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## The long arm of Northern consumers – a lever for Southern rights?

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### **Abstract**

The concept of 'private governance' in global value chains refers to the fact that lead firms increasingly integrate monitoring of environmental, social and labour standards into their supply chain management. Growing concern by consumers in Northern markets about unequal distribution of benefits, hazardous working conditions and social dislocation for primary producers and workers in developing countries prompt Northern retailers and brand-named manufacturers to enter certification schemes. The risk of media exposure and activist pressure drives efforts to comply with own corporate standards or those set and audited by non-governmental organisations.

While corporate social responsibility initially was enacted by way of a communication strategy, proactive interventions for achieving positive social, economic and environmental impacts are now being adopted. At the same time, donors are targeting upgrading for primary producers of agricultural commodities in Africa, interventions to address critical constraints in their value chains, and increased access to export markets as measures to stimulate economic growth.

The setting of social, labour and environmental standards is based on international conventions, which provide legitimacy to the audience of Northern consumers. But how are such standards perceived in the Southern context? Do they contribute to strengthen claims of some social actors, do they support the exercise of rights, or are they largely not known in political discourses? Do some standards on the longer term translate into government regulation?

African farmers and processors join global value chains, and a lead firm, a fair trade scheme or a donor intervene to improve conditions. Which are the new patterns of inequality emerging in the local community and in the sector of production? Who will benefit, and who will be marginalized? At household level, how are livelihood strategies and gender divisions affected?

In short, to address these issues in full from both ends of the global value chains, close research collaboration is needed. The Rivatex textile company, owned by Moi University, in Eldoret provides an excellent point of departure for a study on value chains, standards and rights. Currently, two Master students from Technical University of Denmark are working with Rivatex and Moi University on a first, small value chain study.

## **Introduction**

The objective of the paper is to encourage a discussion on the focus and agenda of a research collaboration, which takes on the phenomenon of labour and social standards in global value chains and their significance, interpretation and possible impact in a Kenyan context. Labour markets and organisations, labour legislation, and employment and working conditions in work places structure national development processes. In the context of international economic flows, the interpretation of these structures by foreign governments, investors, donors and non-governmental organisations feedback on national development.

The 'Building Stronger Universities' initiative provides an opportunity to explore the 'unpacking' of labour and social rights in the context of global production networks as a joint North-South effort. The paper introduces Northern perspectives and proposes a number of issues to be addressed.

In 1977, Hopkins and Wallerstein launched the concept of commodity chain as the focus of their world-system theory. Replacing a conventional view on the world economy via the expansion of national markets, Hopkins and Wallerstein traced the history of commodity chains, i.e. the complete set of linked processes behind any consumable item. Their work seek to understand the integration of labour into the world economy since the capitalist world-economy came into existence in sixteenth century, the unequal distribution of benefits between centre and periphery, and how cyclical shifts in the world economy impact upon the configuration of commodity chains.

Contrary to Wallerstein's long-term view on the global scope of commodity chains, Gary Gereffi reserves the concept of global commodity chains to a more recent and new organisational form of economic integration in the internationalization of production (Bair 2009, 1-34), which is identified as producer-driven or buyer-driven commodity chains (Gereffi, Korzeniewicz 1994). The subsequent literature on what was to be termed as global value chains and global production networks, develops more a detailed analysis of governance structure in the relationship between lead firm and suppliers, as well as a special focus on how to integrate into the analysis the social and environmental impacts of global value chains for small producers, workers, households and local communities in developing countries.

## **The role of standards in global production**

The concept of governance is defined as non-market co-ordination of economic activity by firms, which directly or indirectly influence the organisation of global production, logistics and marketing systems. As an instrument of governance, certification and monitoring of global standards imply a reduction of frictions and cost in international economic transactions. Hoogvelt anticipates that *"third party registrars such as the ISO 9000 series of standards permit the evolution of a lingua franca of discussion of projects among independent advanced firms and their suppliers without them having to rely on either proprietary systems of fiat, or some mysterious cultural glue that has often been used to explain Japanese collaborative arrangements between independent units"* (Hoogvelt 1997; Payne., Kearns., and Schiff. 2009). In the context of deepening economic globalisation, the networked enterprise is sourcing production capacity, which becomes a commodity by itself. Thus, one could even point to a function of ISO certification as one of the defining

parameters in valuating a particular production capacity. Furthermore, Sabel envisages a positive impact on the building of trust: *“By linking learning to monitoring the new institutions (for example ISO 9000) allow initially wary partners to begin cooperating in ways which may eventually so align their understanding of the world and so their mutual interests that they come to trust each other in ways not contemplated at the start”* (Sabel 1994).

