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Michael Fichter, Jörg Sydow\*

## Using Networks Towards Global Labor Standards? Organizing Social Responsibility in Global Production Chains\*\*

*The prosperity of spreading economic globalization often rests on subjecting labor to working conditions which violate elementary human rights. Political, and to a markedly lesser extent, academic controversies over counter-measures have developed with a primarily focus on cases of buyer-driven global commodity chains. With general and judicable global standards non-existent, consumer and shareholder pressure plus internal goals for setting labor standards have led some globally active enterprises to voluntarily adopt codes of conduct as a means of dealing with this problem all along the commodity chain. Using some basic tenets of structuration theory and insights based on an exploratory empirical analysis of three cases from the apparel industry, this paper looks at such codes as a tool of corporate social responsibility. From this, it goes on to ask whether the form and the shape of the inter-organizational network are conducive or a hindrance to achieving acceptable labor standards. Following a brief review of the problems associated with achieving generally recognized global labor standards, the paper concludes with an appraisal of the need to embed corporate social responsibility in a comprehensive institutional framework in the interest of human rights and global labor standards.*

### **Mit Hilfe von Netzwerken zu globalen Arbeitsstandards? Zur Organisation von sozialer Verantwortlichkeit in weltumspannenden Produktionsketten**

*In einer sich globalisierenden Ökonomie wird Arbeit nicht selten in einer Form organisiert, die gegen die elementarsten Menschenrechte verstößt. Dieser Tendenz wird von in Fragen sozial verantwortlicher Unternehmensführung besonders engagierten Unternehmungen entgegen gewirkt, indem entsprechende Verhaltenskodizes formuliert und nicht nur in der Unternehmung, sondern auch in ihrem globalen Zuliefernetzwerk implementiert werden. Allerdings stößt die Implementierung dort auf zum Teil kaum zu überwindende Schwierigkeiten. Die Organisationsform des Netzwerks wird in Hinblick darauf untersucht, inwiefern und unter welchen Bedingungen sie einer in Hinblick auf die Einhaltung globaler Arbeitsstandards sozial verantwortlichen Unternehmens- bzw. Netzwerkführung entgegensteht oder aber unterstützt. Die Rolle des institutionellen Kontexts einer sozialverantwortlichen Führung wird dabei berücksichtigt und verschiedene denkbare Regulierungsmodi angesprochen. Die Untersuchung ist von strukturationstheoretischen Grundüberlegungen getragen und basiert empirisch auf der explorativen Analyse von drei Fallstudien aus der Bekleidungsindustrie.*

**Key words: Codes of conduct, corporate social responsibility, interfirm networks, global commodity chain, structuration theory, apparel industry**

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## 1. Global Commodity Chains and Labor Regulatory Regimes

The changes which have altered the global economy over the past half century are without a doubt far-reaching. In a world of accelerated innovations in information and communications technology, improved and inexpensive transportation logistics and liberalized worldwide trade, global commodity and production chains are no longer exceptional. Especially for the wage and labor intensive sectors of the industrialized countries, production relocation to reduce costs and run time, improve productivity, or gain market shares has become an imperative and indeed viable option no longer open only to the limited field of global players. The resulting withdrawal from the relatively highly regulated realm of the welfare state labor market has not only been a contributing factor to changes in the production regime, it has also dovetailed with pressures for the further opening of national regimes of labor market regulation. „In other words, as economic activity became more internationalized, the embeddedness of labour in national regulatory regimes was threatened by deregulation arising from the adoption of neo-liberal policies” (Waddington 1999: 2).

While labor has been deeply challenged in meeting these liberalization and deregulation processes within a national context, its position beyond the national level, characterized by the patchwork state of international labor regulation, has been decidedly weaker. Cross-border cooperation among often extremely heterogeneous national organizations is still more a programmatic goal than reality, although the often glaring deficits in labor regulations and their implementation make unions an important force in securing global labor standards. International trade unionism, however, has not been capable of exercising a decisively protective role regarding labor standards, and the official promulgator of such norms, the International Labour Office (ILO), is not empowered to act as an effective guardian and too often, the ILO must defer to the priorities of such powerful institutions as the IMF and the World Bank. A closer look at the involvement of all three of these bodies in Central and Eastern Europe over the past decade is an exemplary indication of the lack of complementary working relationships (Götting 1998; Müller 1999).

Increasing globalization of production on the one hand and a lack of institutions that secure minimum labor standards around the globe on the other have fostered the growth of global information and campaign networks and a culture of international concern for the recognition of universal human rights and the closing of the „responsibility gap“ regarding the condition of labor in the global economy (Braun 2001: 258). The interaction between human rights interest groups and campaigns on the one side, whose efficacy is significantly enhanced by mass media and the internet, and enterprise concerns for social responsibility on the other, has led to the development of a new company-driven approach to the problem of defining, implementing and controlling global standards for labor: the use of codes of conducts as a pivotal part of a strategy for corporate social responsibility.

In this paper we will analyze the problems and prospects of organizing for social responsibility in global commodity and production chains in general and the use of

such codes as an instrument for instituting minimum or core labor standards in particular. Our focus is on the issue of production governance in networks and its (inter-) organizational practices in global commodity and production chains. In line with the findings of similar studies (Frenkel 2001; Waddock et al. 2002), we argue, that although unsatisfactory labor conditions are to be found in (and may even be fostered by) networks, this organizational form of economic activity is also a potentially effective means for organizing the governance of social responsibility in global commodity and production chains, at least under certain structural and institutional circumstances. Through a comparison of the dimensions of market, hierarchy and network forms of governance, we will present arguments and some preliminary evidence as to why networks are superior to the market when it comes to organizing for social responsibility, and again under certain circumstances, come close to matching the governance capacities of hierarchical modes. Moreover, because of the strategic flexibility attributed to networks as well as for many other economic reasons not to be explored here (see Gulati 1998), these must be increasingly regarded as supplanting the hierarchical mode as the organizational model of the future.

In the main part of the paper (Section 2) we will introduce market, network and hierarchy as three distinct forms of production governance, and investigate the conditions under which the network form might be a quite effective means for implementing global labor standards via codes of conduct. In this context, we will also address issues of the internal organization of the so-called hub firms leading such networks. Our argument will be developed around the structuration theory of Giddens (1984) and will draw on three case studies using interviews with managers from globally sourcing retail and manufacturing companies in the apparel industry located in Germany.

