Debating the flexibility and security nexus in the global value chain: is there a scope for reframing employment relations?

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Abstract

The study of global value chains has been used by academics with different research aims, such as the analysis of the characteristics of the international division of labour, and, from a business perspective, the optimal management of the relations with suppliers and contractors. Less attention has been given to the effects of value chain structure and changes on employment practices and relations, despite the profound effects of corporate restructuring processes on value chains and employees.

Value chains assume different forms of governance, which span from loose market-based relations to a strict vertical integration (Gereffi et al., 2005), according to the characteristics of production and the market, and to local actors’ choices. The locus of power in the chain determines the point, or points, where the most profitable activities of the chain are located, and where ultimately the economic power resides. Actors in the most powerful loci (so ultimately the most powerful actors) have a wider range of possibilities to define the practices and the strategies that will best pursue their interests, and to shape the relationships with the other companies in the chain. The condition of employees is therefore often determined by actors outside the legal

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company space, operating as clients and suppliers of specific goods and services (Rubery et al., 2005). Employment relations assume a “multi-employer” dimension, which is relevant not only when employees are formerly hired by one company and then working in another workplace, as for agency workers, but also in the case where the characteristics of and the control on their work depend on more than one employer.

These considerations are specifically relevant for the debate about the so-called flexicurity. The paper will attempt to critically engage itself in analytically re-discussing the flexibility and security nexus in the global value chain by focusing on two critical aspects which have been so far denied by the analytical discussion on flexicurity. Firstly, the role of firms in mediating their influences of policy on workers has hardly been considered. The way in which firms deal with macro-level institutions and policies has an important impact on how they affect the actual flexibility workers are exposed to and the security on which they can rely, especially since many of the practices affecting flexibility and security – such as recruitment, lay-offs, training, working time and even wages – are at least partly decided at the firm level. Secondly, power considerations have an impact on the way companies manage the dilemma between flexibility and security at the workplace. The dynamics of power relations will provide actors with the possibility of bringing the flexibility-security balance closer to their preferences, provided the possibilities for win-win solutions are limited. These dynamics are reflected in the interaction between employers and employees within the company, and among the companies linked in the same value chain.

Accordingly, the paper argues that the location of power and the value chain governance characteristics shape the strategic options available to employers and labour to choose the employment practices considered to be fitter to solve the flexibility-security dilemma. The value chain perspective can therefore help shed light on the processes and dynamics occurring at the workplace which affect the strategies to reconcile flexibility and strategic needs. This approach would also leave room to the
inclusion of agency, and to the role and choices of local actors using institutions and their power to pursue their interests in the workplace.

**Introduction**

Value chains can be defined as “a network of labour and production processes whose end result is a finished commodity” (Hopkins & Wallerstein 1986: 159). These activities can be scattered in different geographical locations, giving the chain a global character. The nature and characteristics of global value chains (GVCs) have been widely discussed by academic scholars from different disciplines (see Bair (2009) for an account of the evolution of the concept). For example, authors adopting a business-oriented point of view have studied them in order to optimise the relation and the flow of goods and service between the firm and its suppliers. From a more sociological point of view, value chains have been traditionally linked to the analysis of the international dimension of trade, development and division of labour. The economic activities in the links of the chain present different production characteristics, skills requirements, economic added value, and are located in places with very different socio-economic features. All these elements have a direct effect on labour, insofar as workers who are in ‘loci’ with a higher added value, often highly skilled and living in countries with higher socio-economic standards, have better conditions than workers in weaker links of the chain.

The recent emergence of new paradigms of corporate governance, related to the idea of the maximisation of shareholder value, is one of the main causes of the increasing outsourcing of ‘non-core’ activities and the fragmentation of organisations, with the consequential entrance of new firms in value chains. Companies try to benefit from restructuring by ‘exporting’ flexibility and risk to other companies, and keeping employment security within the organisation.
However, the picture is more complex, and has to be reconstructed by taking into consideration both the micro-politics occurring within the company and the MNC transnational organisation, and the relations between companies in the value chain, based on a mix of power and trust. The interests of actors, and their ability to draw on and change institutions in their favour, is crucial to comprehend the development of these dynamics, and who governs employment relations in the global value chain.

In the first two sections of this paper, theories about the governance of global value chains will be analysed, according to an economic and sociological perspective respectively. In the third section, a theory of the governance of employment relations in global value chains will be discussed and put forward.

