2 *The Democratic Deficit of Global Supply Chains*

More than 400 years ago, an unregulated private company, headquartered in the City of London, set out to the Indian subcontinent to source silk fabric, along with spices, tea and other goods, to export them to England. This was the East India Company, a joint-stock company that had secured a royal charter for monopoly trade with the Indian subcontinent. At the height of its power, it was responsible for almost half of Britain's trade. By 1803, this international megacorporation had transformed into an aggressive colonial power that had an army of 260,000 soldiers. Unlike the East India Company, today's brands are neither militarised nor do they seek to capture territories as the East India Company did. Nevertheless, striking similarities remain. Like many multinational retailers today, the East India Company was a joint-stock company that employed only a small number of permanent staff in its London head office while exploiting the labour of millions of people thousands of kilometres away for the benefit of its shareholders. Similar to how the East India Company (alongside private companies of other colonial powers) wielded enormous economic power through trade, today's multinational textile companies dominate much of Bangladesh's exports with more than 80 per cent of the country's total export earnings now generated by the ready-made garment (RMG) sector alone.

This chapter focuses on how the global supply chain model operated by these brands has become a key, if not *the* key, characteristic of the globalised economy and thus become the dominant form of organising production in the past quarter of a century. Central to the supply chain model is a hard-nosed business approach where resources – physical or human – are sourced at the point where maximum profit can be extracted. In this way, mass-produced goods are often manufactured in low-cost economies, with the bulk of savings being extracted from low direct and indirect labour costs. While Western democracies have developed institutionalised mechanisms to curtail the most exploitative

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tendencies of capitalism at the national level, the shift to highly flexible transnational sourcing has undermined the economic and social institutions that provided some degree of protection for workers. Not only does the global supply chain model undermine the terms and conditions of workers, it goes further by undermining the institutional configurations of workplace and industrial democracy. Next, the chapter will outline how the supply chain model is a feature of the movement from the Fordist to a post-Fordist economy and the associated ways in which it undermines institutions of workplace democracy. Towards the end of the chapter, the rise of consumption actors and their role in driving global labour governance are highlighted as potentially interesting developments that may increase democratic participation in global supply chains.

2.1 Democracy and the Fordist Model

In the period immediately following World War II, the Fordist model came to dominate the social and economic organisation of life in developed economies. While Fordism is often associated with the mass production of goods, it was notable for a number of other key features that link production to consumption and democratic institutions. Wolfgang Streeck (2016) has labelled the post-war period as one of 'democratic capitalism', where markets and democracy reached a relatively stable balance: markets were supervised through multiple layers of democratic control in terms of both representative government and organisational-level democracy. Central to this system of national economic and social governance were the links between production systems and democratic governance under Fordism. A key feature of the models associated with the Fordist period, which typified the 'Golden Age of Capitalism' for Western European and North American economies from around 1950 to 1970 (Boyer, 2001; Vidal, 2015), was that they were based around 'institutional fixes' (Jessop, 2011), focused on a national basis. While the Fordist model is sometimes seen as synonymous with the move to mass production and deskilling through assembly-line organisation (Braverman, 1974; Watson, 2019), the flip side to the approach is equally important (Petit, 1999): a central feature of the Fordist model was to increase consumption of relatively cheap mass-produced goods through real wage increases, thus increasing demand across the economy. Under

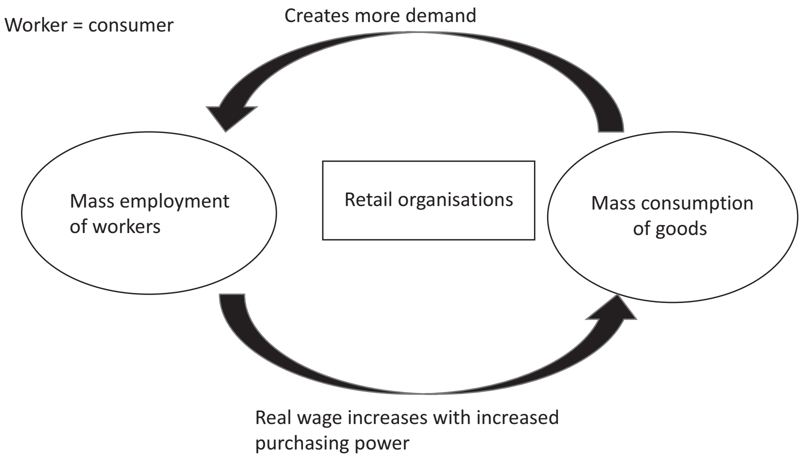

Figure 2.1 The virtuous circle of production and consumption under Fordism

the Fordist model, mass production and consumption interacted in a virtuous cycle as illustrated in Figure 2.1: real wage increases led to increases in purchasing power, increased the demand for goods and, in turn, increased employment and real wages (Reinecke and Donaghey, 2021b). As such, the approach that dominated the thirty years post World War II has been labelled as 'wage-led growth' (Baccaro and Pontusson, 2016). In the ideal scenario, wages, determined through collective bargaining, would rise below productivity but above inflation.

The Ford model, however, did more than simply link production and consumption in a given national context. The model sought to achieve full employment by producing domestically most of what was consumed in what was known as 'import substituting industrialisation'. While Fordism did involve cross-border trade, it was built upon a foundation of national economic, social and political institutions that combined to act in complementary and mutually reinforcing ways.

A second feature of the model was thus the growth of a social welfare system governed not through market mechanisms but rather through national-level democratic governance. In this way, peaks and troughs of consumption could be somewhat smoothed through the development of mechanisms of state intervention in the labour market and vice versa (Iversen and Soskice, 2020). In addition, while smoothing issues in the labour market, this welfare system also provided a safety net for individual consumption and helped to manage macroeconomic demand. This type of intervention formed part of the Keynesian consensus, where state policy focused on the achievement of full employment. Crouch (2009) argues that this commitment to a mixed economy became the defining feature of social democracy, where markets and states acted in coordination and a balance was achieved between democratic and market-based activity.