Beyond the immediate commodity and production network, we will address the broader institutional context of organizing for social responsibility and global labor standards within networks (Section 3). This is imperative for two reasons: first of all, social responsibility schemes at the enterprise level are but one element, albeit a crucial one, in the development of a regulatory regime of global labor standards; secondly, it is important to understand how the opportunities and constraints arising from the general political and economic context affect the organization of social responsibility in global production networks.

The paper will conclude with a summary of arguments for the development of codes as a constructive instrument of network governance in achieving adequate labor standards (Section 4). In pointing to further research needs, we emphasize that future studies should continue to focus on the network form of production governance in the apparel and other labor-intensive industries. In doing so, a crucial step forward in the research process will be to extend the empirical basis to include, as some stud-

ies have already done, management and employees in supplier firms,<sup>1</sup> emphasizing especially the ways in which agents actually draw on network structures in their practices and, thereby, reproduce or transform these very structures.

## **2. Organizing Responsibility under Different Forms of Production Governance**

For some time now, interest has been growing among firms, and especially in multi-national corporations (MNCs), in presenting themselves wherever they do business as good corporate citizens. Corporate social responsibility may cover a broad range of topics, but it invariably includes a commitment to certain minimum labor standards. The goal of „decent” working conditions for employees is not only pursued with regard to the firm itself. There is evidence that it is being formulated to include employees of suppliers, subcontractors and joint venture partners as well, even if still on a limited scale.

Codes of conduct have become the favored instrument for implementing corporate social responsibility in regard to labor (and environmental) standards. The OECD has documented some 233 codes and, in a further study, examined a total of 246 codes. (OECD 2000a, 2000b; Scherrer/Greven 2001: 78-82; see also the codes listing at <http://www.coc-runder-tisch.de/>). A few of the codes have been issued by industry and consumer associations or have been negotiated with unions and/or campaign networks.<sup>2</sup> In the last few years, sectorally independent standards such as SA 8000 or AA 1000 have become more attractive to corporate management (DeRuisseau 2002; Waddock et al. 2002). But today, the regulatory regime of codes is still a patchwork of unilateral policy statements by single enterprises, conveying the intent of the company to create and maintain acceptable living and working conditions at their own places of business, and, in some cases, at those of their immediate partners. In defining such conditions it is most common to draw on some or all of the four core labor standards of the International Labour Organization (ILO): (1) freedom of association and the effective recognition of the right to collective bargaining; (2) the elimination of all forms of forced or compulsory labor; (3) the effective abolition of child labor; and (4) the elimination of discrimination in respect of employment and occupation (ILO 1998).<sup>3</sup> Codes may also include a combination of any of the following points: the right to a minimum wage and an employment relation based on a contract; limitations on working hours; the right to payment for overtime; the recognition of health

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<sup>1</sup> See also in this regard the work of such organizations as Global Alliance (<http://www.theglobalalliance.org/main.cfm>).

<sup>2</sup> A well-know example is the World Soccer Federation (FIFA) code negotiated with the international unions ICFTU, ITGLWF and FIET. <http://www.cleanclothes.org/codes/fifa.htm>

<sup>3</sup> Nevertheless, direct reference to ILO core labor standards is the exception (Blanpain 2000: 49).

and safety standards; or the obligation of suppliers and sub-contractors to uphold the standards stipulated by the code.

The increasing interest of shareholders<sup>4</sup> and, above all, the pressure of consumers, unions, globalization critical activists and the more general political debate on the regulation of globalization, has forced MNCs to position themselves as good corporate citizens, not in the least in respect to labor standards (Aaronson/Reeves 2002). Increasingly, corporate management recognizes that adherence to standards of social responsibility is a key factor for them in sustaining brand value and in preventing losses to shareholders, a position supported by management studies which encourage the adoption of codes (Emmelhainz/Adams 1999; Scherer/Smid 2000). Rolf Thüsing, president of the International Employers Organization, seems to confirm this approach in pointing out that compliance with codes is necessary „to improve the image of the company and/or the product and thus gain a competitive advantage”, or to avoid being „exposed to public criticism with ensuing loss of the company's image and economic damage” (Thüsing 2000: 95). However, the actual implementation of labor standards is a major organizational and, in markets and networks, an inter-organizational challenge.

## 2.1 Governance of Global Commodity Chains: Market, Hierarchy or Network?

In general terms, economic activities at the local, regional, national or global level may be governed via the market, by hierarchy or networks, or by a combination of two or three of these modes. In the *market* mode, price competition is the predominant factor in determining inter-organizational relationships which, in consequence, are of a fluid nature. The *hierarchical* mode, by contrast, is characterized by an internalized corporate governance structure. Such intra-organizational relationships are deemed to be more binding and stable. In this mode, voice – to use Hirschman's (1970) well-known axiom – is more important than exit. In the end, economic activity is coordinated by „fiat” (Williamson 1985) although this mechanism may be veiled by a participatory leadership style and a high-commitment culture.

In contrast to market and hierarchy, the governance mode of the *network* is still very much debated. Inter-organizational networks are either considered to be „hybrid” (Williamson 1985), in essence combining market and hierarchical forms of coordination, or to resemble „neither market nor hierarchy” (Powell 1990).<sup>5</sup> In this lat-

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<sup>4</sup> Aside from the ethical concerns which may motivate both shareholders and top management on this issue, there seems to be a positive or at least a neutral relationship between corporate social responsibility and financial performance. Moreover, the social investment movement (<http://www.socialfunds.com/>), shareholder activism for corporate social responsibility and increased transparency of corporate responsibility data has grown to be a recognizable determinant of managerial decision-making (Waddock et al. 2002).

