



Is there a sweet spot in ethical trade? A critical appraisal of the potential for aligning buyer, supplier and worker interests in global production networks



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ABSTRACT

We undertake a critical appraisal of the existence of the so-called 'sweet spot' in ethical trade at which the interests of buyers, suppliers, and workers intersect to enable benefits for commercial buyers and suppliers and improvements in the conditions of workers at the base of global production networks. In turn, we take the perspectives of three central actors typically involved in ethical trade: buyers/brands, suppliers in the Global South, and workers at the base of these networks. By applying all three perspectives, we theorize about the circumstances in which the sweet spot in ethical trade might emerge, reflecting an amended version of Gereffi et al.'s (2005) theory of value chain governance. We conclude that the possibility of identifying a sweet spot in ethical trade improves as we move from market-based transactions toward hierarchical governance in global production networks.

1. Introduction

The year 2018 will mark the 20th anniversary of the U.K. Ethical Trading Initiative (ETI), an important multistakeholder initiative in which corporate, nonprofit, and trade union members joined together to improve the conditions of those who work at the base of global production networks in developing countries (UK-ETI, 2017). Since its establishment, similar organizations have emerged in other nations, including the Danish and Norwegian Ethical Trade Initiatives, the Dutch Fairwear Foundation, the U.S.-based Fair Labor Association, and a range of other multistakeholder initiatives that adopt joint ethical guidelines to improve work conditions at supply factories and farms (Lund-Thomsen and Lindgreen, 2014).

A key assumption of such initiatives is that it is possible to find a "sweet spot"—a point at which the interests of buyers, suppliers, and workers intersect to ensure benefits for commercial buyers and suppliers, as well as for the workers at the base of global production networks (GPNs) (IMPACTT, 2011). According to the ethical trade consultancy IMPACTT, identifying worker perspectives and shared benefits for both workers and suppliers is critical to any effort to harness the power of the workforce to produce better products, more efficiently.¹ We therefore undertake a critical appraisal of the existence of this optimum point, or sweet spot, by addressing both the potential for and the

limitations of uniting the interests of buyers, suppliers, and workers in ethical trade. We define ethical trade in accordance with the U.K. ETI (2017), to mean that retailers, brands and their suppliers take responsibility for improving the working conditions of the people who make the products they sell. Most of these workers are employed by supplier companies around the world, many of them based in poor countries where laws designed to protect workers' rights are inadequate or not enforced. Companies with a commitment to ethical trade adopt a code of labor practice that they expect all their suppliers to work towards. Such codes address issues like wages, hours of work, health and safety and the right to join free trade unions.

In turn, we take the perspectives of three central actors typically involved in ethical trade: buyers/brands, suppliers in the Global South, and workers at the base of these networks. By applying all three perspectives, we theorize about the circumstances in which an optimal form of ethical trade might emerge, reflecting an amended version of Gereffi et al.'s (2005) theory of value chain governance.

In our critical appraisal of the potential and limitations for identifying this sweet spot in ethical trade, we also highlight the need to consider three key factors: (1) the type of GPN that buyers, suppliers, and workers pursue (i.e., ranging from market-based transactions to hierarchy); (2) the national contexts of work and employment in which GPNs function; and (3) the perspectives expressed by buyers, suppliers,

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¹ The IMPACTT report does not specify this point in any greater depth, apart from drawing implications for how buyers, suppliers, and workers might seek to align their interests in GPNs.

and workers in relation to this optimum point. A resulting matrix contains 12 possible instances in which we can identify this combination of factors (or their absence) in ethical trade. Accordingly, we show that not all circumstances are sufficient to produce this optimum point. However, instead of simply dismissing the possibility altogether, we contend that its identification becomes more feasible as we move from market-based transactions toward hierarchical GPNs, though its establishment is also very context dependent. At the intersection of vertical relations (interfirm relations) and horizontal relations (national context of work and employment), the joint interests of buyers, suppliers, and workers can be created or undermined within GPNs.

This article is not the first to undertake a critical appraisal of the core assumptions underlying ethical trade. Nearly two decades ago, Blowfield (1999) reviewed the state of ethical trade and called for a greater integration of social and environmental issues, along with the development of ethical trade approaches that better reflected the ethical values of the marginalized people whom ethical trade was intending to help. Barrientos and Smith (2007) sparked a range of similar studies with their finding that ethical trade brought about, at best, limited benefits for the conditions of workers by improving tangible measures, such as limits to overtime and fewer occupational health and safety accidents, but it did little to address more deep-rooted issues, such as collective bargaining rights or freedom of association (see also Egels-Zandén and Lindholm, 2015; Lund-Thomsen et al., 2012; Egels-Zandén and Merk, 2014). Multistakeholder approaches to ethical trade also proliferated following the tragic Rana Plaza incident in Bangladesh, in efforts to coalesce buyers, suppliers, and workers around more ethical forms of trade (Tighe, 2016). However, our article represents an initial attempt to make a comprehensive, critical appraisal of the core assumption that an optimal point even exists in ethical trade, by taking the perspectives of buyers, suppliers, and workers.