The governance of global value chains and the economic perspective

Global value chains (GVCs) have been mainly analysed with the aim at understanding how to increase economic performance and foster development, from a managerial and economic perspective. The work of Porter (1985), for example, defines and analyses value chain from the point of view of a company having to optimise profit-making. The first theories of Gereffi about Global Commodity Chains (Gereffi et al. 1994) make specific reference to the ‘global’ dimension of the value chain, and try to grasp the effects of GVCs across countries and sectors, with a focus on the impact on the economy of developing countries.

Attempts were made to study the governance of the value chain (Gereffi 1994), which is “defining the terms of chain membership, incorporating/excluding other actors accordingly and allocating them value-adding activities that lead agents do not wish to perform” (Ponte & Gibbon 2005: 3). Some firms would be able to influence and drive the activities in a given value chain and therefore take its “lead”. These firms would in particular try and focus on the most profitable sections and secure for themselves a
higher portion of the product value than the other companies involved in the process. Depending on their economic power and the characteristics of the market Gereffi (1994) then distinguishes between ‘producer-driven’ and ‘buyer-driven’ value chains, the former led by large companies in capital- and technology-intensive sectors, and the latter dominated by large retailers and brand-named merchandisers in labour-intensive, consumer-goods industries.

Gereffi with colleagues successively refined his theory of governance of GVCs, by focusing his attention on the link between lead companies and their first-tier suppliers. According to Gereffi et al. (2005) the coordination of the activities between the lead company and its first-tier suppliers shapes the main characteristics of the value chain and its mode of governance. This choice of coordination is based on the degree of complexity of the transactions involved, the ability to codify them, and the capabilities of suppliers. According to the combination of these three characteristics, these authors identify five different types of global value chains, ranging from markets to hierarchies, with relational, modular and captive value chains as intermediate models.

Power considerations, somewhat present in the first elaboration of theory of Global Commodity Chains by Gereffi (1994), are instead left aside by the GVC theory (Gereffi et al., 2005), which adopts an approach based on transaction-costs considerations. This approach sees “the initial link between lead firms and their largest, first-tier suppliers (if they exist) as structuring the governance of the chain as a whole” (Sturgeon 2009: 126). The choice of coordination, then, and ultimately the governance of the GVC, would depend on transaction costs considerations, related to the market structure and the capabilities of the actors involved.

**Power and governance**
Economics-based theories of value chain governance have been strongly criticised by several authors from a sociological perspective. Ponte & Gibbon (2005) clearly separate “modes of governance” from “forms of coordination”, and subordinate the latter to the former. In the constructivist view of these authors, lead firms first decide how to govern the value chain according to their perception on how they should run their business, and then face the problem of coordination with their suppliers. The degree of “drivenness” of the chain is also something different from the “tightness” of the form of coordination between the lead firm and the first-tier supplier. A tight coordination could also be associated with a loosely driven value chain. Ponte & Gibbon (2005) therefore conceive power in global value chains as reflected in the degree of “drivenness”. This perspective also encompasses the whole of the value chain, and does not focus exclusively on the first link lead firm-supplier as in the theoretical approach proposed by Gereffi et al. (2005) (a critique also partly accepted by Sturgeon 2009).

The explicit introduction of power in the analysis is the main element which differentiates the sociological theories of value chain governance from economist perspectives.

On the one hand, Gereffi did consider power in his first analyses (Gereffi 1994) but conceiving it as a capacity belonging to actors, which can be used or not over other actors (Hess 2008). The lead firm is therefore seen as an authority which controls the chain and is able to impose its choices on other firms. Power comes from the characteristics of production and the firm’s market position, something that exists regardless of the choices of the actors involved. Sturgeon (2009) also adopts this view when introducing power in his GVC paradigm by stating that it can be “accumulated, held, and wielded in different ways and in different amounts by various actors in the chain” (Sturgeon 2009: 129).

On the other hand, a sociological view of power understands it as “a medium to achieve diverse ends” (Hess, 2008: 454-455). Actors therefore exert a different power according
to the way they are embedded in the surrounding environment, and connected to the network of other actors. Their ability to mobilise resources in order to pursue their aim determines their power, which has therefore to be exerted in a collective and not individual dimension. A view of power as a “medium” dependent on the resources that can be mobilised is more in line with the view of firms as actors embedded in networks and in a certain institutional context.