<sup>5</sup> Most recently Teubner (2002) has even proposed that „hybrids” and „networks” are two „different social institutions with distinct characteristics.”

ter case, the coordinative mechanism is still an open question. While many argue that reciprocity, cooperation and trust are the constitutive features of the network form of organizing, others focus on negotiations, obligations, distributed and yet coordinated responsibilities, or on the relational character of the contract (see Sydow/Windeler 2000 for an overview). Frenkel (2001) portrays these relationships in the athletic footwear industry as being „quasi-obligational” and contrasts their collaborative form with compliance patterns found elsewhere which are more resembling of arms-length transactions (Frenkel/Scott 2002). Whatever the coordinative mechanism and its designation may be, this organizational form is – even in the case of „dynamic networks” (Miles/Snow 1986) – characterized by rather stable, albeit complex, relationships which are not only the object of organizing activities but influence these very activities as well. Thus, managers of the more or less independent network firms may negotiate and reach agreement on formal as well as informal rules which sustain long-term collaborative relationships. In turn, the quality of these relationships is decisive for the manner in which such negotiations are conducted and agreements reached. Focusing on these collaborative relationships is not, of course, to ignore the fact that resources – the basis of power and domination – are often asymmetrically distributed in networks.

Using the concept of global commodity chains (GCC) Gereffi et al. (1994) have addressed the spread of the network mode of economic relationships and pointed to the asymmetric authority and power relationships characteristic of this type of network: ”A GCC consists of sets of inter-organizational networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world-economy. These networks are situationally specific, socially constructed, and locally integrated, underscoring the social embeddedness of economic organization“ (Gereffi et al. 1994: 2). In addition to an input-output dimension and a territoriality, GCC have „a governance structure (i.e., authority and power relationships) that determine(s) how financial, material, and human resources are allocated and flow within a chain” (Gereffi 1994: 97). The author claims that two types have emerged over the past two decades: producer-driven and buyer-driven chains. The former are controlled by large transnational corporations or other industrial enterprises, while control over buyer-driven commodity chains is exercised closer to the point of consumption. At the strategic core of the latter kind of network which is likely to be found in labor intensive rather than technology intensive industries there is a multinational ‘retailer’ focusing on research, design and marketing, and, while outsourcing production to an extensive network of suppliers and subcontractors, playing the role of a „network broker” (Miles/Snow 1986).

As with any structure – a point emphasized by structuration theory (Giddens 1984) – market, hierarchy or network as a particular mode of governance, it enables *and* restricts the global organization of socially responsible production in its own manner. The conventional (neoclassical) view is that, if social responsibility matters at all, customers would express their preferences for goods and services which have been produced under humanly tolerable conditions. If producers fail to offer respec-



tive goods or services, they would have to withdraw from the market. Hence, the market is able to process the relevant information and „govern“. If the relevant activities have been internalized, the hierarchy is also thought of as being capable to govern production in a socially responsible manner. In the end, hierarchical fiat would be considered as guaranteeing the implementation of adequate forms of production within the firm or group of firms (corporation). In reality, both forms of governance, market and hierarchy, but also networks, have been extensively criticized for failing in this respect.<sup>6</sup> Is then the network form of organization more suitable for attaining a socially responsible production of goods and services?

## **2.2 Organizing for Social Responsibility in Inter-firm Networks: Boon or Bane?**

To begin with, network forms of organization are correctly regarded as being responsible for a kind of work organization which is on the advance and, in the extreme case and then quite justifiably, labeled as „sweatshop“. This is in particular the case when production – and hence work – is externalized to avoid high labor standards and to save on production costs, especially in labor intensive sectors such as the apparel industry. Cross-border externalization is commonly associated with „regime shopping“ (Waddington 1999; Traxler/Woitech 2000), which depicts the availability of an abundance of goods and services to choose from in a variety of national settings.

However, inter-organizational networks also provide, as we will argue here based on a structuration perspective (Giddens 1984; Sydow/Windeler 1998), quite unique possibilities for organizing social responsibility. In comparison to the market form of governance, the network may be considered superior in this respect for at least two reasons. First, inter-organizational cooperation supports the development of shared views and norms (rules of signification and rules of legitimation in structurationist terms), not only as to which working conditions are acceptable, but also as to how a socially responsible form of work organization can be implemented for the mutual benefit of all or at least a substantial portion of the participants in the network. Second, inter-organizational networks permit resource relationships or even the pooling of resources (of domination in structurationist terms) to a degree otherwise offered only by hierarchical forms of coordination. Some even consider networks to be *the* organizational form for combining unique resources and competencies (Eisenhardt/Schoonhoven 1996). In the case of labor standards, for example, the availability of network resources could enable – and coax – a member firm lacking its own resources to implement desired changes. Many Third World producers have neither the know-how nor the financial means to upgrade working conditions to acceptable levels, but through the intervention of a network hub firm, an efficient solution could be realized.

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<sup>6</sup> See <http://www.corpwatch.org/>; <http://www.sweatshopwatch.org/> or (Kühl 2002) and WRC (2002) for examples.



When it comes to the implementation of global labor standards, the hierarchical mode may nevertheless be superior to the network mode of governance. The use of power and authority makes the enforcement of regulations significantly easier and the effective distribution of responsibility more likely within this mode. However, since the trend seems to be a movement from hierarchy to market and networks and, more specifically, within the network mode from producer-driven to buyer-driven commodity chains (Gereffi et al. 1994: 7), it is becoming less and less likely that hierarchical organizational forms will be a future focal point for organizing decent working conditions. Although mergers and acquisitions (and thus hierarchy) continue to be attractive, examples from labor-intensive industries such as footwear and apparel indicate that foreign owned subsidiaries are not the preferred organizational basis for global production and commodity chains. Where they are, they have not escaped the critical eye of campaign networks (e.g. <http://www.cleanclothes.org>).

Certain structural conditions are necessary for the network mode of coordination to be effective in governing global commodity and production chains in support of realizing good corporate citizenship. The *first* and most obvious condition concerns network size. Clearly, a limited number of network firms reduces the complexity of managing the network. Where a large size network is unavoidable, its functionality will require equally strong intra- and inter-organizational capacities and capabilities on the part of network firms. *Second*, the inter-organizational relationships, or ‘lines’ of the network, should represent tightly rather than loosely coupled relationships. The very „strength of strong ties” (Krackhardt 1992) is that they are more likely to support intensive communication, mutual understanding, and adequate means of resource usage although, at least from a structuration perspective, strong ties may not only enhance but also result from intensive communication, mutual understanding, and resource transfer. *Third*, social responsibility should be easier to organize in „strategic networks” (Jarillo 1988; Sydow 1992). These centralized polycentric systems („buyer-driven“ chains in Gereffi's terminology) are led by one or several hub firms and are certainly the most typical governance form of commodity and production chains. When the hub firm is capable of organizing for social responsibility and, in addition, located in a country with an institutional environment that requires and supports socially responsible network leadership, it is more likely to develop an interest in and a competence for organizing and managing the network in a way that supports the implementation of global labor standards. The fact that some or even most hub firms maintain supplier relationships of both the collaborative and the more market-like compliance (Frenkel/Scott 2002) variety may not only result from the hub firm's strategy. Such arrangements are likely to be influenced by the interest and, in particular, the competence of the supplier firm for organizing decent work.