The third feature was that, at the workplace level, workers were integrated into the system through collective bargaining and democratic representation. Many of the representation rights of workers, developed to provide restraints on capital, were achieved through industrial and electoral struggle by unions and their allied social democratic political parties. While there were often attempts by management and owners to resist trade unionism, including at Ford (Beynon, 1974; Starkey and McKinlay, 1989), collective bargaining and representation had become key features of the model by the time of World War II (Clarke, 1992). In this way, workers were democratically represented with management, particularly around issues of pay and conditions through collective bargaining. While, in the English-speaking world, collective bargaining was generally at a company or plant level, in continental and Nordic European economies it was often at a sectoral level. In these systems, workers generally had workplace-level representation through institutions such as works councils, which dealt with issues such as work organisation and staffing levels at individual plants (Rogers and Streeck, 1995; Nienhüser, 2020). To enable this, governments actively – often through statutory means – embedded such representation rights. In addition, as an important counter-balance to the power of capital, workers had the right to take industrial action, such as strikes and work to rule, to achieve a more equitable distribution of economic gains, with those systems that had stronger systems of collective bargaining having lower income inequality (Rueda and Pontusson, 2000). While in some countries, such as the United Kingdom in the 1970s, frequent strikes did cause economic disruption, in many others, such as West Germany, strike action was rarely called upon. In other countries, particularly Sweden under the Social Democratic Party's Rehn–Meidner model, national and sectoral wage bargaining functioned to squeeze out those businesses that could not afford to pay the going rate (Vartiainen, 1998; Erixon, 2008, 2010). This power for both governments and workers to restrain the activities of capitalism was viewed to create 'beneficial constraints' (Streeck, 1997b). These constraints were beneficial because they led to capital seeking more qualitative forms of competitive advantage rather than just acting on a cost basis alone. While there certainly was inequality, and the workforce was predominantly male, national political institutions provided mechanisms through which pay and the quality of life in general were increasing. To use the language of the French Regulation School, during the period, the *mode of accumulation* was Fordism with the *regime of regulation* being social democracy. This model had a very significant effect on the distribution of wealth within society: Thomas Piketty (2014) has demonstrated that, across developed economies under the Fordist system, inequality declined on a fairly continuous basis from the 1940s through to the end of the 1970s.

While this is a stylised account of the Fordist economic model, and generally is confined to the experiences in advanced capitalist societies of Europe, North America and Japan, the key points emerging are that the model was based around achieving a balance between economic growth, equitable distribution, creating a positive cycle between consumption and production and democratic governance. Despite differences between countries, a central feature was an acknowledged role for government in national economic management and the regulation of workplace relations at the enterprise level, with unions as worker representatives at the workplace, sector and national levels (Amable, 2003). In this way, individuals were recognised in terms of their identities as producers, consumers and citizens; the workers were also the consumers and the citizens.

2.2 Post-Fordism, Supply Chains and Democracy

With the simultaneous vast changes in technologies and the lowering of trade barriers, alongside the growth in financialisation since the late 1970s, there is a consensus that the Fordist model has been replaced by a post-Fordist model. Consequently, the economic, social and political institutional complementarities of the Fordist approach have been undermined. Central to the erosion of the Fordist model has been the emergence of the supply chain model, which became the key defining feature of late twentieth- and early twenty-first-century production (Reinecke et al., 2018). In their simplest sense, supply chains can be thought of as what links goods from their first stage of production right through to their final consumption. In the modern economy, this essentially means that production is carried out through the partial or entire outsourcing of the production of the product or service. This vast growth in outsourcing has created a situation where retailers in sectors such as apparel have become organisations that often manufacture none of their products in their own factories and essentially become little more than 'brands' that engage with their consumers (Lury, 2004). Here, this means brands effectively minimise their activities into a narrow range of consumer-facing roles and particularly seek not to be directly producing goods sold under their labels. For example, Swedish apparel retail giant H&M states on its website: 'H&M does not own any factories. Instead, our garments are bought from around 800 independent suppliers, mainly in Europe and Asia' (H&M, n.d.). In 2019, the ITUC estimated that H&M employed 132,000 workers in its consumer-facing operations, but had a staggering 1.6 million workers producing its goods through its supply chain.

One of the implications of the supply chain model is that it separates consumption from production and de-democratises the model of production. Most famously, Apple has labelled its products as 'Designed in California; Made in China', but this is an oversimplification of the situation. In reality, the label possibly should read along the lines of 'Designed in California; display made in Japan; accelerometer made in Germany; chips made in the USA; gyroscope made in Italy; touch ID made in Taiwan . . . Finally assembled in China most of the time but sometimes in India'. The 2018 UNCTAD report highlighted that the massive expansion in supply chains as a mode of industrial organisation took place between 2000 and 2010 with an annual average year-on-year growth of 11 per cent in developed economies, 19 per cent in transitional economies and 15 per cent in least-developed economies. Between 2010 and 2017, while this figure declined to an average of 1–2 per cent of annual growth by 2017, supply chains still constituted 80 per cent of all international trade and 60 per cent of global production (UNCTAD, 2018). Alongside this was a complicated picture in the area of inequality. First, as demonstrated above, in developed countries since the early 1980s, there has been a significant growth in inequality. Second, there has been a decline in absolute terms in inequality in developing countries, with fewer people in absolute poverty but a growth in inequality in relative terms. Third, there has been a fall in relative inequality between developing countries (Ravallion, 2014).