While inter-governmental negotiations on environmental regulation in global trade have come to almost complete standstill, most importantly in WTO, the adoption of environmental standards in global value chains (GVCs) by firms can be described as a phenomenon of ‘private’ governance. Environmental standards in global trade are developing in terms of numbers, complexity and range (Ponte, Gibbon, and Vestergaard 2011). Responding to end-consumer demands in industrialized countries, the private sector is increasingly developing environmental standards as voluntary standards, codes and benchmarks, often as part of commitments under corporate social responsibility (CSR), within risk-management initiatives or integrated product policies.

From a liberal point of view, critics claim that the concern for ethics and the environment in international economic flows has developed a whole industry of indulgence (Karlsson 2006), which tends to overload the free forces of the market economy with demands to meet global challenges, thus hindering its objective of most efficiently creating value and wealth.

### **Private governance in Global Value Chains**

Increasing concerns over health and environmental issues have triggered the development of various mandatory (legal), semi-voluntary (market requirement) and voluntary (for instance eco-labels) standards. Northern Customer demands and the quest for an image as sustainable have caused companies to account for those environmental and social conditions, by which products and components are manufactured in various countries. Thus, responsible supply chain management has become an important managerial task. Companies must continuously assess their supply chain, including the socio-economic conditions within the local community of their individual suppliers.

At the same time, the companies are confronted with a choice between a range of tools, voluntary standards and product standards, which address social conditions and impacts. However, the scope, content, criteria, modalities etc. differ widely. A current example is the standard ISO 26000 – Social responsibility. Increasing trade flows combined with increased health and environmental concerns have led to the increase in quantity, stringency and complexity of environmental requirements in international trade (Hoffmann et al. 2006).

Environmental requirements are crystallized in different instruments such as mandatory regulations (e.g. technical regulations on product content or maximum residue limits, extended producer responsibility legislation, mandatory eco-labels, etc), semi-voluntary initiative (such as industry driven standards that become a commercial imperative), and voluntary instruments initiated by NGOs and industry (e.g. voluntary eco-labels and certification schemes) (Nadvi and Wältring 2002).

Governance by standards in the form of ethical trade initiatives has shown to be seriously flawed in terms of effectively improving living and working conditions for the target producers and workers. As an example, research on the tea industry in South India has pointed to the fact that only a marginal portion of total production is exported within the framework of a fair trade scheme (Neilson and Pritchard 2009). The criteria and approach, which defines a particular fair trade schemes involves a number 'blind spots' vis a vis the contested issues such as a fair wage and land rights; also unemployment due to closure of plantations is not captured. Corporate focus on outcome indicators rather than process rights as demanded by a civil society approach (Barrientos and Smith 2007, 713-729) bears witness to the limitations of ethical trade initiatives. Numerous media reports have revealed lax practices in auditing and certification by fair trade schemes, in some cases leaving any distinction between certified and non-certified enterprises impossible.

Motivated by strong donor interest in pro-poor private sector growth interventions, Global Value Chain Analysis has been developed to include horizontal dimensions of participation and poverty, environment and gender. This explicit bias implies a focus on the Southern end of the value chain searching for opportunities to improve the livelihood small holder households and local communities through the entry into in value chains and the subsequent strategizing of upgrading measures to gain increased revenues and/or a more fair distribution of revenues. Case experiences demonstrate that there are limits to the scope of upgrading for suppliers as determined by the strategic assets of the lead firm, that suppliers may be circumscribed by structural dependency of the lead firm, the governance of which may also impose measures of lean and flexible work organisation with the suppliers, and that poor households minimize risk by joining in or downgrading to local or regional chains, which often a lower, but stable source of income,

