Fragmenting labour: organisational restructuring, employment relations and the dynamics of national regulatory frameworks

Jörg Flecker

Jörg Flecker is scientific director of Forschungs- und Beratungsstelle Arbeitswelt (FORBA), Vienna, and external professor at the University of Vienna, Austria.

ABSTRACT
The conditions of work and employment are becoming increasingly diverse not only at global level, but also within countries, sectors and even organisations. The restructuring of companies and value chains contributes to this fragmentation of employment because restructuring is entangled with shifts in the forms of employment and the composition of labour. These tendencies, in turn, are shaped by specific national employment regulations which mediate both the employers’ calculus underlying restructuring and the consequences of restructuring on labour. This paper draws on the results of two major EU-funded projects, WORKS and Dynamo, to present a range of different types of fragmentation of employment in the context of value chain restructuring, discusses their interplay with the institutional context and draws conclusions on national labour market regulations.

Introduction
A variety of processes at work split up workforces, enhance inequalities and strengthen divide-and-rule policies in employment relations. As a consequence, the conditions of work and employment are increasingly diverging from, rather than approaching, the goal of ‘the same pay for the same work’ within any one country, region or even organisation – let alone at European and global levels. One driver is the restructuring of companies, public organisations and value chains through outsourcing and relocation of work. Unitary workforces and internal labour markets have been shrunk and complemented by groups of workers employed by or posted to different organisations often in different geographical locations. Unequal employment conditions are not just the outcome of such processes; differentials in terms and conditions between companies, sectors and countries also act as strong incentives for restructuring in the first place.

A second cause of the growing fragmentation of employment can be seen in company strategies designed to achieve flexibility and lower costs, for example by using forms of non-standard employment such as part-time work, freelancing, bogus self-employment or temporary work. This leads to a growing diversification of forms of employment and contracts, often covering the same type of work. Such tendencies are shaped by the regulation of employment, institutionalised mainly at a national
level. Here, a further reason for fragmentation can be found, insofar as labour market deregulation widens the opportunities for employers in terms of the forms of contract that are permissible and changes in industrial relations systems lead to decentralisation of regulation and bargaining and to concessions on the part of labour, disadvantaging particular groups of workers.

In the public sector, for example, austerity policies and privatisation frequently result in new entrants being given pay and terms and conditions that are quite different from those of the existing and previous workforce. Such fragmentation tendencies are often gendered and have an ethnic dimension. Thus fragmentation may aggravate existing inequalities but may also add new forms of discrimination, for example if young people, or older workers, have to put up with precarious employment.

This contribution aims to shed light on the interplay of organisational restructuring, fragmented labour relations and the dynamics of national employment systems. The underlying argument is that changes in organisational forms and value-chain restructuring involve shifts in the forms of employment and the composition of labour. Both tendencies, in turn, are shaped by specific national employment regulations, because labour-market regulation mediates both the calculus underlying restructuring (partly by offering incentives; partly by erecting barriers) and the consequences of restructuring for labour. At the same time, company restructuring and human-resource strategies impact on basic labour-market institutions and may thus undermine or refashion national employment models.

The consequences of restructuring are often presented in a positive light, with claims that network forms of organisation free workers from bureaucratic subordination, empower them and provide space for self-development. Critical accounts, on the other hand, argue that insecurity and risks are shifted onto workers, leaving them with precarious working and living conditions. Both views are sweeping generalisations and thus fraught with problems. Of course, outsourcing, cross-border relocation of work, the spread of flexible forms of labour and the ensuing increased inequality in terms of pay and terms and conditions are general tendencies. But the shape they take and the impacts they have are still rather different depending on the sector, the country, but also the individual company or the particular occupational group involved. Generalisations therefore need to be handled with care and research should focus on the specific interplay of restructuring and employment relations in particular national settings.