From a structuration perspective it is particularly obvious that network structures, even if they include, as in the case of strategic networks, some hierarchical elements, as such, do not guarantee socially responsible management. Rather, network structures have to be used by agents, i.e. managers, but also other stakeholders, in a manner that enhances social responsibility in general and implements labor stan-

dards in particular. In this respect, a collaborative negotiation-based approach incorporating a system of training and auditing and using mutually recognized incentives and sanctions has a better chance of success throughout the network than a more authoritarian approach, although in some cases, a mixture of these two ideal types may also be effective. Consensus agreement on codes and procedures for their implementation should in turn improve the collaborative 'culture' within the network even further.

Especially if compared to markets, a network form of organization has a greater potential for building and sustaining such a positive cycle of cooperation. Ideally, cooperative and trusted relationships in a network with a limited number of members enable a hub firm to monitor the working conditions at its suppliers and joint venture partners and develop the training and supportive incentives necessary to induce the required improvements. Nevertheless, as mentioned before, network structures, as all structures, do not only support but also restrain action. For instance, network structures typically co-evolve with inter-organizational dependencies which, in turn, may allow certain suppliers and partners to block the implementation of social standards in their factories.<sup>7</sup> Even more problematic, and far from being the exception in such sectors as the global apparel industry, is the fact that, at the creation of a network, initial conditions may not reflect cooperation and trust. In this case, much time and effort would have to be invested up front in order to establish desirable network relationships.

### ***2.3 Interplay Between Network Structures and Intra-organizational Structures***

Contrary to the beliefs of some scholars and practitioners, firms within networks are not really „boundaryless” (Ashkenas et al. 1995), nor do they dissolve into networks. Rather, the network form of organization helps firms and other types of organizations to survive as social systems in an increasingly complex and dynamic environment. For this reason alone, intra-organizational structures, i.e. the concrete shape of the hierarchies, continue to matter in inter-organizational networks, not the least with respect to socially responsible management.

This is particularly true with regard to the (internal) organization of the hub firm.<sup>8</sup> For instance, installing a responsibility officer or even setting up a social responsibility task force will have an impact upon the firm and the leadership of the inter-firm network that is likely to be very different from the delegation of this task to the public relations department. The latter will certainly increase the „social responsi-

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<sup>7</sup> And at times there will be economic considerations (e.g. pressures for low prices) which could even force them reject their introduction.

<sup>8</sup> Nevertheless, the intra-organizational structures and practices of supplier firms matter as well. For instance, strong lines of communication across the different hierarchical levels of a supplier has been found to support cooperative relationships in implementing the buyer's code of conduct (Frenkel/Scott 2002).

bility rhetoric” (Boje 1999), but the network structures are not likely to change in any substantial respect towards improved working conditions in Third World factories. Substantial changes seem to require not only a local presence of the hub firm in the region (e.g. by means of regional import offices) but also a considerable degree of integration of the operational aspects of labor and human resource management, of reward, information and reporting systems into its day-to-day operations (Waddock et al. 2002).

Conversely, the formulation and implementation of codes of conduct or other regulation instruments on behalf of labor standards via a socially responsible network management is likely to affect the internal organization of firms throughout the network. For instance, a network-wide implementation of labor standards will make the coordination of the network easier and, hence, unburden or even relieve the top management and the relevant departments (e.g. procurement) of certain control duties. With regard to rules of signification and legitimation this would enhance a shared understanding of how quality and efficiency is organized in the network. Moreover, and with regard to resources of domination, it could reduce the turnover of suppliers and contribute to network stability because of the need for some relation-specific investments for implementing the code which increase switching costs.

Another dimension of the recursive interplay between network structures and the internal structures of the firm concerns the collaboration between management and labor representatives. While management and shop-level employee representatives (such as works councilors) or union officials in the national context of the hub firm may be willing to work together to generate a policy of social responsibility, a similar context of cooperation is seldom available at the international level. Equally detrimental to building a functional negotiating environment is the precarious trade union situation in many countries of the developing world, where there are often no union representatives at the enterprise or industry level to bargain with, because the unions are too weak or because of a government ban (Levine 1997). The spread of instruments for ensuring labor standards throughout the network will thus depend greatly on the extent to which the economic activity of the network is focused exactly in those countries which do not have comprehensive labor regulations or free trade unions as well as on the chances which a network could develop to facilitate the empowerment of employees as stakeholders in the interest of this goal.

#### ***2.4 Codes of Conduct and their Implementation in Global Production Networks: Examples from the Apparel Industry***

An explorative study of three leading enterprises (two retailers and one manufacturer) and their supplier ‘networks’ in the global apparel industry disclosed that they were among the first apparel retailers/manufacturers in Germany to draft and implement codes of conduct, first within their own organizations and subsequently

moving down the supply chain.<sup>9</sup> Nevertheless, the study makes it clear that even those firms with a widely acknowledged leading role in introducing and spreading regulation standards for labor are still quite far from their goal of a socially responsible organization of the buyer-driven commodity chains. The reasons for that will be explored after some more information on the development and implementation of these particular codes is given.

The codes of all three firms, first published in 1998 and 1999 and later revised, are quite comprehensive, detailed, publicly accessible and largely based on the core labor standards of the ILO. Whether the initiative for the introduction of these codes came from within the enterprises or whether they were introduced as a result of growing public pressure directed at these firms by NGOs and campaign networks (such as the Clean Clothes Campaign), is an open question. In the three cases investigated it seems that both factors were contributive sources.