Global supply chains have thus broken the Fordist model as they are essentially based on increasing consumption not through increasing disposable incomes but by making consumption increasingly cheap for existing consumers. To deliver lower priced goods, consumers often become spatially separated from those who produce the goods (Rainnie et al., 2007) by seeking out producers who operate at significantly lower wage costs than those who are consuming the goods earn. While recent research in the United Kingdom (Hammer and Plugor, 2016, 2019) highlights that the supply chain model can lead to labour abuses in developed countries, the main focus of brands has been to shift to sourcing from developing countries. While this has undoubtedly brought employment and economic growth to these developing countries, it has also meant aggressive price competition, exploitation of workers and thus growing inequality. Brands have little incentive to ensure that the wages of workers are increased to a level where they could also become consumers of the goods they are making. Instead, corporate activity ensures that costs remain low: buyers relocate or threaten to relocate should wage costs rise, particularly in sectors driven by labour cost such as apparel (Feuerstein, 2013; Zhu and He, 2013). The model, as outlined in Figure 2.2, is therefore the opposite of the virtuous cycle: workers do not have a reasonable prospect of being able to consume the type of goods they produce, nor do workers have access to the democratic institutions that regulate the behaviour of brands where they are headquartered.

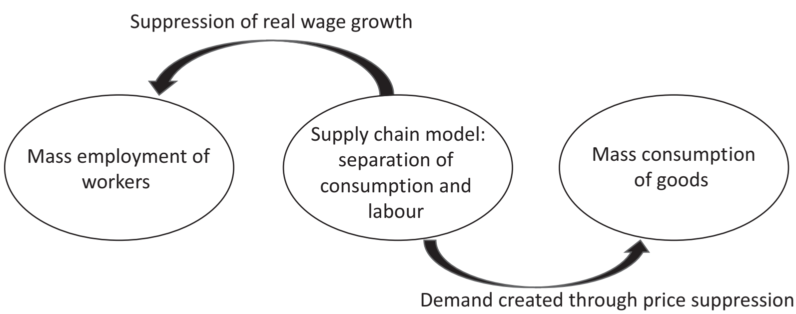

Figure 2.2 The separation of production and consumption under post-Fordism

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As discussed above, production is outsourced to legally independent factories, which generally bid through competitive processes for the supply contracts. In doing this, brands have no sunk costs in facilities they own themselves or employment responsibilities towards those who make their goods. Instead, they create markets to supply them (Clark and Wrigley, 1997). The implication of not having sunk costs or direct employees is that brands are free to shop around between potential suppliers for those that will produce at the requisite level for the most competitive price, through what can be thought of as 'regime shopping'. Traxler and colleagues (2008: 217), in the context of EU integration, define 'regime shopping' as 'capital, based on its superior cross-border mobility ... relocating production to what is seen as the most favourable labour market regime'. Where brands pursue an 'efficiency seeking' internationalisation, rather than a resource or market-expansion based strategy, labour regulation and costs become central features of the 'shopping' exercise (Rugman, 2010). For instance, even within wholly owned plants, German car manufacturer Volkswagen played fragmented production sites in Germany, Spain and the Czech Republic off against each other to raise productivity while maintaining low costs (Greer and Hauptmeier, 2012). The factors that are attractive for regime shopping differ according to sector (Haidinger et al., 2014) – for example, in high-end services, the availability of a well-educated workforce may be important, whereas in mass production, such as the apparel sector, the driving factor is generally labour costs.

To attract business from brands, many developing countries have followed a strategy of 'export-led industrialisation' to accelerate economic growth, in contrast to the 'import substitution industrialisation' that was the dominant mode in the Fordist period. To be an attractive site for investment from brands, the emphasis of state action is on increasing national competitiveness. Just as brands compete for customers, the state competes for global buyers of its goods and services and becomes a 'competition state' (Cerny, 1997). As a result, state commitment to maintaining labour rights has weakened. The creation of 'export processing zones', or EPZs, illustrates the strategy of 'export-led industrialisation', with states striving to be hyper-competitive: certain areas are designated specifically to produce at low lost as a method of enticing orders from large brands (Engman et al., 2007). EPZs typically offer a combination of tax incentives, exemptions from labour laws, bans on trade unions and specialised police to ensure that brands enjoy smooth supply (Rahim and Islam, 2020).

Moreover, in many developing nations, states simply lack the capacity to regulate effectively. Many states are rogue and/or failed states, which suffer from corruption and have an inability and lack of resources to enforce labour regulation and impose realistic fines (Brinkerhoff and Brinkerhoff, 2002). In 2020, the Fragile State Index, which measures the vulnerability of states to collapse based on a range of fragility and conflict indicators, issued a 'warning' about state fragility for the majority of states (116 out of 178 assessed). Many outsourcing destinations for the garments sector have an elevated warning (e.g., India, Turkey), a high warning (e.g., Bangladesh, Malawi), an alert (e.g., Ethiopia, Myanmar) or a high or very high alert (e.g., Democratic Republic of the Congo). Due to a lack of state support, important democratic rights at work, such as the right to strike and freedom of association, often face significant curbs.

As outlined to this point, the supply chain model marks a significant move away from the Fordist model in terms of its linkage of production and consumption, but also in terms of its links to wider society in terms of democratic participation. These changes pose significant challenges in terms of how the regulation and governance of labour and employment standards are understood. The implications of this for actors in the capital–labour divide will be taken up in Section 2.3.

