific or legal data protection. Sometimes the metaphor of 'head and tail' is used to define the value chain. Companies will typically keep the development and design phases in-house as well as the final integration of the different components and the customer contact (Ramioul, Huws, Kirschenhofer 2005).

Keeping activities in-house or outsourcing them, offshoring abroad, and collaboration with strategic partners on core activities, are all different modes of the organisation and coordination of business functions in value chains. Firms apply simultaneously different organisation and coordination modes for different business functions and they develop different strategies for different activities. Gereffi, Humphrey and Sturgeon define several modes of coordination between the different economic actors of a value chain, based on three characteristics: the complexity of the transactions, the required transfer of knowledge and information between the eco-

nomical actors (the codifiability of the information) and the capabilities of the suppliers in the market. These factors determine the relationships between organisations in the value chain and the allocation of power and control (Gereffi, Humphrey, Sturgeon 2005, p. 84).

### 3.2 Global Sourcing

Once the decision to outsource or offshore an activity is made, the question arises to whom and where the work will be relocated. In a globalised economy, where most of the world has become a marketplace for trading business-related services, remote destinations increasingly present themselves as viable locations. On the supply side of the outsourcing business relationship, this has led to the rapid growth of companies that provide business services. 'The disaggregating and geographical decentralisation of some organisations is therefore accompanied by aggregation and spatial concentration in others' (Huws, Ramioul 2006, p. 20). When designing business solutions for their customers, these service suppliers are constantly searching for the best deal for each component of the service. Because the capacity and knowledge for any specific activity are now available in several places, the service provider has more flexibility to combine different capacities. At the same time, risks can be spread. Globally organised service providers 'mix and match' the available service delivery capacities from different countries, both inside and outside their own group, and combine them in a variety of permutations to deliver the required service package. Each solution will have its unique costs, benefits and employment impacts. The skill base, wage and non-wage costs, language skills, time zone, culture and the stability of the region are amongst the factors most often taken into account when preparing a customer-specific package. Increasingly, transnational players have abandoned the term 'offshore outsourcing' in favour of 'global sourcing' (Ramioul, Huws, Kirschenhofer 2005).

The geographical dispersal of previously consolidated activities and the greater specialisation of the individual locations (particularly in the IT-business) results in the combination of increasing concentration in terms of its economic and financial power with an increasingly

wide diffusion and fragmentation of the actual work and the workforce, around the globe (Flecker 2005, p. 8).

### 3.3 The Death of Time and Distance?

Another major driver to go offshore is the customer company that reorganises on a global scale and requires the same from its subcontractors. The global relocation of production activities is not a new strategy. But because products and services are increasingly intertwined, moving one often implies moving the other, despite the ability of ICT to bridge time and distance. When companies outsource much of their business services, the relocation of their production activities implies that the related service must be mobile as well: customers go global and service providers must follow in their wake. Some global business service providers promise a full operational service provision at the proximity of their clients in a mere three months.

A similar strategy is that of 'follow the sun' whereby service providers develop a presence in different time zones to guarantee round-the-clock service delivery for their customers. In this case, there might be a need for a difference in terms of time zone (e.g. to perform technical maintenance overnight) or, on the contrary, similarities in time zone (e.g. in case of virtual teams collaborating over distance).

## 4 The Impact on Work

The disintegration and reintegration of business functions into new constellations occur in different scenarios: decentralisation and centralisation, spatial concentration and dispersion, new market niches for small firms and large global conglomerates. This means that different scenarios of coordination of the value chain exist next to each other: customer-supplier-relations (market relations), bureaucratic coordination systems, networked forms of integration with more or less flexible and short versus long term forms of coordination between the units. As a consequence, the research on work organisations can no longer be limited to task structures and social relations within the walls of establishments. When understanding the division of labour today, the varieties of rela-

tionships between business functions and companies have to be considered.

The implications for the workplace and for workers are however still relatively unexplored in research. In the WORKS project, several assumptions on the impact of work are under investigation.

### 4.1 Work Beyond Boundaries

The way business functions are organised and coordinated beyond the firm's boundaries, at the level of the value chain, affects the way jobs are designed, the way people are allocated to these jobs, the way collaboration between workers is organised, and the way working conditions are shaped. With a growing inter-organisational division of labour, tasks can be assigned internally or provided by employees belonging to the firm but not operating on the premises ('eWork') or provided by third parties operating on the firm's premises (subcontracting) or supplied from outside (suppliers) or in combinations of these. Hence work can be both fragmented and regulated across the boundaries of organisations. Marchington et al. (2005) describe such tendencies in their book titled 'Fragmenting of work, the blurring of organisational boundaries and disordering hierarchies'.