This paper first summarises the different types of fragmentation of employment related to the restructuring of organisations and value-chains. The next section focuses on the interplay between restructuring, fragmentation of employment and the institutional context. It ends with some conclusions on the triangle formed by changing organisational forms, shifting employment relations and national labour market regulations. It mainly draws on the research results of two recent European projects, The WORKS project investigated the restructuring of value chains and the consequences for the quality of work.¹ The Dynamo project analysed the dynamics of national employment models in the context of current challenges.²

¹ ‘Work organisation and restructuring in the knowledge-based society’ (WORKS), funded by the European Commission under the 6th Framework Programme and coordinated by Monique Ramioul, at HIVA, Catholic University of Leuven...
² ‘Dynamics of national employment models’ (Dynamo), funded by the European Commission under the 6th Framework Programme and coordinated by Steffen Lehndorff, IAQ, University of Duisburg-Essen.
Trends and types of fragmentation

If we try to bring together the restructuring of companies and value chains on the one hand and, on the other, the growing fragmentation of employment, we have to consider a variety of different constellations (Huws 2003; Marchington et al. 2005). As shown in Table 1, this can be conceived as a matrix in which organisational boundaries and geographical space constitute one dimension, while the other dimension distinguishes between single- and multiple-employer settings.

<table>
<thead>
<tr>
<th>Geographic and organisational place</th>
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<tr>
<td>different</td>
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<td>1. Outsourcing and disintegration</td>
<td>2. FDI, relocation of work</td>
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<td>same</td>
<td>3. Triangular employment relations</td>
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<td>4. Multiple forms of employment</td>
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In the next section we will briefly discuss the four types of fragmentation of employment that result from the combination of these two dimensions.

Outsourcing and disintegration to cut costs and achieve flexibility

Since the late 1980s and early 1990s there has been a general trend in corporate restructuring to ‘concentrate on core activities’ and to outsource tasks in a range of business functions. Companies seeking to focus on their core business tend to outsource non-core activities to other companies that are specialists in those areas (OECD 2004:32). This may be motivated by considerations relating to knowledge management, management capacities or human-resource aspects, but often the main driver is the attempt to cut costs, and wage costs in particular, in order to circumvent company or sector-level wage regulation or benefit from lower wage rates in other locations.

Other drivers are strategies to achieve flexibility: in Atkinson’s (1984) flexible firm model, outsourcing was located at the periphery of the company, providing it with numerical flexibility while the core offered functional flexibility. Later conceptualisations treated the internal/external and numerical/functional distinctions as analytically distinct dimensions (Vickery & Wurzburg, 1996; Goudswaard & De Nanteuil, 2000). Still, it has been a shortcoming of the flexibility debate that, in spite of including external forms of flexibility, it has focused on the analytical level of the organisation, neglecting networks and inter-company relations, which have become more and more important for the analysis of organisations and work:

*The production of goods these days is a result of inter-organisational relations. The supply chains for components in major industries stretch across the globe and connect advanced economies and less developed parts of the world. The achievement of*
flexibility is as much an attribute of inter-organisational arrangements as it is of the flexible organisation of firms themselves. (Procter, 2005: 475)

The disintegration of companies through outsourcing and subcontracting in order to cut costs and achieve flexibility has obvious links with the fragmentation of employment. First, pay and employment conditions usually differ between the client and the supplier company, the more so if it is such differentials that motivated the outsourcing in the first place. Similar jobs are therefore carried out by workers with distinct employers and different contracts, unless a business function or task (cleaning, catering, IT, production etc) is completely outsourced so that no comparable workforce is left in the client organisation. Second, organisational boundaries may become blurred and the employment relationship ambiguous.

In practice, it is often unclear where one organization ends and another begins, and staff are placed in multiple employment relationships where obligations as well as identifications and allegiances are negotiable rather than stable. (Marchington et al. 2005:2)

In ‘insecurity-and-risk transfer chains’ (Frade/Darmon 2005:116) companies shift the risk of capacity utilisation onto their suppliers and service providers, who often operate under different labour regulations, which allows them to pass on flexibility demands and risks to their employees. This means that organisations’ strategies to achieve external flexibility in turn intensify the pressure for flexibilisation within service and supplier organisations (Arzbächer, Holtgrew & Kerst, 2002; Lehndorff & Voss-Dahm, 2005). In addition to the differentials at the point of departure of outsourcing, the dynamics of client-customer relations may thus deepen the fragmentation of employment over time. However, the ‘insecurity-and-risk transfer chain’, including its employment aspects, should not be presented as a universal pattern. A diversity of forms of connection and power relations can be found both in value-chain relations between companies (Gereffi et al. 2005, Huws 2009) and in the client-employer-employee triangle (Havard et al. 2009).