Once the decision had been reached by management to implement an enterprise-specific code, all three firms invested significantly in the goal of implementing the codes successively on three levels: within the hub organization, in their own supplier network and throughout the industry. The implementation of codes on the *organizational* level is marked by at least two important aspects: one is gaining and sustaining acceptance for the issue throughout the internal hierarchy, another is the task of developing the intra-organizational structure which will enable the enterprise to incorporate the issue into its supplier network. While two of the firms have set up a new department for social (and environmental) affairs, the third has intentionally rejected this approach, opting instead for the integration of the issue into existing structures. In only one of the three firms did the works council participate in this process of drafting and implementing the code. According to the managers interviewed, none of the German unions were involved in this process.

On the level of the *supplier network*, essential support for implementation was provided by the experience gained at the organizational hub level, enabling all three firms to move decisively toward spreading their codes throughout their networks. Their approach was to train managers of the suppliers in improving labor practices

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<sup>9</sup> In a joint project with students in business administration and political science we evaluated annual reports and material available in trade journals and on the internet and, in addition, conducted semi-structured interviews with four managers in charge of social responsibility concerns at three leading German retail/manufacturing firms: Adidas-Salomon AG, Herzogenaurach; Karstadt Warenhaus AG, Essen; OTTO Versand GmbH & Co., Hamburg. Clothing is the main business of the latter two firms but also of increasing importance in the case of Adidas, one of the leading athletic footwear 'manufacturers'. For more information on these firms and the project see the full report (in German) at <http://www.polwiss.fu-berlin.de/tu/download/projekt.pdf>. The authors wish to thank our interview partners for their willingness to participate in this study, and the students for their contributions in researching and writing the report. In addition we thank Charles Bodwell not only for his helpful advice in the starting phase of this project but also for his comments on an earlier draft of this paper.

and standards in their factories, to develop participative approaches to managing labor issues, and to audit the working conditions in these factories in close proximity to a training program.

- The training itself is carried out by experts of the hub firms who are familiar with the local cultural and institutional patterns. In two of the three cases only the managers of immediate suppliers were trained, but they were required to inform and train the management of their subcontractors in turn. Only in one case was the management of second tier suppliers also included in the training program.
- The auditing process included the same layers of the supplier network. However, auditing was conducted only once a year, either for all suppliers or for a sample of potentially problematic suppliers only.<sup>10</sup> The participation of external auditors has been the exception, but the firms reported discussion on possible changes in this policy. If violations were detected during the audit, all three firms followed the ILO recommendation not to discontinue the supplier relationship but to first attempt to work with the factory management in order to improve the conditions of work.

As far as the *industry level* is concerned, all three firms were among the initiators of the social responsibility debate within their respective trade association. This level of regulation has the advantage over the other two of potentially cutting transaction costs in the regulation of suppliers serving multiple buyers and of being able to level the playing field for all competitors. From the point of view of the firms with their own functional codes it has the drawback that they may no longer use corporate social responsibility as an argument for competitive advantage. But since the respective codes of the trade associations are not binding and as such have not yet been adopted by all members firms, this opportunity is not (yet) lost. Moreover, as the White House Apparel Partnership demonstrates, agreeing on codes of conducts and procedures for implementing them is quite difficult on the industry level (Block et al. 2001: 281-282) and thus not likely to occur soon on a broad scale.

The three cases investigated demonstrate that the implementation of codes of conduct, especially in supplier networks which span many developing countries and are quite extensive, is less than complete. In two of the three firms the networks include from 1,000 to 5,000 main suppliers and 5,000 to more than 10,000 subcontractors. This is an indication of the quantitative dimension of the implementation task and helps explain why training and social auditing in these two cases is, and is likely to remain, incomplete. Only the network led by the manufacturer is significantly smaller, encompassing 570 firms on both levels.<sup>11</sup> In this network, the organizational

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<sup>10</sup> A discussion of types of social auditing and the difficulties involved is provided by DeRuisseau (2002).

<sup>11</sup> Adidas's main business is sport footwear (which earn about 40 percent of the revenue). Although its supplier network for clothing is significantly smaller than that of the two retailers, it is quite similar in terms of complexity and stability.

practices of most member firms – generally suppliers in developing countries – are monitored. Moreover, the majority of managers of first-tier suppliers has already been trained in the role of codes and their implementation. In all three cases, management is seeking to consolidate the number of suppliers at least at the first tier level, in part as a means of easing implementation of their codes.

More important than the mere network size is the fact that not all nodes and lines which are part of the sourcing structure can be considered to be part of a ‘network’ as defined above. In particular, the relationships between subcontractors and *their* suppliers (often tiny workshops or homeworkers) are not at all likely to constitute cooperative inter-organizational relationships based upon mutual trust and commitment. Rather, they are highly volatile, with management estimating that some 20-25 percent of the suppliers in the ‘network’ are turned over per year. Price competition on this layer of relationships is particularly severe, and the resulting supplier relationships, respectively, short-lived. A further reason for the high turnover of ‘network’ members in the apparel business, apart from severe price competition, is the seasonal fashion dependency of this industry, still another is technological. In contrast to garment manufacturing, the footwear industry requires significantly greater investments in research and development as well as in production equipment. In consequence, athletic footwear is usually manufactured in very large factories (Frenkel 2001), while garment production is generally found in rather small or medium-sized factories.

The network character of buyer-driven commodity chains beyond the inner sourcing rings (Gereffi 1994: 110-114) is questioned further by the fact that hub firms in this industry sometimes use intermediaries to source clothing, often from particularly low-cost production sites. To include this segment in the network makes it not only significantly more complex but gives it a more market-like character. Only under particular circumstances may it be possible for a hub firm to control the sourcing strategy of these intermediaries. A minimum requirement would be to create a network-type of relationship with the intermediaries and ‘force’ them to source only from suppliers that comply with minimum labor standards. We found intermediaries in at least one of the cases we investigated. And significantly, hub firms which have not developed codes for labor standards comparable to the ones in our three firm sample are more likely to use the market- rather than the network-type of relationships in general and large-volume intermediaries and brokers in particular.

In sum, the three cases studied illustrate not only the use of codes of conduct among leading firms in the apparel industry but also the relevance of the theoretically derived organizational and inter-organizational categories used to characterize the conditions that support or hinder the implementation of such codes in global commodity and production chains. However, such an analysis would be incomplete without a consideration of the wider institutional context of organizing for social responsibility in networks. For on the one hand, social responsibility schemes at the enterprise level are but one element in creating an international regulatory regime of labor standards. On the other hand, it is important to understand how the opportunities and constraints arising from the general political and economic context under which both



hub and supplier firms operate, affect the organization of social responsibility in global production networks.

