

# Is there a Sweet Spot in Ethical Trade?

## A Critical Appraisal of the Potential for Aligning Buyer, Supplier, and Worker Interests in Global Production Networks

Lund-Thomsen, Peter; Lindgreen, Adam

*Document Version*

Accepted author manuscript

*Published in:*

Geoforum

*DOI:*

[10.1016/j.geoforum.2018.01.020](https://doi.org/10.1016/j.geoforum.2018.01.020)

*Publication date:*

2018

*License*

CC BY-NC-ND

*Citation for published version (APA):*

Lund-Thomsen, P., & Lindgreen, A. (2018). Is there a Sweet Spot in Ethical Trade? A Critical Appraisal of the Potential for Aligning Buyer, