

Assessing The Impact on Workers Based on Vertical Disintegration – From the Perspective of India's Outsourcing Sector

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Abstract: Since the 1980s, there has been a transforming organizational structure of the transnational corporations moving towards a 'networked vertical disintegration' framework. And India has become the main destination for the technological vertical disintegration of multinational corporations. Therefore, the main aim of this paper is to reassess the impact of vertical disintegration on workers through the lens of India IT outsourcing industry. Although scholars have largely recognized a dichotomy of 'core' and 'periphery' in the impact brought by vertical disintegration, the case of India IT outsourcing sector rather illuminate a dynamic power in employment relation between 'core versus periphery' agency and thus an increasing bargaining power for collective action of 'workers' to challenge such binary and further navigate and deal with 'vertical disintegration' pattern.

Keywords: Vertical Disintegration; Multinational Corporation; Outsourcing; Disarticulation Perspective; Global Supply Chain, India IT Outsourcing Sector

1. Introduction

Since the 1980s, there has been a transforming organizational structure of the transnational corporations moving towards a 'networked vertical disintegration' framework [1]. Such transformation of the separation of production process in organizational form has been frequently identified in apparel, textile corporations such as the examples of Nike and Zara [2]. Furthermore, some financial and technology companies such as American Express, Google and Amazon have also prescribed and applied this vertical disintegration strategy to specialize their software and information technology (IT) development. And India has become the main destination for the technological vertical disintegration of multinational corporations [3]. Therefore, this paper attempt to research the employment in Indian IT outsourcing sector and one of the most famous company in this sector (HCL Technologies), as the main analysis objectives to interrogate the following questions: 1) How has the vertical disintegration influenced the 'workers' in a 'outsourced' India, especially the employment in a 'IT outsource company'? 2) How can we rethink the current academic account on vertical disintegration through the case study of and outsourcing sector and IT service companies in India?

The main argument of this paper is that, although scholars have largely recognized a dichotomy of 'core' and 'periphery' in the impact brought by vertical disintegration, the case of India IT outsourcing sector rather illuminate a dynamic power in employment relation between 'core versus periphery' agency and thus an increasing bargaining power for collective action of 'workers' to challenge such binary and further navigate and deal with 'vertical disintegration' pattern.

The paper will be divided into three main sections: Firstly, a contextual framework will introduce the theory of vertical disintegration, and the contour of IT outsourcing and IT outsourcing sector in India. Afterwards, in the second section, a literature review of the current academic accounts on the impact of vertical disintegration shall be elaborated. Afterwards, my analysis on the Indian outsourcing sector and HCL Technologies case will be unfolded into two parts. First, I will analyze 'workers' as a passive mechanism, in which how vertical disintegration would impact such agency shall be analyzed. Second, the 'workers' can be furthermore explored as a proactive mechanism, of

which how they navigate and in adverse impact the vertical disintegration structure will also be elaborated.

2. Contextual Framework

2.1 The definition and types of vertical disintegration

Despite being amount in authorship in vertical disintegration studies, there has elaborated a highly consistent and collective understanding on what vertical disintegration is, and thus a ‘standard’ analysis on its causes, definition. In terms of the reason of the wide application of vertical disintegration as the organizational structure since the 1980s, scholars such as Prahalad & Hamel and Herrigel have identified the incompatibility between the increasing wider challenges (such as intensifying global competition, rapid technology transformation, declining product life circles and varied consumer demands) and the limited firm sources (such as the spatial, financial, manpower and organizational resources) as the driving force of this phenomenon [4]. Therefore, to address such incompatibility, firms tend to only concentrate their activities on ‘core competence’ areas (the activities that make the firm is ranked ahead of the competition), while reply on suppliers to contribute components, systems, and aspects of product development in all other areas outside the core competence [5]. Hence, the vertical disintegration has been generally defined as a diseconomies phenomenon of various size or scope decomposes the production process into separate companies, each performing a limited subset of the activities required to create the finished product [6].

2.2 Outsourcing

Outsourcing is a main form of vertical disintegration. Referring to Dolgui & Proth, it is defined as the act of obtaining a semi-finished product/service, finished product/service from an outside company [7]. And since the 1980s, outsourcing has been increasingly popular for larger firms. Grant Thornton International Business Report shows that outsourcing is a popular option, with 43% of larger corporations either currently outsourcing or going to outsource [8]. And trends suggest that larger companies are moving towards outsourcing 10%-25% of the overall workforce [9]. Furthermore, the chronology of outsourcing represents as a moving towards higher added value being separated (Figure 1). And as the protagonist of this paper, the technical information outsourcing, thus widely adopted by companies such as IBM and Intel, of which the software and back-up IT offices are separated and moved to areas such as India and China.