2.3 The Fragmentation of Employment Relationships

While it is not new to argue that the shifts in the post-Fordist economy have led to the fragmentation and disintegration of workplace representation and democracy (Marchington et al., 2005; Doellgast, 2012), we argue that the supply chain model represents the epitome of such fragmentation and disintegration due to the changed relations and the actors involved. The very nature of the supply chain model brings about a significant reconfiguration of the actors in the employment relationship, which has generally been thought of as the relationship between workers and employers, underpinned by nation-state legislation. In particular, as will be developed next, the role of brands and NGOs focuses particularly on the consumption relationship, which is in addition to employers and unions, who generally focus on the production relationship. While at one level this relationship may seem complementary, the different approaches to mobilisation and power often leave an uneasy relationship.

2.3.1 Sourcing Relations in Global Supply Chains

At the heart of the supply chain model, particularly in low wage sectors like apparel, is an extremely efficient form of extraction of surplus labour value. As wealthy consumers clamour to wear goods carrying the label of prominent brands, the price they pay and how it varies compared with other functionally equivalent pieces of clothing often bears little relationship to the labour effort of those making the goods. For example, when visiting apparel factories, it is not uncommon to see production lines within the same facility producing for high-end designer labels cheek by jowl with production for discount retailers, with the workers in these factories receiving the same pay rate whether they are producing for the Tommy Hilfiger brand or a discount retailer such as Aldi. In addition to the straightforward low-wage advantage sought through the model, supply chains also provide brands with a transfer of risk away from them but simultaneously increase their levels of control over their suppliers.

Supply chains in the apparel industry conform closest to what Gereffi and colleagues (2005) label 'market' configurations, where the brands have a large supply base that competes for contracts based on short term price-based competition. While some suppliers do supply brands for many years, this supply is generally based on a series of short-term contracts that are effectively auctioned between suppliers as they arise. By having short-term contracts, brands are able to limit their legal ties to specific factories to these specific orders. Similarly, by procuring from factories that supply to multiple buyers, potential liability around being a 'co-employer' is reduced. To minimise risk in terms of political or natural disaster factors, these contracts are often highly fragmented between many suppliers and often across multiple countries. In these ways, the brands are able to reduce the extent to which they are exposed to risk in individual factories or even countries, while the competitive tendering process gives them considerable leverage and control over their suppliers. Thus, by fragmenting their procurement into supply chains, they are able to achieve increased economic efficiency and a high degree of control with limited legal liability.

Traditionally, employers generally form a key, if not *the* key, constituent of the employment relationship (Kaufman, 2004), as it is with the employer that workers have their contract of work. That said, within the CSR (Welford and Frost, 2006; Sobczak, 2007; Scherer and Palazzo, 2011; Scherer et al., 2016), supply chain and global value chain literature (Gereffi et al., 2005; Barrientos and Smith, 2007; Taylor et al., 2013), employers have often been viewed as rather passive recipients and powerless enactors of the policies of brands, with little ability to influence or resist downward pressures. This is true to some extent: employers are often heavily dependent on brands in terms of the provision of work and are also bound by the constraints of items like employers' codes of conduct. Moreover, brands' purchasing practices and their business models shape the pressures faced by employers (Reinecke et al., 2019). That said, employers do have agency. In reality, the costs involved with switching suppliers in highly fragmented, fast-moving supply chains mean that brands are far less flexible when it comes to withdrawing purchases from suppliers (Locke, 2013). In addition, suppliers typically produce for multiple brands at the same time, so the loss of a contract with one supplier can be compensated for by orders from other buyers. Factory managers can therefore exercise some autonomy in terms of responding to the demands of buyers in the extent to which they substantively adopt, ceremonially adopt or minimally adopt brand codes of conduct (Zhu and Morgan, 2017). This agency of employers is generally dependent on their ability to meet brand pressures and thus, in theory at least, workers could have power to disrupt. In this way, the employment relationship becomes more opaque, with the interaction and power relations between brands and their suppliers playing a key role in shaping the regulation and governance of the relationship.

2.3.2 Labour Representation in Global Supply Chains

The nature of global supply chains, where brands spread their purchasing from across a wide range of suppliers, combined with immature systems of employment relations, often with few unions present and low labour power (Bartley and Egels-Zanden, 2016; Jenkins and Blyton, 2017) and aggressive states (Anner, 2015), provides for difficult environments for workers in terms of leveraging employers and brands. The logic of unions is based on workers being organised collectively and having the ability to disrupt, or at least to threaten credibly, the production process (Donaghey et al., 2014; Reinecke and Donaghey, 2015). In this context, the main transnational vehicles for organising workers are the nine global union federations (GUFs), which bring together unions from across much of the world. Yet the nature of GUFs makes coordinating activity difficult (Croucher and Cotton, 2008). Two interrelated issues raise challenges for GUFs in the supply chain context. First, GUFs are organised on a sectoral basis. Thus, even in the unlikely event that workers at both ends of the supply chain are unionised, unions at one end of the supply chain – for example, manufacturing unions – are more likely to be in a different global union than those at the consumer end, which can create impediments to worker solidarity across the supply chain. Second, GUFs are organised on a broadly sectoral model without regard for the political, institutional and economic differences that Anner and colleagues (2006) highlight as being potential hurdles for international union cooperation. In addition, leverage over actors is most often felt by targeting the buyer firms rather than the actual employers. Wright (2016) argues that reputational risk among consumers is a lever that unions can utilise to improve labour standards in production networks. However, he goes on to argue that such leverage is not automatic but rather contingent on the different types of organisations and the markets within which they are embedded.

While unions are at best weak in these global supply chains, NGOs, movements and other civil society actors have emerged as central to transnational supply chain governance. Even if these organisations advance workers' rights, they typically direct their campaigns to Western consumers and the media, often with the aim of putting pressure on brands, rather than on the employers who are directly responsible for working conditions. For instance, in 2019, Oxfam Australia produced a 'Naughty or Nice' list of brands in the lead-up to Christmas in an effort to get consumers to buy from those brands that Oxfam viewed as having a more positive approach to labour issues. In response to such pressures, many brands have engaged directly with these NGOs as part of their CSR programmes. NGOs have also been constituents and sometimes initiators of 'multi-stakeholder initiatives', where they engage with business interests in the formation and implementation of labour standards. In this space, NGOs become an important actor for labour rights (Bartley, 2007, 2018; Egels-Zandén and Hyllman, 2006, 2011). While sharing many substantive objectives around issues of labour standards and rights, unions and NGOs do not always operate in a symbiotic relationship (Egels-Zandén, 2009). This is generally due to the differing underlying logics of representation on which their political legitimacy rests, which will be discussed in Chapters 5 and 6. A key claim of unions regarding their legitimacy is that their membership is a voluntarily coalition of workers who pursue an agenda to advance their own material interests at work through a logic of industrial democracy (Donaghey and Reinecke, 2018). In contrast, many NGOs are composed of people who wish to express solidarity with workers with poor conditions but who are not necessarily subject to such conditions themselves.

The supply chain context has therefore significantly altered the constellation of actors and their roles in governing the employment relationship of production. It is particularly noteworthy that brands, even though generally the most powerful actor, are by design and choice directly employing fewer and fewer production workers. For those seeking improvements in labour standards, this raises issues about how these powerful actors and the relationships they have with other actors, such as global unions, local unions, employers and states, can be used to improve labour standards. With the marginalisation of organised labour, NGOs have emerged as key actors in terms of labour activism in the supply chain model. However, the nature of their activity is significantly different from that of unions in terms of who, how and where they represent labour issues. Section 2.4 addresses this issue in terms of the governance tools and power resources of the labour actors.

2.4 From Production to Consumption-Based Labour Governance?

While the role of the state in terms of the regulation of the employment relationship varied greatly under the Fordist model, states were generally viewed both as prescribing a minimum floor in terms of employment rights and standards and enforcement of both publicly legislated standards and private contracts. This has changed significantly under globalisation. As Cerny (1995, 1997) argues, the pressures of globalisation and the significant shift in power towards global capital have led to states becoming highly competitive in terms of their attempts to attract brands. The implications of this shift have meant that states are incentivised to liberalise labour market regulation, which drives down labour standards.

With this denudation of the capacity and willingness of states to regulate, it has been argued by some that the development of forms of meaningful global governance (Scholte, 2008) is necessary – in other words, that private actors should take on the capacity to direct actors across national boundaries. While at the national level the term 'governance' has been viewed as the replacement of public regulation by private forms (Jessop, 2002), at the global level it can be argued that governance has emerged from the absence of a global government rather than as the replacement for it. This perspective on global governance is generally based around the argument that there is no meaningful prospect of the development of democratic global government and that what is instead emerging is a complex web of global governance institutions (Scholte, 2008). Private, transnational governance in the form of CSR is thus viewed as filling gaps in global regulation and/or substituting for the lack of regulatory capability or willingness of nation-states (Djelic and Sahlin-Andersson, 2006; Bartley, 2018). In this way, brands are viewed as taking on 'state-like characteristics' in terms of being the bodies that devise and implement rules across national boundaries (Scherer and Palazzo, 2007). This is part of a more general trend where brands have become the dominant actors for most forms of global labour governance, with some arguing that the defining feature of the neoliberal era has been the rise and consolidation of corporate power and, rather than neoliberalism being about deregulation, it is in fact re-regulation in favour of the interests of oligopolistic corporations (Hathaway, 2020).

With this power shift, the idea that brands are the dominant actor within their supply chain and thus are able to dictate actions to others within their network, is central to the CSR approach. Gereffi (1994) and Gereffi et al. (2005) famously argued that, within supply chains, not all firms are equal and those that exert more power are labelled 'lead firms'. In global apparel supply chains, global brands are the 'lead firms' because their purchasing power and ability to switch producers endow them with significant leverage over other supply chain actors. For this reason, lead firms are central to private governance and also become key targets for leverage in terms of how changes to working conditions can be achieved in the supply chains.

The core asset possessed by MNCs – their 'brand' – is the recognisable name that attracts consumers to purchase their products; however, it also becomes their core vulnerability. While MNCs' divorce from production and 'relative autonomy' from other actors (Ruggie, 2018) give MNCs significant flexibility, power and control over production, they open their reputation up to vulnerability. MNC brands have also essentially become political actors themselves because they have assumed public governance roles that were once the domain of the nation-state (Scherer and Palazzo, 2011). This is because the supply chain model undermines the division of labour between governments that regulate corporate power and corporations, which operate within the confines of regulatory frameworks. Brands therefore engage in political forms of CSR that take the role of regulatory functions, such as imposing labour standards on their suppliers in their private contracts (Scherer and Palazzo, 2007, 2011). Yet the very nature of this brand governance, aside from the obvious conflicts of interest, is that a multiplicity of rule-making regimes emerges with no uniform method of enforcement. However, despite lacking central enforcement authority, private governance standards can have law-like effects (Terlaak, 2007), becoming binding and enforceable rules through independent, third-party, certification systems and diffusing globally as a result of institutional pressure (Bansal and Roth, 2000; Lim and Tsutsui, 2012).

What does this mean for the employment relationship? So far in this chapter, it has been argued that the very nature of the supply chain model brings about a significant reconfiguration of the actors in the employment relationship and the extent to which workers' interests are represented democratically. The remainder of the chapter argues that the shifting nature between industrial relations and CSR is based around a recasting of power relations away from production and towards consumption. This shift necessitates a reconsideration of how we understand democratic participation in global labour governance. While the idea of governance relationships being based on production relations is well established, we argue that in the supply chain context, greater attention needs to be placed on the interaction of industrial relations and CSR. The CSR approach sees NGOs and the rise of 'ethical consumerism' as an important factor in driving market-based forms of global labour governance with the key relationship in CSR being the relationship between the brand and their consumers.

To understand better the interface between industrial relations and CSR, we conceptualise power within production and/or consumption relations as drivers of particular labour governance regimes. It is argued that greater labour power drives labour-based collective agreements regimes and greater consumer power drives market-based forms of labour governance. While the power bases of industrial relations and CSR governance regimes differ considerably, they may be complementary in the context of establishing labour standards. In particular, we focus on Wright's (2000) use of structural and associational power to conceptualise the power of labour. We use Hirschman's (1970) 'exit, voice and loyalty' framework, originally developed to explain declining consumer loyalty in nationalised industries in Africa, to conceptualise the power of consumers in terms of their ability to pressurise 'lead firms'.

2.4.1 Production-Based Governance of Global Labour through Collective Agreements

The production-oriented view of the employment relationship generally views employment governance as being provided by 'producer groups' – that is, employers and trade unions. To complement this, states set minimum procedures such as union recognition laws, dismissal procedures and legal enforcement of contractual obligations, as well as substantive minimum standards such as levels of minimum wages and worker compensation levels, which employers within their jurisdiction are expected to meet (Traxler, 1999). Collective bargaining has long been viewed as the means by which workers can democratically exert influence over their terms and conditions of employment, providing a counter-balance to the economic power of employers (Webb and Webb, 1897; Commons, 1919). However, globalisation and the associated supply chain model pose many issues for the future of collective bargaining (Standing, 1997; Thelen, 2003). Widescale collective bargaining and joint regulation are primarily Western European phenomena and the industrialisation of many developing countries is occurring under systems where state and/or managerial determinism dominate, leading to weak collective bargaining regimes. The ILO (2022) estimates that in about half of the 98 countries for which they have data, less than 25 per cent of wage earners were covered by collective bargaining agreements, with the Asia and

Pacific region having coverage of 12.8 per cent. In addition, the expectation is that those countries not covered by the ILO data have even lower coverage levels. The ILO (2022) also highlights that of its eight fundamental international labour conventions, the two covering collective bargaining and organising (Nos. 168 and 157) have the lowest ratification level. Alongside this, the nature of the supply chain relationship, where multinational brands set labour standards for workers in their supply chain, obfuscates the clarity of who actually is the employer in the relationship. This issue has been challenged in various courts – most famously in Germany, where KiK was sued as a co-employer by the widow of a victim of the Ali Enterprises disaster in Pakistan but settled before the court rendered its judgment, thus preventing a precedent being set. The case was viewed as potentially path-breaking as it was felt that it could potentially lead to recognition of the concept of 'co-employers', where brands were viewed as such due to their control over both their suppliers and the workers.

Within this constrained public space, IFAs have emerged as the main mechanisms in global supply chains for regulating labour through negotiated, collective agreements. Hammer (2005: 512) describes IFAs as 'agreements [negotiated by GUFs] on fundamental labour rights with MNCs', which democratise the labour standards–setting process. The first agreement was signed in 1988 by the French food multinational Danone, followed by the Accor hotel chain in 1995 (Wills, 2002). Agreements can take the form of either 'bargaining', where substantive agreements are made, or 'rights', where procedural agreements such as freedom of association and the right to collective bargaining are set. Generally, these agreements are built around the brand headquarters committing to enable the exercise of freedom of association and collective bargaining with the details of the individual sites to be negotiated locally. IFAs generally cover MNCs' subsidiaries and often place requirements on independent suppliers. As a result, they can differ significantly in terms of who they cover. They may cover those directly employed by the brand, the workers in the supply chain or both (Niforou, 2012). Take the apparel giants Inditex (most famously associated with the chain Zara) and H&M. Both have two IFAs, one with UniGlobal, generally covering direct employees, and another with IndustriALL, covering those workers within the supply chain. Spanish brand Inditex's IFA with IndustriALL emerged directly out of the Spectrum fire in Bangladesh in 2005 and was signed in 2007

(Miller, 2011). Interestingly, Inditex's IFA with IndustriALL, which covers 1.5 million non-directly employed workers worldwide across 50 countries and 7,000 factories in their supply chain, pre-dates the 2009 one with UniGlobal, which covers its own direct employees.

2.4.1.1 The Structural and Associational Power of Labour

The strength of labour is drawn primarily from the structural and associational power held by labour vis-à-vis employers (Wright, 2000). Structural power can be defined as 'power that results simply from the location of workers within the economic system' (Wright, 2000: 962). Thus, structural power effectively refers to how labour is positioned vis-à-vis other actors and interests within the economic system, including institutions such as legal frameworks, employer structures and the physical location of work. Within supply chains, three factors shape labour's structural power: the structural power of workers is high when workers are not easily substitutable, when they have effects on other parts of the economic system and when knowledge of the structure of a supply chain enables workers to upset the flow of the chain to claim better wages and employment conditions. In sum, the greater the potential of labour to affect the production process, the more power it exerts. For example, workers in logistics tend to have higher structural power compared with assembly line workers. Logistics workers possess valuable information about the flow of production, including transportation, supply chain consultants and financiers, as well as labour-friendly investors and shareholders (Quan, 2008). Second, labour gains leverage points in the supply chain when it is 'highly driven' – that is, when a strong lead firm governs supply chains in a hands-on manner, irrespective of whether the lead firm is situated at the consumption or production end of the chain (Riisgaard and Hammer, 2011).

