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Critical review

Exercising power over labour governance in the electronics industry

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ABSTRACT

Power relationships between contract manufacturers and brands in the electronics industry global production network are changing. Brands show increasing dependency on contract manufacturers, whereas contract manufacturers show the opposite dynamic. This paper argues that using different understandings of power in inter-firm relationships reveal an opportunity for contract manufacturers to exercise collective power against brand firm behaviours that can cause labour violations in their factories. This requires non-firm actors in the global production network to create risk and obligation that would compel contract manufacturers to exercise more power over labour governance, for example, through the establishment of a 'floor' on labour costs and working conditions.

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1. Introduction

Of late, there have been numerous labour violations in the electronics industry global production network (GPN). They include factory worker suicides, forced labour, child labour, excessive over-time, poisonings, illnesses, and deaths from chemical exposure (Blanding and White, 2015; Chan, 2013; Verite, 2014, 2015). The majority of labour violations occur in supplier factories in developing countries. Public outcry often leads to pressure on brands to improve the situation in their supplier factories. Brands are considered ultimately responsible because they have set orders with conditions that led to the labour violations in their supply chains. Indeed, brands do not shirk public calls for responsibility and have increased resources spent on supplier governance programs. Supplier governance activities by brands, however, have not always been successful or sustainable (Locke, 2013). Very recently, governments in developed countries from which many brands originate have responded to incidences of labour violations with global supply chain regulations against human trafficking, slavery, and conflict minerals (European Parliament, 2015; Pickles and Zhu, 2013; Verite, 2015).

The root cause of much of the problems around labour violations in the electronics industry is the just-in-time production model that demands fast and cheap, yet high quality outputs from suppliers. Suppliers also face unpredictable and last minute changes to production orders and specifications, which are exacerbated with sales cycles that have become shorter over the years. For example, when the iPhone was introduced in 2007, the time to market was six months. Five years later, the time to market was less than two weeks (Yeung, 2014). Suppliers find ways to meet tough orders and have little bargaining power to change the purchasing practices of brands. The situation described assumes a stark power asymmetry between brands and suppliers.

This paper challenges the notion of 'powerless' suppliers, by considering the case of a small group of suppliers called 'contract manufacturers' (CMs). CMs are large multinational corporations (MNCs) in their own right with high degrees of production and other capabilities. The top five CMs (see Table 1) in the industry conduct up to 80% of manufacturing for brand firms (European

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Table 1
Top five CMs compared with the top five brands in the electronics industry. *Sources:* Fortune 500, 2014 (http://fortune.com/fortune500); http://investing.businessweek.com/research/common/symbollookup/symbollookup.asp; www.google.com/finance (accessed 17 June 2014); https://www.linkedin.com/company/asus (accessed 12 June 2015); company websites.

Contract manufacturer	Revenue (USD million, 2013)	Employees
Foxconn	131533.1	1,290,000 (2014)
Flex	26108.6	150,000 (2014)
Jabil Circuit	18336.9	More than 175,000 (2015)
Sanmina	5917.1	33,144 (2014)
Celestica	5796.1	22,600 (2014)
Brands	**Revenue (USD million)**	**Employees**
Apple	170.910 (2014)	92,600 (2014)
Hewlett–Packard	112,298 (2014)	317,500 (2014)
Dell	56,940 (2013)	108,800 (2014)
Lenovo	US$46,296 B (2015)[a]	60,000 (2014)
Acer	US$10.48 B (2014)[b]	More than 10,000 (2014)

[a] Lenovo (2015).
[b] http://www.bloomberg.com/research/stocks/financials/financials.asp?ticker=2353:TT&dataset=incomeStatement&period=A&currency=US%20Dollar.

Commission, 2012). When it comes to discussions around improving labour conditions in the electronics industry, I argue that more attention needs to be paid to contract manufactures. This is because CMs own, run, and manage the largest factories in the industry and employ a significant amount of workers worldwide. The majority of their factories are located in developing countries, which face a greater risk of poor labour conditions. CMs have also been increasingly linked to labour violations in recent years (Bormann et al., 2010; Simpson, 2013).

This paper will show that from a business perspective CMs have increasingly become relatively indispensable, in terms of their capabilities, to brands. As a result, power asymmetry between the two groups of firms change and diminish in different ways. In order to understand the dynamism of their inter-firm relationships, however, traditional concepts of firm power must be challenged and a pluralistic view of power used instead.