Relations between companies, contrary to transaction cost-based explanations, are indeed not based on purely economic terms, but firms instead establish relations characterised by different intensity, degree of trust, and power balance. Relations between companies are based on "elements of cooperation, competition, and dominance" (Rubery et al. 2005: 87), and trust can be abandoned in favour of power if the institutional context does not provide enough coverage against risks. More powerful companies are able to influence the way work is structured and designed in their suppliers or clients, and to use their power to induce adaptations in employment practices which fit with their own production and marketing needs. Companies can therefore decide to transfer risks and costs to another organisation (a supplier for example), by using their greater power (Grimshaw, Willmott, et al. 2005).

By incorporating a more sociological conception of power, finding who actually governs a GVC becomes also more complex. Herrigel & Zeitlin (2010) criticise for example the existence of a single lead firm in the chain. According to them, manufacturing MNCs prefer to allocate product research and development activities, traditionally high-value added, in countries other than home, in order to better serve emerging markets and increase production flexibility. This business complementarity and mutual dependence reduces power asymmetries between ‘lead’ and ‘weaker’ firms. As Palpacuer (2008) also points out, first-tier suppliers of lead firms still hold a certain market power, while the weaker actors occupy the subsequent levels of the chain. The concept of lead firms could then be redesigned in this context, insofar
as each company in the value chain will possess a certain degree of power towards other firms.

The complexity of value chains has also increased in the last years with the recent surge of restructuring and offshoring of activities, which has provoked a lengthening of GVCs. Companies dismiss certain activities that are considered as “non-core” to their business, trying to keep the “core” more profitable ones in-house. If some authors point to economic motivations for these decisions (see Huws et al. (2009) for an analysis of these), others point to normative reasons, and in particular to the interpretation that managers gives of what they should do in order to abide to certain “models of practice” (Gibbon & Ponte 2008). Some authors therefore related the increase in outsourcing to the rise of the principles of “shareholder value” doctrine, emphasising the need to maximise the return on stock to shareholders, linked to the growing weight of financial activities defined as “financialisation” (Grimshaw, Marchington, et al. 2005: 7; Deeg 2010). The expansion of “financialisation” in non-financial companies would have then led companies to dismiss and outsource activities considered not to be profitable in the short run in order to maximise the return on stocks. Companies can also have ‘political’ motives to outsource activities, since restructuring fragments the workforce and therefore weakens labour (Doellgast & Greer 2007; Flecker 2009).

In order to study the way a value chain is governed, it is therefore crucial to put power and (micro-level) politics at the centre of the analysis. More specifically, the way power is conceived informs the theoretical perspective to analyse the relations between the different actors in the value chain. When firms are embedded in networks and in GVCs, it is more useful to conceive power in terms of ‘resource mobilisation’ than ‘capacity’ (as in an economic perspective), since the latter concept would not allow the researcher to fully consider the interactions of the firms with their environment.
Flexibility and security employment practices in the context of global value chains

The study of GVCs has been mainly focused on the economic performance of companies, aspects of international trade and development, and on the way lead firm(s) can govern and influence these processes. Little attention, however, has been given to the governance of the employment relations within a GVC. By ‘governance of employment relations’ we mean the way companies can shape and act on employment practices and relations along the chain, in order to pursue their interests.

Why is the dimension of the value chain important in the study of employment relations?
With the entrance of new companies in the market performing activities which were once integrated in the same company, the governance of employment relations becomes more complex (Grimshaw, Marchington, et al. 2005). Since the economic control of activities becomes shared by actors in different legal entities, employees are subject to the actual power of more than one employer. The employment relation starts then to shift in character from the traditional and typical mono-employer model to a multi-employer dimension where the elements of power, trust and risk play a major role (Grimshaw, Willmott, et al. 2005; Ramioul 2007). As Rubery and Earnshaw (2005) point out, the opening of the single organisation to multi-employer relations enhances the contradictions inherent in the employment relation, such as cooperation and conflict, and security and flexibility. More powerful companies interact with the internal employment practices of their partners in the chain, especially suppliers, by trying to shift risks on them (Grimshaw, Willmott, et al. 2005).

Given the trade-off between flexibility and security, companies can then decide to solve it in the space dimension, as suggested by Crouch (2010). Value chains represent a way to separate flexibility from security over space, and therefore to solve the dilemma. According to this framework, firms can ‘export’ flexibility to other companies and
countries, keeping the ‘security’ for their workers in the home country performing more profitable activities. Crouch also points to the importance of analysing the governance of these processes, which involve the participation of actors at different levels and in different institutional contexts.