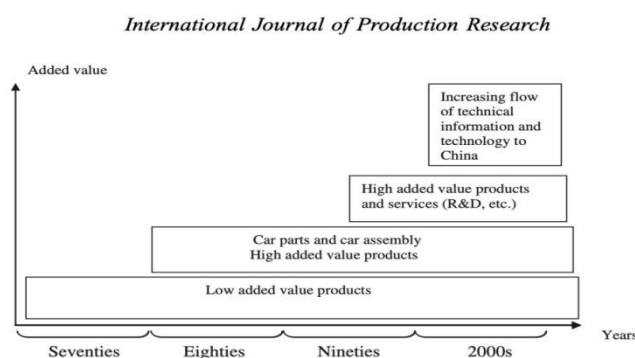


Figure 1 International Journal of Production Research

2.3 Indian IT outsourcing sector: A brief introduction

India is regarded as the hub of IT support and an undisputable leadership in global outsourcing market. According to A.T Kearney, due to its financial attractiveness, skilled labor and business environment, India hosts more than 1,140 global captive centers, which allow almost half of the top 500 MNCs to operate in India [10]. And most common forms of outsourcing in India related to Information Technology (IT service), including software developers, infrastructure engineers and technical support teams. According to PwC, there are over 3 million IT employees within the Indian

outsourcing industry and indirect employment to almost 10 million people [11]. Thereafter, the India IT Outsourcing sector is indeed of world's leadership status, in which more than 10 million people has been directly or indirectly employed in such industry. IT Service companies, thus being produced by such outsourcing trend. The HCL is one of the key figures in this sector. Established in 1991, HCL Technologies is an Indian multinational information technology services company headquartered in Noida [12]. And nowadays the company has offices in 50 countries and over 187,000 employees. And in this paper, we will mainly focus on its Indian employment condition.

3. Conceptual Framework

In this section, I would first conduct a reflection on the current academic account on the impact brought by vertical disintegration on workers. Afterwards, the research limitation and thus a gap shall be analyzed. Thereafter, the methodology and the primary sources I will apply in this paper will be introduced. Alongside with this representation, the limitations of the database will also be admitted.

3.1 Literature review: The impact of vertical disintegration on workers

Three features can be found in current academic narration on the 'impact on workers' brought by vertical disintegration: 1) being relatively absent; 2) an orthodoxy of 'dualism' perception; 3) an emerging criticism to such dichotomy narration.

First, while some works have explored and identified the influence of vertical disintegration on workers, there is a relative absence in the analysis of the agency of employment relationship in vertical disintegration studies. As aforementioned in 'contextual framework' section, there is a large amount of academic works contributed to vertical disintegration structure. However, the majority of these works merely focus on the impact of vertical disintegration on firm's performance, industry localization, and macroeconomics [13,14] Besides these overwhelming studies, some works engaged in the impact on labor analysis argues a rather 'binary division' to describe the employment relation in vertical disintegration structure. Most empirical research therefore hypothesized a negative linear relation between the degree of vertical disintegration and employment condition in outsourced area, expecting employment condition to decrease when vertical disintegration increases [15,16]. Therefore, defining labor relation as a dualism between core and periphery is more of an orthodoxy in vertical disintegration discourse.

Nevertheless, besides the political economy and vertical disintegration studies, there are still a few works in management, business and social studies dedicated to the employment condition in some vertically disintegrated companies such as Nike and its outsourced factories as well as Apple and Foxconn. And in these accounts, the 'binary division' has rather been reiterated. For example, Clancy conducts the research on Nike Company and its outsourcing impact in Vietnam, of which the allegations towards woman status and poverty condition among the labor are examined [17]. Hua, Josephs and Pun et al examine the case of Apple and Foxconn to reveal the violation of international labor standard brought to bear on the problematic condition for workers. Thus, such accounts outside Political Economy area further emphasize and reinforce the 'binary stand' and 'vulnerable outsourced side'.