While conventional CSR is an activity, which basically originates from giving charity to needy institutions in a local community, which is budgeted as a marginal cost external to the business operation, and which is meant to communicate positive 'feel good' connotations to the company brand, some major companies have recently embarked upon operations, by which the addressing of one or more global challenges is integral to the business model. Such efforts seem to be aligned with the paradigm shift in business objectives proposed by Michael E. Porter's concept of Corporate Shared Value (CSV)(Porter and Kramer 2011). In relation to global value chains, a pro-active private intervention may seek to remedy contextual deficiencies for disadvantaged actors in the chain or it may form one or more altogether new value chains of products and services with inherent positive social and environmental impact.

### **Inter-governmental standards**

Some researchers hold the view that the emergence and rapid expansion of private governance is a response to the failure of negotiation on international regulation. Rather, questions about the interface between recent private standard setting and the incremental, slow, but long-term and consistent effort at the inter-governmental level need to be addressed.

The International Labour Organisation (ILO) was founded in 1919 as a tripartite arrangement comprising representatives of government, employers and workers. Its mandate is to define and monitor international labour standards, the conventions of which

are ratified by a large number of member countries. As such, ILO includes a complaint mechanism to expose in detail cases of a member countries violated a particular labour standard, to which the country is a ratifying party (Wangel, Arne 1988). While the ILO mechanism does not include any options for sanctions, the mere fact of a publicised violation may serve as a disincentive for high profile investors, manufacturers and traders.

Environmental standards are the subject of regulation in several inter-governmental trade agreements, i.e. the Agreements on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Standards (SPS) in the WTO, measures under the Montreal Protocol to control trade in products produced with controlled ozone depleting substances; the ban under CITES trade for species and products from species living in the wild; and the Multilateral Environmental Agreements (MEA). The controversy on environmental standards in trade concerns the observation by environmentalists that the thrust for rapid economic growth by governments in the South overrides reduction of climate gas emissions, the protection of scarce resources, maintaining biodiversity etc., and the position by South governments that environmental standards serve as new forms of protectionism denying emerging economies the opportunity to catch up on industrialization in the North.

Integrated Product Policy (IPP) is one of these approaches regulating environmental impacts from products and services. The inclusion of integrated product policy approaches is extending to many countries and regions. On 2003, the European Commission adopted a Communication on IPP describing the activities that this body with carry out in order to implement the approach in the Union.

### **Practising private governance**

For a lead firm, a donor, a cooperative or a non-governmental organisation to select among the diverse range of standard setting schemes for a particular line of production is a business decision calculating gains in terms of expanded market access and price premium vs. investment in upgrading and costs of certification. It may an opportunistic choice of the one scheme offering a set of certification criteria, which correspond to a feasible level of compliance for the producers involved. In farming, it may be a certification of organic production or a kind of national, regional or international eco-labelling. In processing it may be the adoption of environmentally friendly technologies as well as a component of renewable energy provision. The complex procedures of accounting for environmental impacts constitute a significant barrier and may motivate shortcuts to greener solutions, which are not properly documented, and which in some cases involves deliberate 'green washing'.

Thus, thorough problem identification is often replaced by a pragmatic approach to establish claims of improving environmental performance. Furthermore, studies on the cycle of audit for certification, compliance efforts, certification process and subsequent regular re-audits in different countries have shown diverse practices in interpretation and monitoring to the extent that claims about a universal standard are threatened.

For labour standards, extensive empirical research has shown that '*codes of conduct focusing on specific aspects of labour standards do not in themselves generate improved livelihoods and working conditions for football stitchers*' (Lund-Thomsen et al. 2011) and

that *'monitoring alone appears to produce only limited results'* (Locke, Qin, and Brause 2007, 3-31).

Looking at private governance in its own right, it may be more adequately understood as part of a repertoire of measures to limit competition and create premium generating distinctions. Protection of common goods is achieved only to the benefit of the privileged few at the expense of the many poor, not unlike early private regulation by guilds in Europe. As mentioned by Lobel: *'private efforts cannot serve as a substitute for government oversight in all instances because there are significant limits in the scope and depth of private industry interests to improve standards'* (Lobel May 2010).