A typical example of fragmentation is the outsourcing and / or offshoring of back office work in customer relations that is decoupled from the front office work where direct contacts with the client prevail. Another example is that of virtual teams composed of workers from different organisations, collaborating on a joint project over distance. Next to the fragmentation of work, increasingly different actors exert power on labour, which results in a more complex and diversified regulation of work within firms. A typical example here is the call centre, where operators work for different clients. Call centre operators both have to comply with these clients and with their direct supervisors. Other examples where third parties influence the employment relationship and a diversified regulation of works takes place are the service level agreements or certifications with which clients aim at controlling diverse aspects of the production and labour process.

Bonnivert et al. (2003) distinguish different forms of networked organisations in view of a

better understanding of changes in the industrial relations. The core of their analysis is that networked organisations imply a triangulation of the subordination of the employee where the employment relationship, primarily defined between the employer and the employee, becomes a 'triangle' relationship between the employer, the employee and a third party, the client or the powerful supplier. As a consequence the legal, functional and economic power over the employee, normally incorporated in 'the boss', is spread over different authorities, resulting in a dissociation of power and difficulties to impact the decision making processes and how labour is regulated. In such networks, the economic power is transnationally organised, while the legal power is still bound to the geographical and sectoral regulation context. Who eventually has the functional power at the workplace becomes even more blurred.

#### **4.2 New Forms of Work Organisation, New Forms of Control**

Changed organisational structures require adapted mechanisms of coordination and control. Other modes of coordination, than the bureaucratic vertically integrated firm, increase risks related to the quality and the quantity of the performance. To reduce these, the relationships between the organisations and between the employees involved, are increasingly dependant on legal contracts (outsourcing contracts, service level agreements etc.) and explicit procedures and performance monitoring (whether electronically or not). On the other hand, the growing importance of market-forms of coordination including a pertinent role of the customer, introduces market-logics, target-setting and self-rationalisation into the relationships at the workplace. The question is how these different forms of control – bureaucratic and market principles – are combined.

A particular question is what this implies for control mechanisms for knowledge and high-skilled work that is traditionally characterised with a high degree of autonomy, self-organisation and discretion. The new organisational environment, both stretching across the traditional boundaries of organisations and bringing different employers and customers into the firm, raises the question to what extent

this autonomy of workers is counterbalanced with internalisation of market principles into work processes and into the individual. Similarly, the question is what is the balance between the need for informal learning and 'communities of practice, organisational learning, required for pro-active knowledge management, for regular and non-planned contact and for continuous knowledge sharing when working with others at a distance, and formalisation, centralisation and control due to working over (legal and spatial) distance on the other.

#### **4.3 New Forms of Flexibility**

The relationship between functional and numerical flexibility has to be reconsidered in the new organisational structures that can be observed as the result of the restructuring of value chains. Workers may well be required to be very flexible in terms of task assignments even across the boundaries of their firm, with whom they have a contract (in varying and ad hoc project teams, through eWork, in geographically distributed teams). This employment contract can be stable and undetermined but only employment is guaranteed and not exactly a fix job or task. But it might also imply more flexible contractual relations with different employers. The classical core-periphery model is increasingly questioned due to a growing pressure on the core. Are tendencies of project work, virtual teams, forms of eWork, mostly applied to core workers, implying a deterioration of a stable employment relationship, while the 'non-core' employees remain relatively unaffected by these new forms of flexible working conditions? The question is how forms of functional flexibility are related to numerical flexibility.

Obviously, space and time are linked. To the extent that the organisation of work is spread over distance, this will impact on the regulation of time as well. The temporalities of the functions performed and of the workflows need to be coordinated and aligned. This may not only imply shifts in working hours and working time arrangements in view of collaboration over distance, but also growing pressure on workers due to market constraints, speed, just-in-time systems etc. This might affect the autonomy in time use of employees, not only in formal terms but also implicitly, to the extent

that internalised market principles lead to self-regulation and self-imposed rationalisation and extension of working time.