### **3. The Institutional Context of Organizing for Social Responsibility in Production Networks**

The proliferation of codes over the past few years has added a new link in the creation of a regulation chain and has kindled a broad debate over the efficacy of this tool in addressing the issue of global labor standards. While supporters of codes point to the advantages of having economically powerful MNCs showing a preparedness to become positively engaged in such a controversial issue, their critics emphasize that as a standard-setting instrument, codes suffer from the double drawback of being voluntary, private initiatives and of not being legally binding.

As we have shown (see Section 2), the effective implementation of a code in an entire global commodity and production chain will be extremely difficult even when favorable conditions are provided by a network organization. In addition to their piecemeal nature and the limits of their applicability, codes have also been criticized as being used for public relations only or even to avoid effective and comprehensive controls and the introduction of an internationally recognized public regulatory regime (for example Köhnen 2002). Moreover, some argue convincingly that codes of conduct can only be effective in industries such as apparel, which are dependent on image-sensitive branding. In addition they are likely to be developed and implemented only as long as public pressure is sustained, whereas social movements and campaigns are prone to come and go. This seems to be particularly true in the case of consumer movements (Scherrer/Greven 2001: 129).

While the complexity of the issue at stake could inhibit the sustainability of public pressure on MNCs and other firms, the breadth of the current discussion of global labor standards and corporate social responsibility as well as the active involvement of a variety of actors such as national states, international institutions, trade unions, NGOs, non-profit auditors and certification boards seems to mitigate against the issue fading from the public eye. At the center of controversy is not only the question of what are fair labor standards, but also the questions of who should be responsible for their enactment and how this responsibility should be exercised and the standards enforced. While there is partial evidence of a basic minimum consensus regarding the first question (Scherrer 2001), widely recognized solutions to the other questions are still nowhere to be seen. Above all, the instruments and the rights for setting and controlling labor standards internationally in general and in the privatized realm of enterprise codes in particular are hotly contested (Weiss 2001).

#### ***3.1 The ILO and the WTO as the Standard Bearers?***

Although there are more than 180 ILO Conventions and nearly 200 ILO Recommendations, the politically relevant positions adopted by the ILO are the so-called core labor standards centered around four fundamental principles and rights (see

above Section 2), which were reaffirmed in the ILO Declaration of June 1998. In addition, in 2000, the Governing Body of the ILO amended its 1977 Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration) to adhere to the 1998 ILO Declaration. In the fields of development policy, rights at work, employment, training, conditions of work and industrial relations, this new statement sets out voluntary guidelines with the aim of encouraging „the positive contribution which MNC can make to economic and social progress and to minimize and resolve the difficulties to which their various operations may give rise, taking into account the United Nations resolutions advocating the establishment of a New International Economic Order“ (ILO 2000a).

Both the 1998 Declaration and the MNE Declaration illustrate quite well why the ILO is criticized as the „toothless tiger“: While it has developed and issued fundamental standards for the world of work, and has increased its effectiveness in monitoring the recognition and application of its norms, it is woefully lacking in the means of enforcement. Technical assistance programs under ILO direction may alleviate some of the worst offenses. But in the end, the ILO is dependent upon the cooperation of the targeted national government, which may lack the willingness or capability to support the ILO's rectification program. To overcome such deficiencies, supporters of comprehensive global labor standards have proposed the introduction of social clauses into trade agreements under the auspices of the World Trade Organization (WTO). As proposed by the International Confederation of Free Trade Unions (ICFTU), the WTO is called upon to establish a joint WTO/ILO Committee or working group mandated to review alleged violations of ILO core labor standards. Before initiating any „appropriate multilateral action“ (sanctions), offers of dialogue, technical assistance and further review of progress in correcting the problem would be made (ICFTU/ICATU 2001). Assuming that there are long-term advantages for countries and economic regions to respect and promote the application of the ILO core labor standards (Scherrer 1998), the aim of anchoring social clauses in trade agreements would be to help countries to give this goal priority over the perceived short-term political and economic advantages of cost undercutting (Scherrer 2001: 15).

### ***3.2 International Unions: Lobbying, Collective Bargaining or Activism?***

The viability of the social clause strategy has been increasingly questioned lately even among its supporters, in the main because there has been no noticeable progress made within the WTO on the adoption of this proposal. Indeed, there is a broad spectrum of opposition – including trade union organizations from developing countries – which rejects social clauses as an instrument of protectionism fostered by the industrialized northern hemisphere (DGB-Bildungswerk 2001). At issue as well is the overall strategy mix of global union politics. Whereas concrete policies and activities in the interest of securing union recognition, improving working conditions and protecting workers' rights have been basically the responsibility of the national organizations, international union politics have been predominantly directed toward lobbying international institutions (Waterman 2001).

In this context, the internal debate within some global union federations is around the need to invest more resources in cross-border enterprise- and industry-oriented union activities instead of lobbying international agencies or government bodies. Cross-border collective agreements are still a rarity (Koch-Baumgarten 1998; Quan 2000) because beyond national borders there is no „articulated union organization” (Crouch 1993: 54). Indeed, the extent of interest differences, for example between unions in the industrialized world and those in developing countries, is often considerable. Moreover, unions are also faced with the difficulty of finding a social partner on the employers’ side for collective bargaining since in general, employers’ associations with a mandate for collective bargaining do not exist beyond the national level.

One union answer to the general dilemma of developing viable international strategies has been to link up with NGOs and campaign networks on particular issues. The Clean Clothes Campaign, which has directly targeted the apparel industry, is an example of such a link.<sup>12</sup> At the same time, the history of this type of coalition as well as the role of union delegations at the World Social Forum 2002 in Porto Alegre show that this path does not offer a panacea for the problems unions face with regard to realizing labor standards at the international level (Bernard 1997; Waterman 2001; Jacobi 2002). Another alternative which has been gaining support is the creation of multinational employee councils and the negotiation of single firm global agreements on workers’ rights (Global agreements spread 2002; Volkswagen AG 2002; Daimler-Chrysler 2002). While such cases have a contractual basis and thus in comparison to unilaterally formulated codes are a step toward increasing transparency and control, they also suffer from being piecemeal as they are (still) limited to the hierarchy of single MNCs.