In recent year, The German scholar Hajo Holst has developed more nuanced understanding on the impact of vertical disintegration on labor relation, which is also the key entry point of this paper [18]. What Holst attributes is an analysis on the blurring boundary between stable core and vulnerable periphery agency, and therefore suggests that labor relation is not static as the previous dichotomy assumed. Thus, this thesis tends to apply such 'nuance' as the starting point to further assess the Indian IT outsourcing sector and call for a potential rethinking towards 'binary narration' and the also the disarticulation perspective.

Nevertheless, it can be found that there are two main limitations rooted in these academic literatures. First, the current studies on the impact of vertical disintegration on workers, the outsourcing of technology and software sector remains as an absence [19]. Second, current academic

accounts on ‘vertical disintegration’ tend to overemphasize the macro lens in a national economy scale, and thus lack of bottom-up micro perspective to focus how labor/worker navigate in a certain industry and a firm. Thus, by examining the employment condition in IT outsourcing sector in India and the HCL company, this thesis attempt to fill this research gap.

3.2 Methodology

The main research methodology applied in this paper is a qualitative case study. As one of the approaches in qualitative research, case study research is a ‘study of a case within a real-life contemporary context with an in-depth and detailed analysis [20]. Therefore, the aspects such as salary; working hour and condition; as well as the ‘more cultural aspects’ such as gender / racial condition will be analyzed. The investigation is executed in two dimensions: employment in IT outsourcing sector in India and a typical Indian IT outsourcing company, HCL Technology. These two dimensions differ remarkably in main database. To analyze the overall IT outsourcing sector, the business reports, newspaper articles and some secondary sources will be applied. And in order to scrutinize labor relation in a certain firm, more firm-level and individual account such as official website and employment report will be utilized.

Nonetheless, the limitation rooted in the primary sources shall also be acknowledged. First, because I am not an Indian language speaker, more useful primary sources in Indian may be excluded from the analysis. Second, also due to the language barrier, it is not able to conduct an employee-level interview to further receive the feedback from ‘worker side’. Therefore, merely relying on sources offered by firm may lead to the ‘constructed image’ bias. Nonetheless, this paper attempt to address this issue through elaborating more moderate and cautious argument.

To recapitulate, in terms of the current academic account on the impact of vertical disintegration on workers, although Holst’s work presented as a criticism, the dichotomy framework of ‘secured core’ and ‘unregulated periphery’ in employment condition is still the prevailing narration. Nevertheless, this paper seeks to utilize the employment in India IT outsourcing sector and HCL company as a lens to further investigate and interrogate this orthodox discourse.

4. Analysis: The Impact of Vertical Disintegration on Workers

4.1 Workers as a mechanism in vertical disintegration

In this part, I will first analyze the working condition in Indian IT outsourcing sector. It can rather be argued that there is a certain hierarchical structure between ‘core’ and ‘periphery’ in global vertical disintegration, while the case of Indian IT outsourcing sector reveals an increasing employment standard and thus a more moderate understanding on the classic binary account.

The average wage of Indian IT outsourcing industry could illuminate an asymmetry in favor of the ‘outsourcing area’, however, such asymmetry could by no means be explained as a highly negativity of employment condition in India. First, although the average salary in the IT outsourcing industry in India is significantly lower than that in the ‘outsourcing area’ such as the US and Europe, however, it is relatively lower than the average wage in India. For instance, According to Time Doctor, the average salary of Indian outsourcing employee is 337.67 USD per month, while the average wage in US technological sector is 7930 USD per month [21]. However, the average salary in salary in 2021 India is 428.49 USD per month. Thence, it seems the vertical disintegration in IT sector entrenches a critical asymmetry between ‘North’ and ‘South’, while a more domestic lens might further suggest a neutral understanding on such hierarchy. Second, the salary in Indian IT outsourcing sector is stratified. For instance, reported by the Six Figure Statistics, the age and rank constitute as two main actors to such stratification, of which the top 10% of the employees earn more than 544 USD per month and age from 36-41 earns the most percentage (38%). Therefore, it might suggest a deeper analysis towards the complexity of the employment condition within the Indian IT outsourcing sector, of which the stratification could lead to the differences between ‘top’ and ‘down’ as well as ‘experienced’ and ‘fresh’. Thus, it should be stressed that asymmetrical salaries may not a complete

negativity to the working condition in outsourced area, and that the labor stratification further complicates the employment condition in the Indian outsourcing sector.