The associational power of labour can be defined as 'the various forms of power that result from the formation of collective organizations of workers' (Wright, 2000: 962), such as trade unions and, at the supranational level, the GUFs (Croucher and Cotton, 2008). GUFs are distinguished by industrial sector and have a formal internal governance system comprising a worldwide network of national affiliates (industry union federations) spanning more than 120 countries. High associative power depends on the coexistence of three factors: the relationships between supplier-firm unions and lead firm unions, the

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degree of unity among unions and the ability of unions across a supply chain to coordinate solidarity actions. While GUFs play an important mediating role, affiliation of a local trade union with a GUF does not necessarily translate into local compliance with core labour rights (Ford and Gillan, 2015). Differences in perceptions regarding local strategies and international campaigns, as well as differences in political orientations, can result in inter-union conflicts and therefore the absence of a shared collective identity among global and the local labour representatives. Associative power is not independent of structural power. Awareness of production details allows workers to identify potential allies to organise international campaigns. Workers may leverage the lead firm's unionised operations/suppliers to gain solidarity and support (Quan, 2008).

2.4.1.2 Analysis of the Power of Labour

It is accepted that globalisation has seen the power of labour decline. While many have written about the potential for labour revitalisation and renewal, the supply chain context presents an exemplar case as to the difficulties of achieving this. The very nature of the model, where production is separated from those who capture the largest value and is dispersed across multiple countries, is one where the ability of exercising the power of labour is greatly diminished. But it is not just the power relations that are diminished: in addition, the nature of democratic participation and representation of worker interests are also diminished. In this context, other forms of power and representation have emerged, and it is in this context that we discuss the emerging role of consumption-based representation of labour issues.

2.4.3 CSR-Based Governance of Global Labour through Consumption-Driven Standards

While consumption is typically considered a post-production issue, rising consumer awareness of ethical issues has resulted in actors outside the employment contract having an influence on industrial relations. Traditionally, consumers and workers have been uneasy bedfellows (Compa, 2004), and consumers have been associated with greater market pressure, flexibility and service quality (Heery, 1993; Kessler and Bach, 2011). Nevertheless, the consumer is increasingly being seen as a fundamental post-production actor and driver of labour governance, rather than an enemy of labour as a result of labour standards. This is particularly in the context that MNCs, as outlined above, have essentially become consumer-facing entities ('brands') and now devote significant resources to shaping their public perception in the form of CSR. The implications of this for the workers who produce their goods is significant. Most importantly, due to the highly flexible nature of the supply chain approach, brands become the actors who have the most constant presence in the market as they have significant capacity to switch suppliers and exclude employers from participating. In this way, the core vulnerability of the brand is not the potential disruption of goods to their consumers but that for some reason consumers would no longer wish to purchase goods from their brand. Second, due to the fragmented nature of production under the supply chain model, brands spread their risk across multiple suppliers. Thus, should workers disrupt production through strike action or the like, brands can acquire produce from other suppliers. While in theory this could give workers leverage over their individual employers, it also carries with it the risk of ending all orders to their factories and thus also ending employment.

In this context, NGOs such as faith groups, student organisations and human and labour rights activists have shifted their attention from seeking states to take action and instead have focused on the private sector in the form of brands (Soule, 1997; den Hond and de Bakker, 2007; King and Pearce, 2010). In the face of globalised industries, where no single national body can ensure the enforcement of workers' rights, activists have mobilised consumers to use their power at the end-point in the global supply chain to put pressure on brands. Campaigns such as the student-led anti-sweatshop protests against Nike exposed the complicity of brands in human rights abuses in industries ranging from rug-weaving in South-East Asia to cocoa farming in Africa (Bartley, 2007; Vogel, 2008). While the extent to which these concerns actually do affect consumption is unclear, the threat to brand image has increased the possibility of consumer power as a counter-force to globalisation's race to the bottom (Barnett et al., 2005; Conroy, 2007).

In response to such activism, firms have invested significantly in CSR in attempts to demonstrate that they contribute to society beyond narrow profit maximisation. CSR is broadly understood in terms of socially beneficial activities that go beyond a corporation's legal obligations to stakeholders (Carroll, 1999). While the term is broad, in this context it is taken to mean that brands create governance systems to which their suppliers are expected to conform to supply that buyer. In global supply chains, CSR activities typically take the form of voluntary, private social auditing initiatives, such as codes of conduct and other forms of industry self-regulation (Fransen and Burgoon, 2015). Corporate-driven CSR codes have the advantage that brands can impose them upon their suppliers using contractual relationships. Corporations, subject to activist campaigns and media exposés, often make CSR commitments to reduce reputational risk emanating from poor labour conditions (Khan et al., 2007; Wells, 2009; Wright, 2016). Thus, the CSR approach generally is framed as one of responding to customer concerns over issues such as the treatment of workers and environmental concerns through the notion of 'ethical consumerism'. Without doubt, there have been numerous debates about whether CSR is leading to genuine efforts by firms to fill the governance gaps that are arising from the globalised production model (Matten & Crane, 2005; Scherer et al., 2006; Scherer & Palazzo, 2011) or whether CSR is just a form of 'organized hypocrisy' (Krasner, 1999; see also Banerjee, 2008), where multinational corporations adopt a few isolated social projects doing good to distract from a continuing self-interested, socially harmful approach to profit generation (Banerjee, 2018). Nevertheless, the exercise or even threat of consumer power and its potential to harm brands' reputation can often drive firms' voluntary engagement in private labour governance.