### 3.3 *Social Dialogue or Competition?*

The political handling of the issue of global labor standards has been broadened beyond the realm of established international institutions such as the ILO and the WTO, mainly through the nationally tested instrument of social dialogue or tripartite negotiations and agreements. There are any number of tripartite projects bringing together business, labor and government at the country level and centered around technical development support as conceived by the ILO<sup>13</sup> such as those being planned under the auspices of the German Agency for Technical Cooperation (GTZ) (<http://www.coc-runder-tisch.de/>). Mention should also be made of a variety

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<sup>12</sup> In Germany both the DGB and the IG Metall have been actively involved in promoting the activities of the Clean Clothes Campaign (<http://www.cleanclothes.org>). Other important campaign networks in this industry are the Global Exchange (<http://www.globalexchange.org>), the Human Rights Watch (<http://www.hrw.org>), and Sweatshop Watch (<http://www.sweatshop.org>).

<sup>13</sup> For examples, see <http://www.ilo.org/public/english/standards/decl/technical/index.htm>

of national and international political forums such as the Arbeitskreis Menschenrechte und Wirtschaft (Working Group Human Rights and Business) in Germany (2002) or the United Nations Global Compact (<http://www.unglobalcompact.org/>), which attempt to include all relevant actors and foster social responsibility through voluntary participation, dialogue and persuasion.

The spread of such initiatives of social dialogue has certainly increased the focus of interest on the topic of global labor standards, but it is doubtful that it has brought fundamental improvements to the working conditions of those in whose name the proclamations have been formulated. In contrast to the ILO or WTO, which could at least provide a comprehensive framework for institutionalizing labor standards on a global level, they are voluntary and piecemeal. And as with the ILO, they are lacking any means of independent control or enforcement.

Overcoming this deficit has been the aim of various independent monitoring and certification agencies which have been gaining recognition in the debate over global labor standards and corporate social responsibility. MNCs have been the high profile members of such bodies as Social Accountability International (SAI) with its SA 8000 norm. But SA 8000 also has international union recognition, and union and NGO representatives are included on its advisory board, albeit in the minority. SA 8000 directly refers to all ILO core labor standards (and several more in addition) and is an attempt to develop a standard for social issues similar to the ISO norms. Its enforcement is handled by accredited auditors and the company to be audited bears the costs, turning certification into a potentially prohibitive exercise for many firms.<sup>14</sup> A contrasting example is the Forest Stewardship Council (FSC), which is an international certification body for wood and paper products with a set of basic social and environmental principles and nationally organized economic (business), social and environmental chambers. In Germany for example, members include the IG Metall (which represents woodworkers) and the IG BAU, the construction and forestry union, as well as Greenpeace and Robin Wood. Unlike SA 8000, which like ISO norms is process-based, FSC's certification uses specific performance standards, according to which the end product must be certified throughout its „chain of custody” (<http://www.fscoax.org/principal.htm>). As such, by its claim to exercise control over products and supplies at all nodes of the commodity chain, the FSC takes an inherent network approach.

Taking a diametrically different tack, Sabel, O'Rourke and Fung (2000) have proposed to harness the energy of competition in the interest of social responsibility and „ratcheting labor standards”. Their concept is to apply the qualities which have been the driving forces of globalizing capitalism to cover labor (and environmental standards) as well: Firms should compete systematically with each other in the field of labor standards as they do in regard to their productive capabilities. Using the al-

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<sup>14</sup> As of June 2002, some 130 firms world-wide had been certified, 40 of which manufacture apparel and textiles (<http://www.cepaa.org/certification.htm>).

ready existing competition among many brand-name MNCs regarding their „concern for their workforce and the environment”, ratcheting labor standards would establish „an on-going competition in which laggards pursue leaders and leaders attempt to out-do themselves because they know that no particular performance level confers lasting ascendancy.” The authors claim that such an approach would initially be fueled by firm competition and consumer whistle-blowing, but „should in time include the forces and resources of national governments and international organizations” (Sabel et al. 2000: 2). But there is little evidence to suggest that such an approach would spread and motivate „laggards“ to participate. Much depends on the extent to which consumers (and buyers in general) demand goods and services produced under decent working conditions.

### ***3.4 Implications for Implementing Global Labor Standards in Production Networks***

Despite the problems and pitfalls in all of the approaches we have described, the goal of improving working conditions and achieving global standards of labor regulation has benefited from their efforts. Indeed, over the past decade, the ILO has gained considerable recognition and made noticeable improvements in its watchdog capacities. While still not possessing outright instruments for sanctioning violations of its principles and conventions, the ILO monitoring and technical assistance programs have contributed to a climate of compliance and in some cases even enabled governments to overcome the causes of non-compliance (ILO 2000b: IX; Weisband 2000). Most recently, the ILO has concentrated many of its resources on the implementation issue and even adopted a kind of network perspective on private codes initiatives. One of the studies it has sponsored on this issue not only points to the barriers of implementing codes in global commodity chains, it also proposes a model for overcoming them which under the label of „Total Responsibility Management” (Waddock et al. 2002) uses insights from the TQM movement.

The experience and recognized role of the ILO as standard bearer of the promotion of fundamental principles and rights at work has also impacted the debate over social clauses at the WTO. Although there is no direct connection, the OECD guidelines, recently updated, also invoke recognition of the stakeholder approach shared by the ILO. Moreover, the proliferation of tri- and multi-partite forums of social dialogue devoted to the issue of global labor standards is hardly imaginable without the common denominator of ILO core labor standards. Such forums certainly have their self-promotional side, but likewise, they also contribute to a heightened awareness of this issue both nationally and internationally. For their own part, of course, NGOs and consumer activists (and to a lesser extent, trade unions) have built up the pressure necessary to induce steps toward remedial action and put labor rights in the forefront of the agenda of globalization debates. Without the existence of this political and institutional global framework, despite its present weaknesses, there would not only be less awareness of the problem, but also less initiative on the part of MNCs and other

firms to develop and implement codes of conducts in networks of production and commodity chains.