An analytical perspective is needed to unwind the multi-layering of private standard setting and governmental and inter-governmental legal regulation (Bartley 2011) (Karlsson 2000). Does governance driven by lead firms pave the way for policy reforms? Are consumer concerns in product preference transformed into policy demands on the longer term? Tim Bartley points out that *'codes of conduct emerged as a strategy for firms to avoid or limit public accountability for labor conditions in their supply chains,...but activists turned...corporate shields into tools...in the struggle to increase multinational corporations' liability for their supply chains'* (Bartley 2005).

### **Perceptions of Northern standards**

Evidence from recent research shows that the existence of standards and their application is hardly recognized by those, who are supposed to benefit: *'In all three countries [South Africa, Swaziland, Lesotho] workers perceived the impact of the implementation of codes of conduct on labour rights as negligible'* (Bezuidenhout and Jeppesen 2011, 653-668). In a remarkable case study on hand stitching of footballs in Pakistan, which involved the use of child labour and eventually caused the lead firm Nike to abandon their supplier, perceptions in the community on the phenomenon of children working to gain income for their household were distinctively different from the labour standard banning child labour: *'To address the question of why global values on labour norms are not 'accepted' within local supplier/cluster contexts, one has to raise a further question...If outcomes are at best ambiguous and at worse negative, then it is more than likely that the standard is seen as a necessary but external 'evil' that has to be responded to, but that does not necessarily change local social perceptions on the values implicit in the standard'* (Nadvi 2008, 323-343). An exemplary account of contrasting conceptualisation of sustainability is given by Anna Tsing in her analysis of the science and natural resource management practices in growing matsutake mushrooms in Japan and US respectively (Tsing and Satsuka 2008, 244-253). In her view, putting matsutake on the list of species threatened to become extinct is an act of imperial science. Contrary to the focus on too much human interfering causing overharvesting in the US natural resource management, Tsing shows that too little human interference is the cause of the problem of growing masutake in a Japanese forest.

A major flaw in the study of governance by Global Value Chain analysis is the limited role of labour, which is listed as an actor external to the chain. A recent literature review notes that *'workers have tended to be seen as passive victims of current restructuring processes: workers are typically viewed simply as being at the receiving end of a new international division of labour'* (Rainnie, Herod, and McGrath-Champ 2011). Labour must

understood as an active agent in shaping value chains and their territorial structure (Taylor 2011) (Wells 2009, 567-579).

## **Conclusion**

In the Northern context, consumers' interest in labour and social standards, ethical trade initiatives, and other interventions to support poor producers and disadvantaged workers is growing and expanding in scope. However, product endorsement, storytelling and branding are more prominent than accurate information on social and environmental impacts.

In the Southern context, formal compliance with standards opens new markets and options for price premiums. However, it is not clear how such compliance interacts with local and national struggles for better living and working conditions and for sustainable development.

Global value chains and production networks constitute the main organisational form in the internationalisation of production and services. In the current economic crisis, they are consolidated, not declining, and North-South chains are supplemented by new South-South chains originated from the emerging economies. This recent development may change the landscape of private governance in international economic flows.

Still, joint research is needed to establish in detail positive and negative impacts of global value chains, and modalities of interface with national struggles and state policies, and on that basis communicate findings to inform stakeholders – workers, producers, donors, consumers a.o. – on options for action and support.

The BSU Stability, Democracy and Rights Platform in Kenya holds a unique facility, the Rivatex textile factory in Eldoret, owned by Moi University. Rivatex and Moi University could be the venue for interdisciplinary Master and PhD courses on employment conditions, working environment and socio-economic impacts for household and the community, as well as the engineering of processes in textile manufacturing, production management and upgrading for joining global value chains initiated by major retailers in Europe and US.

Another initiative could be to form a research network based at the BSU universities in Kenya to provide knowledge support – both in terms of academic research and practical technical expertise – for the portfolio of value chains projects in Africa funded by the Danish Development Aid Agency (DANIDA). The initiative could include the BSU platforms on Environment, and Growth and Development drawing on their expertise on pro-poor and green growth, which will be a priority in the DANIDA strategy.

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