The case-study findings of the WORKS project in fact showed a variety of constellations of fragmented employment: differentials were strongest in the customer-service business function, where subsidiaries and external service providers operate under clearly different labour regulation regimes from those of their public sector parent or client organisations. The centralisation and externalisation of telephone customer service makes it possible for public employers to circumvent employment regulation and use new transitory workforces. This means considerably lower wages and increased flexibility.

Due to the restructuring, not only have the number of employees but also forms of contracts and the way in which organisations seek to gain contractual flexibility changed. In general, employment contracts have become looser and more flexible, and employers are trying to recruit flexible staff who can deal with changing workloads and regional transfers. (Dunkel & Schönauer, 2008:116)

By contrast, in IT services for the public sector, wage levels and terms and conditions between the client and the service-provider organisation are far more similar in spite of the public-private divide. Rather, differences relate to the different system of
employment regulation between the public and the private sectors pertaining to the type of labour contract, social-security coverage and working-hours arrangements.

**Lengthening of global value chains and relocation of work**

While outsourcing relationships do not necessarily include geographical distance, this is what is at the core of the second type of fragmentation of employment: the lengthening of value chains and the relocation of work across regional and national borders. This is not a novel development. As early as the 1960s and 1970s, the location of production activities in developing countries was heralding a 'new international division of labour' (Fröbel et al., 1977). Since then, global value chains have become more and more extended and complex in a range of manufacturing sectors. In the 1990s, the concept of 'global commodity chains' pointed to the increasing vertical disintegration of transnational companies and, looking at power relations in inter-company connections, suggested a distinction between 'producer-driven' and 'buyer-driven' commodity chains (Gereffi & Korzeniewicz, 1994). More recently, the 'dynamic value-chain approach' defined a wider variety of forms of global value chain governance and distinguished between three types of value chains (Gereffi et al., 2005:5): 'modular', 'relational' and 'captive'.

*Typically, suppliers in modular value chains make products to a customer’s specifications, which may be more or less detailed. However, when providing “turn-key services” suppliers take full responsibility for competencies surrounding process technology, use generic machinery that limits transaction-specific investments, and make capital outlays for components and materials on behalf of the customers.* (Gereffi et al., 2005:5)

By contrast, in relational value chains, we see *complex interactions between buyers and sellers, which often create mutual dependence and high levels of asset specificity. This may be managed through reputation, or family and ethnic ties.*’ (Gereffi et al., 2005:5):

*whilst in captive value chains,*

*small suppliers are transactionally dependent on much larger buyers. Suppliers face significant switching costs and are, therefore, “captive”. Such networks are frequently characterized by a high degree of monitoring and control by lead firms.* (Gereffi et al., 2005:5):

Power relations between firms along global value chains are highly relevant for issues of work and employment. Yet the global value-chain approach has attracted criticism, because it covers aspects of work and employment only to a very limited extent (Smith et al., 2002, p.47). Obviously, the quality of work and employment is directly related to such restructuring of value chains and production networks (Huws et al., 2009). First, the wage differentials between countries are the main driver of work relocation in labour-intensive sectors. In addition, differences in working hours and health and safety regulations influence decisions about business locations. In the clothing industry, production work has been moved out of Europe to a large extent. Recently, countries such as Romania, Bulgaria and Turkey have attracted production orders and foreign direct investments because fashion companies appreciate geographical proximity, given the acceleration of their business processes (Flecker & Holtgrewe, 2008). Yet production in the Mediterranean rim or in
CEE countries, as opposed to Asia, does not necessarily reduce the fragmentation of employment and the differentials in employment conditions: for one thing, wage levels are still very low in countries such as Romania or Ukraine. What is more, some companies deploy workers brought in from the Philippines in their Romanian plants to be able to lower labour costs even further (Plank & Staritz, 2009).