At the macro level, the reconciliation of flexibility and security has also been the object of study of the so-called ‘flexicurity’ literature. If flexibility has become a key element affecting the competitiveness of companies in today’s integrated and fast-changing market, security is traditionally considered a concern of employees (Wilthagen & Tros 2004). However, employment security could be also desirable for companies wishing to retain their best employees, and an objective of public policy. Also, employees can be interested in increasing certain forms flexibility of their employment in order to improve their work-life balance (Wilthagen & Tros 2004; European Commission 2006). Finding win-win combinations of flexibility and security employment practices has therefore been the concern of the policy-based strategies of ‘flexicurity’, promoted by the European Commission (European Commission 2006). These strategies act on the macro-level of labour market policy, envisaging the coordination of different instruments and realms of public intervention (e.g. vocational training and social welfare).

Nonetheless, both the indication of public policy measures and the underlying theoretical analysis largely oversee the dynamics occurring at company level. Burroni & Keune (2011) in particular point out that the possibilities for finding win-win solutions are overestimated and should be abandoned for an analysis of the trade-offs that different employment practices would imply. The interplay of the choices by the actors at the company level envisages instead a dimension of micro-politics in which employers and employees use their power to pursue their specific interests, and where possibilities for win-win solutions are therefore restricted.

What could be the effect of this interaction on employment conditions? The effects of companies’ strategies to seek business opportunities on a global scale have been linked
to the emergence of a new international division of labour (Fröbel et al. 1980). Companies can relocate more labour-intensive activities using semi-skilled or unskilled labour in developing countries and keeping high-skilled work at home. If powerful companies can externalise flexibility and risk, and keep secure workers for themselves, we would then expect to find a stark division between secure skilled labour performing highly profitable activities, and highly flexible semi-skilled workers in scarcely profitable businesses. Kädtler (2008) indeed identifies three "leagues" of activities, from core to peripheral, depending on the specificity and scarcity of the skills needed.

However, the picture seems more complex. First, the ‘core’ and ‘non-core’ attribute of activities is a relative concept, and what is considered ‘non-core’ by the outsourcing firms have become the ‘core’ for new firms (Huws et al. 2009; Flecker 2009).

Second, if workers down the value chain seem to work under worse conditions than in more powerful companies, 'core' workers are not automatically secured by the outsourcing of bad working conditions, since the competition of outsourced workers and the restructuring of working practices is affecting their condition as well (Flecker 2009).

It becomes then essential to analyse not only the relation of power between companies, but also what happens within them. The extent to which companies can outsource flexibility depends on power imbalances along the chain, but the internal employment relations are still of great importance to explain working conditions.

Companies, moreover, do not act in a “void” but are deeply embedded in their institutional context, with institutions affect the different characteristics of firms (Whitley, 2010). Major players in GVCs are usually MNCs with a transnational organisation comprising subsidiaries operating in different national institutional contexts. The sociological literature on MNCs has recently been increasingly focused on the micro-politics affecting the transfer of policies from the HQs to the subsidiaries, and the resistance of the latter to isomorphic pressures. The HQs can transfer the culture
and the practices which are typical of their country system to the subsidiaries, what has been called “country of origin” effects (Ferner 1997). Local subsidiaries can instead take advantage of the legitimacy and the resources which can be obtained by adhering to the practices of the local institutional context. This gives local management more power to pursue their interests vis à vis the HQs. Subsidiaries operate then in a situation of ‘institutional duality’, pulled on one side by the efforts of HQs to spread common practices in the MNC, and on the other side by the incentives, in terms of resources, offered by embedding in the local context (Morgan 2005; Geppert & Williams 2006; Tempel et al. 2006; Morgan & Kristensen 2006).

The intra-firm micro-politics dynamics, in turn, directly affect governance. Following the view that firms choose a certain “models of practice” (Gibbon & Ponte 2008), lead firms arguably adopt a certain mode of governance of employment relations in the value chain being strongly influenced by the micro-politics and normative concepts which define their specific corporate governance.