Furthermore, owing to the required English proficiency and software knowledge, the 'workers' required in Indian IT outsourcing industry rather represents an 'elite' characteristic. First, an 'expensive and competitive' pathway to be a qualified candidate in Indian Outsourcing sector determines a relatively better lineage of the employment condition. For example, the Transform Europe reports that it is very expensive to take courses in English or American English in India, requiring almost six months of one's parents' salaries which is unaffordable for most Indians [22]. And therefore, the job sent to India are more of white collars and professional jobs [23] Consequently, such 'necessary requirements' served as a point of 'filter', in which a more 'elite' and 'upper' social class with higher educational background and domestic income can only have opportunities to be selected and passed. Second, being gear to the 'outsourcing region' such as US rather guarantee a reasonable working hour and more inclusive 'white collar youth class'. To be more specifically, especially working at the IT call center, the day generally starts at 10pm and continues up to 4 am which initiates a six-hour working hour and an inclusive Western living environment cutting off from Indian parental life as the young employment work at night [24]. Moreover, the outbreak of Covid-19 may further maximize the work-from-home scenarios in IT outsourcing industries, which consolidate such relatively isolated, individualized and non-precarious working conditions in Indian IT outsourcing employment [25]. And such work-from-home strategy could even protect the employment from the explosion of the coronavirus. Thus, these evidence portray an instead nuance picture of how workers in Indian IT outsourcing sector represents, that is, following the coronavirus pandemic, a more 'isolated' but 'secured' working condition has been highlighted, thus being highly contrary to the previous academic account as 'collective but vulnerable' outsourced working condition. Therefore, by examining the 'requirements' and 'working condition' of employment in Indian IT outsourcing sector, it can be found that a 'stricter' selection indeed entrenches a better working condition, characterizing as highly secured, while being relatively isolate.

The employment condition at HCL reinforces this westernized, civilized and democratic employee culture. First, although there is a degree of exaggeration and propaganda caused by the constructed company image, the employee culture is highly compatible with that of European and American multinational corporations in the 'core area'. For example, 'diversity' and 'inclusion' are two main principles in its employee resources group, in which the gender, cultural, disability and LGBTQ+ inclusion are four pillars of Diversity and Inclusion [12]. Therefore, it can be found, in terms of the employee culture, the labor in 'outsourced area' under vertical disintegration rather characterized the 'outsourcing area ideologies. Second, moving beyond the company official website, the employment survey website, Glassdoor, provide a more real-experience presentation of HCL employment (Figure 2). It can be observed a relatively secured and westernized working condition. Therefore, the case of HCL suggests that labor in outsourcing sector, to a large extend, is influenced by a blurring binary between core and periphery in vertical disintegration.



Figure 2: the working condition in HCL India, [26]

To sum up, this section has examined the employment condition in Indian IT outsourcing sector. It started by reflecting the asymmetrical hierarchy between 'outsourcing' and 'outsourced' areas, while also elaborating that such asymmetry cannot be fully seen as a negativity of employment condition. Afterwards, we used 'entrance requirement' and 'working pattern' to further interrogate the workers' condition in such sector and revealed that how a secured but relatively isolated working condition is constructed. And then, the employment condition in HCL company could further supported such declining binary.

4.2 Workers as a counter-hegemonic mechanism in vertical disintegration

The pervious sector explained how the vertical disintegration could impact the workers in outsourced side, however, it more regards the workers as a passive subject who are selected and disposed by such global trend of technological outsourcing. While in this section, the study will portray the 'workers' as a proactive agency and it will focus on two dimensions: 1) workers in 'outsourced India' with bargaining power and valueadded strategy; 2) workers outside 'outsourcing India' under 'return trend' and 'resistance movement'. And thereafter, a rethinking towards the disarticulation perspective will be raised and illuminated.

The high turn-over rate and value-added activities constitutes as two micro practices for workers in outsourced India to bargain the asymmetry and marginalization. First, the high turn-over rate among the employment condition in Indian IT outsourcing service entitles workers more bargaining power the vertical disintegration structure. High staff turnover is frequently reported even amongst the more employee friendly IT outsourcing companies. Not only the job-related stresses cause such turnover, but also the higher wages provided by other rival companies [23]. Therefore, such high turnover reveals an incompatibility between occupation vacancy and required candidate. Therefore, it has been suspected that India's rising wage are driving up to outsourcing price [27]. And furthermore, such high turn-over rate also illuminates and emphasizes the capacity of workers to navigate through the outsourcing sector and a global vertical disintegration structure, in which the incompatibility entitles them the increasing bargaining power to deal with the negativity brought by asymmetrical wage condition. Second, the value-added capacity has been advocated on India side, of which the labor could be the core agency to produce such activities. For example, in 2013, the 'creative function outsourcing' campaign attempting to develop the workers' originality and creativity (pit best talents) beyond the IT expertise and English language skills was called by a series of outsourcing companies in order to resonant with 'outsourcing areas' [28]. The case of HCL is another example of this innovative development in the outsourcing industry. The company has suggested 'innovation' and 'ideapreneurship' as the most valuable assets, of which the employees become the foundation of such transformation [12]. Thus, the labor's increasing bargaining power against the asymmetry in vertical disintegration should be highlighted.