Looking at Asian countries or Turkey, the expression 'risk-transfer chain' can often be taken literally. A shocking example is the sandblasting of jeans in informal clothing companies in Turkey where, it is reported that young workers contract fatal silicosis because of the lack of health and safety measures (Çimrin et al., 2006). According to newspaper reports, thousands of people are expected to die in Turkey as a consequence of doing these jobs (Der Tagesspiegel, 12.1.2009). Meanwhile, the Turkish government has issued a ban on sandblasting factories but the effect may be limited because they are part of the informal economy.

In the last two decades the 'new international division of labour' has reached service activities. Software development and customer services delivered through call centres are prominent examples. More recently, the relocation of research and development to countries such as India and China has attracted attention. In the customer-service function, relations between client and service-provider company conspicuously impact on employment and working conditions: many aspects of the work are determined by, and monitored against, service-level agreements between the companies (Dunkel & Schönauer, 2008). This does not only restrict the room for manoeuvre for labour within the companies; it also undermines the subjective preconditions for resistance, as was shown by a study of call-centre agents in Mumbai and Bangalore, India. The workers they interviewed described repressive working conditions but attributed these to the service-level agreements and showed understanding for their superiors' aggressive and hostile behaviour (D'Cruz & Noronha 2009).

There are clear differences between business functions and sectors regarding the extent to which global value chains should be seen as ‘insecurity-and-risk transfer chains’. In the clothing industry, but also in customer services, the concept is obviously a good description of inter-company and employer-labour relations. In software development there are dependencies and value-chain relations that can often be termed 'captive'. Yet at the same time dependent units, both in CEE countries and in India, manage to move up the value chain by upgrading their activities (Holtgrewe & Meil, 2008a). In research and development in the IT industry, in particular, the high skills of the employees and the highly-specialised work seem to allow workers to prevent relocation in some cases. The most remarkable example of sought-after experts' bargaining power in fending off demands for mobility is a Norwegian case in which Norway-based researchers collectively refused to move to the USA to consolidate the company's research activities there. In contrast, in a French case of centralisation of research activities, researchers were faced with unwanted mobility demands that they could only refuse at the expense of their careers (Holtgrewe & Meil, 2008b).

Triangular employment relations
A third type of fragmentation of employment is characterised by people working at the same place (i.e. within the same organisation) but contracted to different employers. Such arrangements may stem from using temporary agency work or from
externalisation of activities. The latter case is typical of outsourcing of the IT function: IT services are no longer provided in-house by a dedicated department, but sourced from a specialised IT service-provider company. However, because this service mainly includes the implementation and maintenance of hardware and software, large parts of it involve providing on-the-spot support, which means that employees of the IT service-provider company work on the client’s premises. In this industry it is often difficult to make the distinction between externalisation of IT and temporary agency work, because IT service-provider companies frequently also lease personnel for IT projects.

IT service-provider companies often take over personnel from the organisations they gain contracts from. This makes it possible for them to acquire specialist knowledge quickly and to grow rapidly (Miozzo & Grimshaw, 2005). As a consequence, IT service workers formerly employed under the same contracts by the same employer now have different employers and often also different terms and conditions, although they are still working within the same organisation doing more or less the same job.

In the WORKS project, case studies of these business functions were carried out, some of them involving the transfer of personnel. The case of a local government body in the UK illustrates that the IT function is performed in roughly the same way as before but by a different company (Dahlmann 2007). The internal IT department used to provide services to the various departments of the municipality. After the outsourcing, the IT unit continued to perform the same tasks, employing the same workers in the same offices as before, but the workers were now employed by a private international IT service-provider company. The only major changes, apart from the transfer of personnel, were the relocation of the IT helpdesk to a region far away from the town and a considerable standardisation of the workflow.

In this case, the municipality had refused to negotiate the terms of the outsourcing with the trade union, which led to an eight-week strike. As a result, the unions managed to negotiate an agreement that the terms and conditions would remain the same. They also won a mobility clause stipulating that workers could not be obliged to work elsewhere, even if the outsourcing contract were to be terminated. While initially the majority of the transferred workers opted to keep their terms and conditions, during the first year some changed to the service-provider’s terms and conditions, which meant shorter holidays, a one-hour longer working week and no flexitime, but higher salaries. Another difference was visible in the weaker equal opportunities and diversity policy of the new employer. As a consequence of the outsourcing and transfer, perceptions of insecurity increased. The trust in the new employer was further undermined by the sudden relocation of the helpdesk and rumours of plans to subcontract parts of the operation.