Moreover, the development of a dialogue between agents within networks and outside of them opens a variety of possible options for upgrading codes of conduct from unilateral and voluntary stand-alone instruments of policy into an effective tool for securing good labor standards and corporate social responsibility. Considering the spread of the network form of organization in global commodity and production chains, the importance of harnessing its capacities for implementing social responsibility, and the problematic goal of achieving universal norms of labor standards, the question could be raised as to whether the implementation of global labor standards in network organizations is a goal in which unions could participate and which they could address (Martinez Lucio/Weston 1995). International unionism has been an active element in the various approaches described above, but although it is a stakeholder, it has apparently not focused on the increasing importance of global networks as a distinct governance mechanism. In many countries, unions have historically organized along the commodity chain in their pursuit of industrial unionism, but today many chains cut across traditional industrial and national boundaries (Fichter/Zeuner 2002). The particular type of engagement could be through contractual codes of conduct, independent monitoring and certification agencies, collective bargaining and autonomous union action, network works councils or other means, such as campaign liaisons with NGOs. All of these would represent a step beyond the single enterprise approach as well as an opportunity to break the impasse of institutional global labor politics. On the other hand, much would also depend on the particular approach and openness of management to organizing network governance.

As we have pointed out above, the organizational form of the network is not oriented per se toward the attainment of social norms such as minimum work standards, but depends on actor involvement for impulses in this direction. It would therefore seem imperative for national governments and international agencies as well as for labor unions and other partners in the social dialogue to recognize the existence of networks and to identify the kinds of strategies which will support the governance potential of networks for the betterment of working conditions. Monitoring and certification agencies such as the FSC, which audits along the product chain, are an example of necessary steps in this direction.

#### **4. Codes Against Sweat? – Conclusions for Future Action and Research**

The violation of minimum labor standards by retailers and manufacturers acting as hub firms in global commodity and production networks and, more commonly, by their first- and second-tier suppliers, is certainly one of the dark sides of this new organizational form (Victor/Stephens 1994). From an optimistic point of view, less than „decent” working conditions in such factories may be unintentional consequences of organizing for economic competitiveness. At worst, however, they may just as well represent a deliberate strategy of MNCs and other firms located in the developed world in pursuit of low production costs at the expense of workers of Third World



countries. Codes of conduct, especially if applied in a defined network environment and used in an institutional context that supports their formulation and network-wide implementation, are a viable means of improving working conditions in these factories. Such a network organization for implementing codes against sweat is not an ersatz for supplier self-governance. While self-governance may well be the long-term goal of some private codes of conduct policies (Henke 2002), in the middle-range, hub firms will need to rely on this instrument until suppliers are not only willing but also capable of taking on this responsibility themselves. Once achieved, it will strengthen the network form of organizing commodity and production chains.

Several structural conditions which support implementation have been mentioned in the paper and illustrated with evidence from three explorative case studies from the global apparel industry: limited network size and thus manageable complexity; the avoidance of increasing the level of in-transparency by using intermediaries; tightly rather than loosely coupled relationship, and hence trust, reciprocity and cooperation; appropriate intra-organizational structures that support respective inter-organizational practices. However, these structural properties are neither given, nor do they necessarily foster the implementation of codes per se. Rather, all network firms, or more precisely their managers and employees, as well as other stakeholders, have to relate to these properties in a way that guarantees that minimum labor standards are put into effect throughout the network. And they will need to take the steps necessary to begin a process of transforming supplier relationships from the price-dominated market to the network mode of governance. Counter intuitively, one means of initializing such a transformation may be the very formulation and implementation of codes of conducts coupled with the suppliers' proactive involvement in this process.

How likely is it that this new organizational form will support the implementation of labor standards in the global economy? Within the commodity chain we have shown that under defined and controllable conditions and within a particular institutional framework, network relationships present a viable context for establishing acceptable labor standards at the micro-level of the workplace. To ensure their implementation, we argue that agents, such as representatives of management, labor and consumers, must actively cooperate in order to use network structures for securing minimum labor standards, in turn reproducing these standards as structures of social responsibility. Nevertheless, there are limits to this approach. First of all, one should certainly be reminded that the network organization is primarily an organizational form which helps firms to generate profits from more efficient and effective organization – including the use of those 'efficiency' effects that result from unacceptable working conditions. As such, the usage of this form for securing minimum labor standards throughout the world will most likely be only a by-product at best. However, this chance could and, in our view should, be utilized. All depends upon the agents who create structures and who are constituted by these structures (Giddens 1984). Secondly, it is highly doubtful that production sites on the fringe of the network can be controlled and upgraded in this way, especially if these sites are part of

the informal economy and/or situated in developing countries where institutions supportive of agents in organizing for minimum labor standards are rare or non-existent. Thirdly, there will continue to be (hub) firms which prefer an exploitative low-cost strategy, with looser, more flexible and competitive supplier arrangements. Such a preference for the market over the network mode is likely to be successful as long as such firms and their products are not identifiable, high profile brand 'manufacturers' subject to public criticism.

It is true that the most recent trend in developed countries towards e-procurement on the electronic markets space of the internet will push the governance of global commodity and production chains once more towards the market (rather than the network). However, managers may well use this new technology for organizing social responsibility if, for instance, they allow only those suppliers to participate in the particular 'market' space which comply with minimum labor standards in their factories. Such an electronic market would not be entirely open and would thus resemble a network to some extent. But such a development will not come of its own. Actors' choices will be decisive as to whether the development of electronic markets contributes to the emergence rather than to the displacement of the network form. It would be useful, therefore, if agents – as well as researchers – paid more attention to the potentials and prospects of this form of global supply chain governance.

The push for making codes an effective instrument of achieving global labor standards is growing on multiple levels, from the workplace to supra-national institutions. But there is still a discernable discrepancy between the analytical arguments (and practical implementation claims) of the advantages networks offer on the one hand and the evidence of bad working conditions and ineffective codes which critics are continuously presenting on the other hand. Future research on the implementation of codes of conduct in global commodity chains should pursue and refine the analytical distinction between different modes of governance further and link this instrument to the political and institutional context of organizational forms. Moreover, in-depth analysis of compelling cases in other labor-intensive industries than apparel, including on-site research at firms throughout the network and using a longitudinal design, are needed to focus more on processes, that is, on concrete intra- and inter-organizational practices by which networks structures are produced and reproduced over time.

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