2.4.3.1 Bases of Consumer Power: Consumers' Purchasing and Voice Power

The consumer is the raison d'être for the existence of, and theoretically the most powerful actor in, a global supply chain. Ethical consumerism taps into the consumer's purchasing power by encouraging them to evaluate goods and products in terms of price and quality but also in terms of labour practices and environmental criteria. Consumer power can be conceptualised using Hirschman's (1970) exit, voice and loyalty framework within the domain of the consumption relation (Donaghey et al., 2014; Reinecke and Donaghey, 2015). Consumers can articulate dissatisfaction with goods and services through 'exiting' the consumption relationship by boycotting goods (or threat thereof),

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consistent with Hirschman's (1970) notion of 'exit'. Consumer boycotts as a form of negative purchasing behaviour express protest against ethical issues ranging from animal testing, genetically modified food and unethical corporate behaviour to goods from objectionable political regimes such as apartheid in South Africa (Soule, 1997). But instead of actual exit, the mere threat of exit may suffice to alert brands to avoid inflicting damage on the ethical reputation of their brands.

The realisation of consumer power requires the existence of substitute products with the desired ethical attributes, along with access to information and the transparency provided by ethical labels (Hirschman, 1970). Fairtrade-labelled goods, for instance, enable consumers in rich industrialised countries to use their buying power to improve the incomes and working conditions of producers in less-developed countries (Nicholls and Opal, 2005). In sum, when consumers' purchasing decisions are shaped by consideration of companies' ethical reputations and 'credence factors' (Dolan and Humphrey, 2004), conception of consumers' ethical expectations may become an important driver shaping firm practices. The second form of consumer power can be described in terms of the strength of the consumers' 'voice', defined as 'any attempt at all to change rather than to escape from an objectionable state of affairs' (Hirschman, 1970: 30). The notion of 'consumer voice' resonates with Bendell's (2005) argument that ethical consumerism contains a consumerist, as well as a 'citizen', element, allowing consumers to gain political voice and hold brands responsible for their corporate conduct (Conroy, 2007; Schmelzer, 2010). But such consumption power is not simply the outcome of 'changes in consumer demand met by more or less elastic market supply'; rather, it is 'the result of organised and strategic conduct by collective actors who are highly attuned to the potentials of consumer-activism' (Barnett et al., 2005: 46).

Similar to the importance of collective action by workers, consumer power is created through the mobilisation of collective consumer voice – for instance, few individual workers or consumers in retailers that sell No Sweat or Fairtrade products know the actual details of what workers actually receive. This is why labour rights NGOs running campaigns naming and shaming companies play a central role in bringing issues to public attention and in mobilising consumer pressure. Hence, it is often the laborious work of numerous social advocacy organisations that has pressured corporations into the adoption of private standards and/or participation in multi-stakeholder initiatives. The mobilisation of consumer voice, rather than consumers' actual changes in purchasing preferences, is often the main driver for corporate engagement. For this reason, the mere threat of consumer exit may suffice to alert companies to avoid inflicting damage on their actual sales or reputation of their brand, a significant intangible asset in the global economy. Bartley's (2007) study of voluntary standards initiatives in forestry and apparel demonstrates that their rise was driven by political struggles led by NGOs and activists, rather than actual changes in ethical purchasing behaviour or commercial strategies to adopt a profitable market niche (see also Bartley, 2018). The growing anti-sweatshop movement publicly exposed firms' behaviour in a variety of 'naming and shaming' campaigns targeting high-profile American companies (Bartley, 2007). Similarly, the 2000 decision by Starbucks – the world's largest speciality coffee retailer – to offer Fairtrade coffee in all of its 2,700 US chains, was preceded by a country-wide campaign by human rights activists against the coffee house chain, enhanced by media reports of child labour practices in a coffee plantation in Guatemala that supplied Starbucks (Conroy, 2007). Voice can be highly effective in the absence even of actual consumer demand for ethical products or the reality of consumer exit.

In sum, NGOs, media and consumer movements are effective mechanisms enabling and amplifying consumer voice. The result is a civil society coalition consisting of NGOs, activist groups and consumers that acts as societal watchdogs, scrutinising corporate behaviour and creating awareness of corporate abuses to exert pressure on brands to take action and enhance the livelihoods and working conditions of branded products. However, companies targeted by social movements, NGOs and the media are not necessarily those engaged in the most offensive and least responsible behaviour but may be those most vulnerable to societal exposure – for example, well-known firms enjoying high brand value selling to final consumers in Western markets that may have shifted their production offshore to benefit from lower labour costs (Bansal and Roth, 2000; Terlaak, 2007; Lange and Washburn, 2012).

2.4.3.2 Analysis of Consumer Power

Without doubt, a key Achilles heel for capitalism in the supply chain model is the vulnerability of brand reputation in terms of human and

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labour rights. However, the nature of this relationship is fundamentally different from that of employment: while the employment relationship is ongoing over a significant period of time and indeterminate in terms of the actual amount of labour exchanged, the consumption relationship is generally one-off or maybe periodic at best. In addition, while workers are generally a relatively well-defined and small number of actors who give significant amounts of their time to their employer, when people act as consumers, the extent to which it is a significant and ongoing commitment is much less. This has implications for democratic participation and the nature of the relationships between who, how and where individuals are represented in terms of their working and consumption lives. These issues will be developed in Chapter 3.

2.5 Conclusion

The supply chain model has become the dominant mode of organising production in the modern economy and it is accompanied by significant challenges in terms of the development of democratic governance of labour rights. Central to the argument is that the supply chain model inherently undermines the Fordist model, which linked production, consumption and democracy. In addition, the development of democratic forms of transnational modes of labour governance has been challenged by a lack of institutional support at the transnational level. A patchwork of initiatives has emerged, but often these are examined in terms of their efficiency and effectiveness rather than the power relations and democratic principles that underpin them. This book puts these issues of the changed nature of power relations and democratic participation to the centre of these debates. In Chapter 3, we examine the implications of the separation of production and consumption for the representation of worker interests in labour rights.