By contrast, in a Swedish case in which the wage administration department of a public organisation was outsourced to a private service provider, employees had worked under high levels of uncertainty during the five years leading up to the outsourcing, because top management did not see wage administration as a core activity and thus the future of the department was unclear. After the outsourcing and the transfer to the new employer, perceptions of insecurity subsided, partly because of the information and HR policy of the service provider. The transition was smooth; the trade union
accepted the management plans. The terms and conditions of employment stayed roughly the same, but in practice more flexibility was demanded from the employees and the workload became heavier. The union was able to achieve a permanent agreement on terms and conditions and not a temporary one for one year, as foreseen in the relevant EU directive. However, trade-union representatives are worried about a recent takeover of their new private employer by a US company, fearing that this might lead to the offshoring of their work (Tengblad & Sternälv, 2007).

The business relations between companies impact more or less clearly on employment relations and working conditions. In IT services, but even more so in customer service, the service-level agreements (SLA) between service provider and client organisation define various aspects of work and management control. SLAs, for example, regulate the service in detail and usually also contain contract penalties in case targets are missed. In IT services and in customer services, the contractual relations between the organisations involved directly affect working conditions, because the performance of workers is monitored against the SLAs. This often results in increased standardisation and surveillance of work.

Multiple forms of employment

Fragmentation of employment may also mean that employment relations within a single organisation become heterogeneous. As a fourth type of fragmentation we thus briefly discuss the situation where multiple forms of employment are combined with diverse terms and conditions of employees within the same company. Strategies to cut costs and to achieve flexibility often lead to flexible labour being employed in addition to the core workforce. In the WORKS research, a particularly striking example was reported in a case study on postal services. A national postal company had set up a parcel delivery company as a subsidiary. This restructuring resulted in a marked fragmentation of labour through multiple forms of employment within the subsidiary:

Currently there are four categories of workers in the subsidiary company, beyond 15 managerial staff hired from the external market: 98 employees transferred from the national post (working under a national post contract), 120 regular employees (working under the subsidiary company contract), 80 seasonal employees (working under a four- or eight-month contract and for the national minimum wage), and 250 to 300 temporary agency workers (hired for a 2-month period which can be renewed up to a total of 18 months) (Gavroglou, 2007:8).

Multiple forms of employment within a single organisation may also be the other side of the coin of externalisation if workers are taken over from the client organisation and keep their terms and conditions, as described above in the case of IT service provider companies. These companies may have a quite heterogeneous workforce as a consequence of taking over employees from several different client companies, which is quite common in this business.

In customer service, fragmentation is not only a consequence of externalisation. Differences between groups of workers within a call-centre company may also result from the fact that employment and working conditions with a service provider depend
on the individual project or contract with a client organisation. Conversely, the establishment of call centres within companies and public organisations often has the effect of increasing differences between groups of workers. Such a ‘callcenterisation’ process (Huws, 2009) results in far-reaching changes in ways of working for those workers who are transferred to these customer service units.

Another form of discrimination that strengthens the fragmentation of employment can often be found in public-service organisations:

> Whereas under the public sector labour relations regime the employees were treated as a relatively homogeneous workforce, within privatised companies there is a growing division between ‘old’ and ‘new’ employees and between the core and peripheral workforce. Long-standing employees are still covered by civil-servant statues, while more recently hired workers are employed as private-sector workers based on the private-sector employment statutes. (Brandt & Schulten 2009)

To sum up, the blurring of organisational boundaries and the emergence of multiple employment relationships lead to a growing fragmentation of labour. The types of fragmentation presented here show that externalisation and, more generally, the restructuring of value chains, contribute to this in various ways: fragmentation of employment can be observed in the case of outsourcing of business functions or activities. Here, fragmentation means that different employment relations and conditions apply to workers carrying out tasks that were previously, or partly still are, performed within the client organisation. Fragmentation of employment may also mean that employment relations become heterogeneous within a single organisation. Finally, the spatial dimension adds to and is intertwined with the fragmentation of employment insofar as employment conditions differ widely between regions and countries. As a consequence, people who work for the same company have different wage levels and terms and conditions in different locations. Thus, restructuring and, in particular, externalisation and spatial relocation of work, contribute to the growing fragmentation of employment and also to the spread of precarious labour. As the case-study findings make clear, there are marked differences between sectors, however. Fragmentation is not a universal trend – and it does not necessarily lead to precarious employment. Fragmentation is also strongly influenced by the national employment system. This is the issue we will turn to now.