The paper argues that CMs are becoming more powerful vis-à-vis brands in different ways, and this opens up a space for "pushing-back" against the just-in-time production model upheld by brands. Indeed, to make serious progress in reducing labour violations in outsourced factories, a change in the business model is required. The next question naturally is how can such a radical outcome be achieved? It is argued that CMs are entry points for change for two reasons. First, CMs are no longer *only* low-value added, low waged assembly manufacturers. They are individually shaping their business models in ways that can or are already creating tensions, if not threats, to brands. At the same time, they have developed capabilities that are leading to increasing dependency by brands, and thereby influencing inter-firm power dynamics. When power is theorised in different ways, brand dependency on CMs can allow the latter to influence terms and conditions of production for better worker conditions. Second, brands have imposed labour governance from the top down through private standards and codes of conduct with limited success (see Nadvi and Raj-Reichert, 2015; Raj-Reichert, 2011, 2013). If CMs are compelled to influence and have more power in negotiations over labour governance in their factories, their experience and knowledge over factors that lead to labour violations could result in more effective governance measures. Here, a new research agenda is called on to move focus away from brands in discussions over improving worker conditions in the electronics industry and towards CMs. Would CMs, who have better knowledge of worker management, propose to do things differently from brands, if given the platform to influence labour governance measures? Might they have better solutions? Should they be telling brands what to do? Importantly, and to avoid imagining a "*kumbaya*" moment where firms come up with solutions to their own exploitative working conditions, the politics of governance through the networked power of mobilization by non-firm actors in GPNs would be critically needed (Wills, 2001). This means engagement by nongovernmental organisations (NGOs), trade unions, and governments to not only better understand the changing power and commercial dynamics between brands and CMs but to compel CMs, through the creation of risk and obligation, to exercise more power over labour governance, for example, through the establishment of a 'floor' on labour costs and working conditions. The remainder of this paper addresses each of these factors in more detail. The discussion is also informed by qualitative research (interviews) conducted in 2008, 2010, 2013, and 2015 with brands, CMs, NGOs, trade unions and government agencies in the electronics GPN located in the United States, various countries in Western Europe, Malaysia, and Singapore.

The next section discusses different concepts of power for understanding inter-firm relationships in GPNs. Section three discusses changes in the relationships between brands and CMs in the electronics industry. It also discusses networked power through the mobilization of non-firm actors in the GPN to compel CMs to improve working conditions. Section four concludes the paper.

2. Understanding different forms of power in inter-firm relationships

The traditional concept of inter-firm power is structural, where the firm with more economic might wins (Allen, 2003). In an outsourcing relationship a brand that contracts suppliers, has the ability to dictate terms and conditions or cancel or exit out of the contract. This is why suppliers are considered to be in a position of less power. However, power can be conceptualised and exercised in different ways. Critical research has included concepts of networked or relational power and Foucauldian governmentality to describe inter-firm relationships in GPNs (Hughes, 2009; Larner and LeHeron, 2004; Ouma, 2015). From a networked and relational perspective, for example, small firms and in particular clusters can exercise power collectively to overcome structural powers of large brand customers through upgrading (Rutherford and Holmes, 2008; Smith, 2003). From a governmentality perspective, actors within firms can exercise micro processes of power, for example, through self-disciplinary or self-regulatory mechanisms that can affect inter-firm relationships within a GPN (Raj-Reichert, 2013).

When power is conceived in different ways more possibilities of power dynamics can be analysed in a GPN. For example, suppliers can work together on a common problem, such as risks that arise from labour violations, and agree to collective strategies to overcome them. Indeed cooperation amongst competitive firms has been widely studied in the business literature (see De Marchi and Grandinetti, 2014; Sako, 1996; Wilhelm, 2011). When brands become dependent on a small group of suppliers while the latter become less dependent on brands,[1] diminishing power asymmetry can open up space for the exercise of collective power by suppliers to overcome constraints dictated by brands. These ideas underpin the discussion of changing power dynamics of brands and CMs in the next section.

[1] There is a related emerging literature on bi- and multi-polar governance in global value chains (see Fold, 2002; Ponte and Sturgeon, 2014).