Actors’ choices and interests should be therefore at the centre of the analysis of firms’ behaviour in the context of the value chain. But what is the room available to actors to make their choices and pursue their interests in a certain institutional context? As Jackson (2010) points out, institutions represent the starting point to define actors’ identities, interests, priorities, and therefore choices. However, the analysis should not consider institutions as immutable but rather like the arena which define the space where actors operate. A sociological view of institutions conceives them as resources (R. Deeg & G. Jackson 2006) ², but actors can also try to bend and change them for their interests, going from being ‘rule-takers’ to ‘rule-makers’ (Geppert et al. 2006; Thelen 2009; Morgan 2009). Institutions are then seen as essentially contested, permeable insofar as the interests and power of conflicting actors determine whether and in which

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² An aspect neglected by Sturgeon’s (2009) view of institutions as simple rule-setters
direction institution can evolve. Institutions then set the limits to but do not determine the actors’ strategic possibilities (Campbell 2010).

The governance of employment relations in the value chain is therefore a highly political and contested process, which involves the participation of several actors at different levels. At the micro level, besides the ‘traditional’ interaction between the local management and labour, the former are confronted in micro-political dynamics with the HQs, whose senior management can make decisions by economic as well as political and ideological motives. At the meso level, firms interact in the GVC, where the existence of a single lead firm is no longer undisputed, where the distinction between ‘core’ and ‘periphery’ activities is not so meaningful anymore, and where the international division of labour is not so clear-cut. Finally, at the macro level, the difference in institutional contexts offers local actors the possibility of drawing from local resources, and also to try and bend those institutions in their favour.

The inter-firm dimension of governance has then to be considered in juxtaposition with the micro-politics occurring within the firm, and both cannot be analysed without being related to the institutional context where the firms are embedded in. These dimensions will be crossed here in an attempt to provide a theoretical framework to analyse the governance of employment relations in the GVC context.

Firms are arguably more incline to export flexibility to other companies along the chain when the power difference with the other companies is greater, and when the pressure to maximise shareholder value is stronger. This latter pressure can either come from the HQs or from the local institutional context, especially in countries with an active market for corporate takeovers. In either case, the interests of local management and HQs, and the power balance between them, will influence the strategies on how to manage the flexibility-security dilemma.
As for the labour side, workers and trade unions can be in principle not contrary to the externalisation of flexibility, if that implies increasing the security of the workers in the company without job losses. However, the externalisation of flexibility can also lead to a worsening of the working conditions in the outsourcing company. Workers can engage in direct competition with each other (the outsourced ones often without the support of a union), or the change in the employment practices following outsourcing can imply more flexibility and/or workload also in the more powerful company.

If workers are able to maintain their working conditions, by drawing on their own and institutional resources, then companies will export “undesired” flexibility and keep security. However, if managers can enforce their strategies without much opposition, they will arguably keep a “reserve” of in-house flexibility, and pursue strategies of division of the workforce in order to weaken labour’s power.

Research should therefore be able to include a multi-level analysis of actors’ interest formation and choices, and the way actors interact between each other in the value chain and with institutions. The analysis of the governance of employment relations in GVCs cannot escape from putting power at the centre, and the way micro-politics informs the dynamics of corporate and GVC governance.

Conclusions

The study of global value chains (GVCs) has been often directed at the economic performance of firms, but has seldom been used in the analysis of employment relations.

The study of the governance of employment relations in GVCs has to take into consideration the political dynamics occurring both within and between companies. Intra-firm relations are characterised by the dialectic tension between HQs and
subsidiaries in MNCs (or in other words between the pressures for isomorphic employment practices and local embeddedness), and by the contradictory pressures to solve the flexibility/security nexus within the workplace. Inter-firm relations are based on the elements of power and trust (rather than simple economic motives), where the increasing fragmentation of organisations is giving employment relations an increasing multi-employer character.

The complexity of the trade-off between flexibility and employment security is, if anything, strengthened by these dynamics. Firms can use value chains to solve the dilemma by externalising flexibility to external workers and keeping highly skilled secure employees within the company. The extent to which firms are able and willing to pursue this strategy depends on the power relations between the company and its partners in the value chain, and on the “models of practice” followed by management. In particular, more powerful companies with a focus on the maximisation of shareholder value will be more inclined to externalise activities considered as ‘non-core’ and flexible work to other companies.

The study of the governance of employment relations will therefore necessarily involve taking into consideration the interests and choices of local actors, who can use institutions as resources for their purposes as well as (at least the more powerful ones like MNCs) try to bend them in their favour. A contextualised and resource-based view of power is the lens through which an analysis of these dynamics should be framed, in order to be able to grasp all its complexity.

References