**The dynamics of labour relations and employment systems**

National differences obviously need to be taken into account when discussing the role of restructuring and new forms of business organisation in the fragmentation of employment. For one thing, while the disintegration of companies and fragmentation of employment are often presented as inevitable consequences of informational and globalised capitalism, it can be argued ‘that the forces leading to fragmentation have as much to do with the political context as with changes in technologies or production and market requirements’ (Marchington et al., 2005:3). What is more, national employment systems impact both on restructuring and its consequences. Since comprehensive and homogeneous systems of employment regulation and labour relations lead to
smaller differentials between companies and sectors in terms of wage levels and terms and conditions, obviously the consequences of restructuring and externalisation are less pronounced in such countries. Conversely, such a system also contains weaker incentives to outsource business functions or activities to other companies. Even countries with a relatively high degree of centralisation of collective bargaining may boost externalisation if there are marked differentials between collective agreements in different sectors (Hermann & Flecker, 2009). Labour law, too, depending on the different forms of employment it stipulates, does not only erect barriers against, but also provides opportunities for a fragmentation of employment.

Apart from marked differences between business functions and sectors, the research in the WORKS project also revealed national variations. The diversity of national employment models in Europe impacts on company strategies to achieve flexibility (Schief, 2006), which has consequences for value-chain restructuring and its employment outcomes. The case studies in the food industry, for example, showed how companies in different countries achieve numerical flexibility in different ways. While the Italian and the Bulgarian companies relied on fixed-term contracts, a Danish slaughterhouse used standard employment relationships, both because of the strong institutionalised industrial relations system and because of the low degree of employment protection in Denmark. This company, however, also used more precarious forms of flexible employment in a plant that was set up in Germany employing Polish workers.

The restructuring and its consequences are not shaped only by national employment and industrial relations systems. Widespread restructuring and fragmentation of employment also impact on the viability of employment models and labour relation regimes. This is a prominent topic in the industrial relations perspective on supply chains and vertical disintegration of companies. Research in this field has repeatedly suggested that external restructuring of companies through outsourcing and the reorganisation of the value chain weakens labour and destabilises industrial relations institutions. There are two main reasons for this: first, outsourcing accelerates tendencies of deregulation and decentralisation of bargaining because suppliers and service providers are less likely to be covered by (sectoral) collective agreements. The very motive of vertical disintegration can be to circumvent labour regulation (Hendrix et al., 2003). Second, as in the internationalisation and relocation of work, outsourcing options change the power relations between employers and labour and may thus lead to concessions by the core workforce regarding their employment conditions.

An international overview of outsourcing trends in the motor industry confirms that the restructuring of value chains in that industry has been detrimental to labour: *It is evident that this process has a clear impact on employment and working conditions: directly or indirectly, outsourcing generates great pressure to reduce labour costs and deregulate working conditions. The number of blue-collar jobs falls at the top of the pyramid and increases at the base, along with a sharp increase in unstable, poorly-paid work with little protection.* (Caprile, 2000:3)
Research in the service sector has also shown how employers exploit the differentials regarding terms and conditions through externalisation:

*All of the companies we examined successfully cut costs across their production chain through outsourcing work, spinning off subsidiaries, or contracting with temporary agencies. Some companies, like T-Com, T-Mobile, and DaimlerChrysler, also used the threat of vertical disintegration to win concessions in-house.* (Doellgast & Greer, 2006:16)

While industrial relations research has usually focused on the differentials between core and peripheral workforces, an analysis of value-chain restructuring and its consequences makes it possible to directly address the interrelationship between the core and the periphery.

*In the automotive industry, most small suppliers, service providers, and temporary agencies were not covered by the metal-working agreement, while call centre vendors typically had weaker and more divided works councils than telecommunications firms. This created additional pressures for concessions in-house, where outsourcing remained a cost-cutting option for management, and at suppliers or vendors hoping to retain their cost advantages* (Doellgast & Greer, 2006:16f.).

These findings also mean that core workforces, in spite of the stability of institutions such as sector-level agreements, may still be weakened by the movement of some jobs out of the sector (Doellgast & Greer, 2006:17).

Public services offer numerous examples of a marked fragmentation of employment: the restructuring of local public transport in Germany (Latniak, 2009), for example, included the break-up of organisations in several companies, the outsourcing of activities and, in part, the privatisation of companies. Sourcing services from industries with lower wage levels put pressure on wages. This started with cleaning and security and now includes bus-driving (Latniak 2009:191). While municipal local transport had long provided comparatively good employment conditions for workers with rather low education levels, now restructuring undermines pay and conditions because of the lack of comprehensive labour-market regulation in this service. The emergence of two separate wage levels in local public transport for the public and private sub-sectors with little chance of a unitary, sector-level collective agreement, as reported by Latniak (2009:191), seems to be a general tendency in public services: the new labour relations regimes often create two-tier wage structures and growing divisions between a core and a peripheral workforce (Brandt & Schulten, 2009:48).

More generally, results from the Dynamo project show that externalisation strategies contribute to the fragmentation of industrial relations and to the undermining of the employment system in countries such as Germany (Latniak, 2009; Lehndorff et al., 2009:120). In other countries, however, the situation is different. To take local public transport as an example again, countries with more comprehensive labour-regulation systems at sector, regional or national level, such as Sweden or Italy, do not show these fragmentation tendencies to such an extent (Wickham & Latniak, 2007). Yet even where institutions seem to be rather stable, far-reaching changes may be under way (Streeck & Thelen, 2005). Some of these changes are indeed related
to the extended opportunities available to companies through externalisation and restructuring. In Austria, the establishment of new sector-level collective agreements can be interpreted as a sign of the stability of the bargaining system (Flecker & Hermann, 2005). At the same time, trade unions have been able to achieve some stabilisation through expansion into new sectors, but only by conceding far-reaching flexibility of working hours or low wages. In the IT industry, this is directly related to restructuring, as more and more companies have outsourced IT to service providers or set up their own subsidiaries, who are no longer subject to the same collective agreement as the parent company. To avoid more and more IT workers ending up under the very weak collective agreement of ‘general trades’, the union demanded a special collective agreement for the IT industry. After some years, these endeavours were successful, not least because the working-hours law in Austria forced the employers to conclude a collective agreement if they wanted to extend the flexibility of working hours beyond what was stipulated by the law. However, the union could not achieve this collective agreement without concessions. As a consequence, the regulation of employment through the IT collective agreement is more employer-friendly than in many manufacturing or banking collective agreements (Hermann & Flecker, 2009).

Frade and Darmon (2005:118) argue that not only has the structuring of service activities as insecurity-and-risk transfer chains, based in the use of intermediary actors3 ‘led to the widespread use of non-standard forms of employment relationships’, but the creation of new collective agreements has also contributed to the ‘normalization and legitimisation of the use of all available precarious forms of employment’. What is more, the service-provider companies can argue that their activity consists of a ‘discontinuous series of assignments; in fact the very company or provider claims to have no autonomous identity beyond these assignments’. According to Frade and Darmon this ‘reduction of employment to work tasks’ marks an introduction of commercial law into labour law and thus contributes to the recommodification of labour. In fact, extending social protection to workers without employee status in order to prevent the evasion of social security contributions has already created new forms of employment, such as the parasubordinati4 in Italy or the Freie DienstnehmerInnen5 in Austria. Such developments provide employers with new, weakened types of employment status which, in turn, make it more difficult ‘to enforce the principle of reclassification of bogus self-employment as waged employment by the courts’ (Frade & Darmon, 2005:118).

Conclusions

This paper has argued that there is a close interrelation between externalisation strategies and, more generally, the restructuring of value chains and the fragmentation of employment. In some sectors and countries, value chains actually take the form of ‘insecurity-and-risks transfer chains’. While there are national differences in the degree to which restructuring actually impacts on employment relationships, the

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3 The authors refer to outsourcing service provider companies here.
4 ‘Specific to Italy, the term “parasubordinate” refers to a form of employment in which the worker is subordinate to the employer but still has the status of self-employment.” (WORKS Glossary, www.worksproject.be)
5 Workers who are formally not subordinate to the employer and have freelance status without employment protection, holiday entitlements and sickness pay but paid according to working time and covered by social security.
fragmentation of employment may undermine national employment models by extending non-standard and often precarious employment. Variation in employment conditions driven by value-chain restructuring actually weakens traditional industrial relations and tends to destabilise labour-market institutions. This becomes even more obvious if we do not just understand fragmentation in terms of growing differentials between core and peripheral or internal and external workers but also take account of the strong interrelationship between them, in the sense of externalisation retroacting on the core workforce. While the traditional view was that segmenting workforces on the ‘flexible firm’ model, for example, serves the interest of buffering the core workers and leaving the peripheral workers with all the disadvantages and risks of cost cutting and flexibility, this no longer seems to apply for core workers in many industries and countries, who now have to bear more and more of the risks of flexibility themselves. Outsourced activities and the conditions for external workforces may not only provide a benchmark against which core workers are increasingly evaluated; employers may actively seek possibilities for externalisation in order to keep their core workers in check (Ackroyd & Procter, 1998; Rubery, 2005). In fact, the case-study evidence suggests that today value-chain restructuring and externalisation only rarely have the effect of cushioning core workers. On the contrary, these core workers are subject to greater pressures for flexibility and work intensification, both when services are externalised to private providers and when work is relocated abroad as well as through increased competition between units within the value chain and even within the same company.

Case studies of business functions and sectors have shown just such a tendency of fragmentation of employment conditions both between and within firms. In IT services, workers formerly employed under the same contracts now have different terms and conditions, although they sometimes still work within the same organisation doing the same job. The transfer of employees from client companies, which is quite common in this sector, often leads to heterogeneity within the workforce of the IT service-provider company. In customer services, subsidiaries and external service providers operate under different labour-regulation regimes from their public-sector parent or client organisations. Here, the differentials are much wider than in IT services and refer not only to wage levels but also to the type of labour contract, social-security coverage and working-hours arrangements. In software development, external, leased employees work alongside full-time employees on permanent contracts. In clothing, the fragmentation of employment often only becomes visible at a global scale because much low-wage work has been relocated outside Europe or (as, for example, in Italy) has been outsourced to subcontractors within the same region with considerably lower social standards, who then often pass on work to homeworkers. Obviously, big differentials in wage levels and terms and conditions are incentives for outsourcing and relocation. As a rule, companies further down the value chain, even within the same country, carry out more standardised tasks under more precarious labour conditions. But there are clear differences between business functions, sectors and countries regarding the extent to which value chains can be equated with ‘insecurity-and-risk transfer chains’ (Frade & Darmon, 2005).
However, there are also limitations to fragmentation and, in rare cases, it is possible to observe counter-tendencies. Employment insecurity and personnel turnover in external call centre companies, for example, may be detrimental to the quality of the service. To achieve more continuity, a public client organisation in Italy is considering insourcing its customer service again. In the German railways, different companies were established to deliver the services at railway stations. Because of the lack of coordination between these companies, the necessary cooperation is based on informal relations between the workers, who are former colleagues. This would not work if the workers had other backgrounds. In research and development in the IT industry, the high skills of the employees and the highly specialised work they are doing seem to place constraints on fragmentation strategies. Similarly, in IT services, the differentials between employment conditions between the public client organisation and the private service providers may be rather limited. And there are attempts by IT service-provider companies to harmonise employment relations on a voluntary basis in order to overcome the internal diversity of terms and conditions that results from taking over workers from different customer companies. This means that new internal labour markets may be emerging within large service-provider companies. While there is thus a potential for such counter-tendencies, the main trend points towards fragmentation of employment, which in most countries will severely impact on the national employment system.

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REFERENCES