In the next section, we introduce the GPN approach, which serves as a theoretical frame for our analysis of buyer, supplier, and worker perspectives on ethical trade. Then we offer a critical appraisal of the potential for and limitations to finding a sweet spot, according to these three viewpoints. To establish a conceptual map of the circumstances in which it may (not) be possible to identify a point at which the interests of buyers, suppliers, and workers intersect in ethical trade, we articulate an amended version of Gereffi et al.'s (2005) theory of value chain governance. Finally, we outline our findings and highlight some research and policy implications flowing from our analysis.

2. Global production networks approach

Defined as “the nexus of interconnected functions, operations, and transactions through which a specific product or service is produced, distributed, and consumed” (Coe et al., 2008, p. 272), GPNs extend beyond interfirm relationships in value or commodity chains to involve a wide range of actors: states, nongovernmental organizations (NGOs), trade unions, social movements, and other relevant entities that shape the conditions surrounding interfirm linkages in the global economy. They are inherently dynamic and in flux, in the processes of becoming, changing, and alternating. Some GPNs are short lived, but others persist; some are relatively localized, whereas others span several continents. Thus, GPNs are multi-scalar and feature international, regional, national, provincial, and local levels (Coe and Yeung, 2015).

They also have strong institutional features, such that GPNs are “quite literally grounded in specific locations. Such grounding is both material (the fixed assets of production), and also less tangible (localized social relationships and distinctive institutions and cultural practices)” (Coe et al., 2008, p. 279). This concept of embeddedness is central, though we must distinguish between territorial embeddedness (i.e., geographical places) and network embeddedness (i.e., connections among network participants, regardless of geographical position). Furthermore, GPNs are embedded in spatial and social arrangements that influence GPN actors' strategies, including the “values, priorities,

and expectations of managers, workers, and communities alike” (Henderson et al., 2002, p. 451).

In turn, participating firms, governments, workers, and other actors all have distinct priorities with regard to profitability, growth, and economic development (Henderson et al., 2002). Debates about which norms and values should guide the governance of GPNs constitute value chain struggles (Neilson and Pritchard, 2009, 2010), which suggests that GPNs also are contested fields “in which actors struggle over the construction of economic relationships, governance structures, institutional rules and norms, and discursive frames” (Levy, 2008, p. 944). The resulting power relations in GPNs are neither unidirectional nor structurally determined; they involve both “cooperation and collaboration” and “conflict and competition” across the actors, brands, suppliers, and workers (Coe et al., 2008). Moreover, the outcomes of value chain struggles are determined jointly by vertical and horizontal network relations. The former refer to power relations between buyers and suppliers in GPNs; the latter reflect the influences of different institutional levels, from economic, labor, and environmental laws to the informal norms embraced by private-sector firms, international organizations, trade unions, or NGOs, all of which operate at various geographical scales (Lund-Thomsen and Coe, 2015; Nielson and Pritchard, 2010).

This outline of the basic contours of the GPN approach provides a central organizing device for critically appraising the prospects for and hindrances to finding an optimum point in ethical trade, from the perspectives of buyers, suppliers, and workers. We start our analysis with the buyer perspective.

2.1. Buyer perspectives

If we look at ethical trade literature from the perspective of international buyers, two dominant approaches emerge that offer very different implications for the notion of finding a common point at which the interests of buyers, suppliers, and workers intersect (Locke, 2013). The first refers to a *compliance model* or strategy, in which buyers develop a code of conduct, require first-tier suppliers to abide by this code, monitor whether it is being implemented (e.g., first-, second-, or third-party auditing), develop a plan for remediating any code violations, and ultimately cut ties with suppliers that are non-compliant (Locke et al., 2009). The second, *commitment approach* (Locke et al., 2009) entails a collaborative model to social upgrading in GPNs (Locke and Romis, 2010).²

The compliance-based model has been widely criticized for failing to align the interests of buyers, suppliers, and workers in ethical trade (Lund-Thomsen and Lindgreen, 2014). In this model, retailers mainly pursue their own interests, seeking to avoid negative publicity and damage to their brand value due to media exposures of poor working conditions at the base of their GPNs. Instead of assisting their suppliers in improving compliance levels, international buyers engage in the unilateral extraction of compliance-related information from suppliers, which they then use as evidence to convince national regulators, NGOs, and the media that they are in control of the work conditions at the base of their GPNs (Lund-Thomsen, 2008). Costs simply get added to the supplier production processes, through the imposition of top-down, bureaucratic auditing and control procedures that do little to improve the quality or quantity of work available in these factories. In a sense, a compliance-based approach actively undermines the potential for identifying a point at which the interests of buyers, suppliers, and workers intersect in ethical trade—particularly when buyers grant suppliers perverse incentives to “keep up appearances” or engage in unethical employee coaching or auditing fraud instead of genuinely taking responsibility for work conditions in their GPNs (Lund-Thomsen and Lindgreen, 2014).

From the buyer's perspective, the cooperative approach seems to offer better prospects for finding a sweet spot in ethical trade—at least in theory. The policy options that the IMPACTT report offers, from the

² Lund-Thomsen and Lindgreen (2014) refer to these two forms as compliance-based and cooperation-based approaches (see their **Table 2).

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