The blurring boundary between 'core' and 'periphery' has been deepened by the labor activities outside India outsourcing sector. First, there is an employment return trend from 'outsourcing area' to 'outsourced area'. For example, as US outsources occupations to India and wage being cut, one irony of this trend is that a reverse migration of labor is now going back to India [29]. Thence, this backflow of labor from the subject part to the separated part of the vertical disintegration further justifies the autonomy agency of 'workers' and questions the legitimacy of asymmetry. Second, some resistance in 'outsourcing area' such as the US and UK against the outsource in India may suggest a counter-hegemonic capacity against vertical disintegration entitled by workers in Global North [30]. And such resistance against IT outsourcing in Global North is more prevailing than in Global South. A search for labor strikes or protest movements against vertical disintegration in the Indian region showed that such incidents were largely unprecedented. In contrast, labor protests outsourcing activities in Global North are frequent in the UK and US. This comparison therefore further suggests that labor outside the outsourced area also possesses the capacity and inclination to build counter project against the separation and disintegration of the corporation supply chain. Thus, labor return

and labor resistance outside India can be accounted as two mechanisms developed by a ‘proactive labor agency’ in vertical disintegration.

And this thesis will use the lens of workers in Indian IT outsourcing industry to further interrogate the theory of ‘disarticulation’. The disarticulation, refers to McGrath, implies the ‘exclusions, withdrawals and ruptures’ engendered from the commodity chain, of which the ‘labor’ remains as the analytical focus of theory. Nevertheless, through the lens of labor condition in Indian IT outsourcing sector, it can be found that on the one side, the vertical specialization of multinationals in order to save costs does result in exclusion and exploitation of the outsourcing side, which is clear in the polarized salary levels. However, on the other side, the periphery labor has some bargaining power to negotiate the asymmetries and marginalization of the vertically disaggregated supply chain and is therefore not a completely passive negative victim. The article therefore emphasizes a reflection on disarticulation, particularly the increasing bargaining power reproduced by ‘oppressed labor’.

Therefore, to recap this section, we have explored the mechanism, both within India and outside India outsourcings sector, engender by labor agency to build counterhegemonic project against vertical disintegration structure. And we have identified there is a ground to suspect the legacy of disarticulation perspective, in which the workers cannot be merely regarded as a passive subjectivity invaded by capitalized global supply chain and thus being excluded, marginalized and dispossessed.

5. Conclusion

To conclude up, the case study of employment condition within the Indian IT outsourcing sector presents an illuminating work to further complicate the dichotomy between the ‘core versus periphery’ discourse rooted in current vertical disintegration studies. By studying the employment condition in the Indian outsourcing sector, it suggests that it cannot elaborate a linear trajectory to determinedly argue the vertical disintegration leads to asymmetry, exclusion and marginalization. But rather, the better working condition, bargaining power, and resistance from North highlight a more dynamic and nuanced contour of the impact on labor brought by vertical disintegration. Furthermore, my thesis also sheds a light on the rethinking on the disarticulation perspective in political economy studies. And it suggests a research focus moving from ‘passive workers harmed by commodity chain’ to ‘proactive labor navigating the structure’ to nuance the disarticulation narrations.

Nevertheless, this paper still suffers from the methodological limitations as I have discussed in ‘methodology’ section. This study thereby suggests and invites three new avenues for further research in vertical disintegration studies: 1) recommending a future analysis in the different impact brought by different forms outsourcing, of which there might be a significant difference between ‘IT outsourcing’ and ‘textile and clothing outsourcing’. 2) recommending a more bottom-up and micro methodologies such as interview and questionnaire to investigate the impact of vertical disintegration on their employees’ more ‘psychological’ aspect, therefore an interdisciplinary approach. 3) recommending further research on the impact of vertical disintegration in previous ‘core’ area such as Global North, as it might contribute a more critical understanding on the mutual and dynamic relationship between outsourcing and outsourced sectors.

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