#### 4.4 Changing Qualification Processes

In the context of blurring organisational boundaries, longstanding principles associated with the classical model of the internal labour market structure seem to be overturned (Grimshaw, Ward et al. 2002, p. 50). The concurrent tendencies of growing standardisation / taylorisation, the importance of knowledge work, and the different and dynamic combinations of external and internal flexibility modes lead to a differentiation of policies with respect to qualification issues at the level of the firm. It can be assumed that internal skill development mechanisms are under pressure. The externalisation of the acquisition (and development) of the required skills may be at the detriment of long-term internal skill development and internal job ladders, which were crucial for employees with a low initial qualification.

On the other hand, as organisations can be urged to form partnerships and alliances to get access to knowledge and skills, this can provide new learning opportunities because employees get access to networks of experts and new information and knowledge. New organisational forms can also support skill development in the jobs by providing levels of discretion not found in traditional organisations. They may also support individual skills development by an increased offer of formal training opportunities, related to the formalisation of the relationships within the network. Or the shift of employees to new service providers in the frame of outsourcing contracts can imply that these employees enter into new internal labour market structures, allowing them to further develop in these new companies (Ramioul 2006, pp. 112-115).

#### 5 Conclusions: Quality of Work and Quality of Life

All these changes impact the quality of work in terms of working content, working conditions, qualification opportunities, social relations and power relations. This will obviously not leave the quality of life of many individuals unaf-

ected. On the one hand literature reports new opportunities for individuals, yet on the other hand risks at both the individual and collective levels are real. At the level of the individual, employees may have more autonomy, but this autonomy will be framed; they may receive more responsibility, but this responsibility is monitored; they may have to prove more commitment, but that is not rewarded. In particular new working time constraints affect the quality of life. Further, acquired rights in terms of wages and working time, but also in terms of the right to unionise, negotiate and participate are under pressure in the intensified global division of work. There is a threat to social integration or social cohesion and a risk for social exclusion of particularly weaker groups within the population who do not have the chance to seize the 'opportunities' that the post-modern society can offer if regulated and well-managed (Huws 2006, p. 187). Faced with such risks national institutions, in particular, labour market regulation, social protection system and industrial relations structures are under a growing pressure.

#### Notes

- 1) For more information about the project WORKS see <http://www.worksproject.be>
- 2) This article draws on two previous publications (Huws, Ramioul 2006 and Ramioul, Huws, Kirshenhofer 2005).

#### Literature

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## Contact

Monique Ramioul  
Higher Institute for Labour Studies  
Katholieke Universiteit Leuven  
Parkstraat 47, PB 5300, 3000 Leuven, Belgium  
Tel.: +32 16 32 43 63  
E-Mail: [monique.ramioul@hiva.kuleuven.be](mailto:monique.ramioul@hiva.kuleuven.be)



## Gender Dimensions of Informal Work A Challenge for Enlarging Europe

by Lilia DIMOVA, Agency for Social Analyses, Sofia

*“In the year 2001, 49.7 % of female employment was informal, while for men this figure was 43.8 %. Inside the informal economy, in turn, women were concentrated in the most unstable, unprotected and precarious categories, therefore, their insertion conditions were even lower than those of males.”*  
(The new ILO Recommendation 195, 2002)

**Informal work affects almost every society and becomes a common issue of concern. It is not only a comparatively new form of labour activity – it is to a considerable degree a reflection of the formal, ‘visible’ side of the labour world, being at the same time gender and age, time and space specific. Many types of informal work and sectors are ‘engendered’ in the same way as they are in the ‘visible’, formal side of the labour market. The main features of both male and female informal workers are their insecurity and vulnerability, as well as their higher poverty risk compared with ‘formal’ workers. Most people working informally, and especially women, are deprived of secure work, benefits, protection, representation or voice. This essay argues that informal work gives a relative comfort today and here, but it deprives informal workers, mostly women, of a decent tomorrow – both at national and cross-national perspectives.**

### 1 The issue

In the context of new employment and unemployment, the International Confederation of Free Trade Unions (ICFTU) points out that 25 % of the world’s working population are active in the informal economy and generate 35 % of global GDP (ICFTU 2004). The organization of “Women in Informal Employment Globalizing and Organizing” (WIEGO), however, argues that official statistics most probably underestimate the size and economic contribution of informal activities (WIEGO 2004).

Research and analyses up to now (even though not sufficient) show that the informal sector is a focal socio-economic point and neither researchers nor politicians should ignore it from their agendas. At least because: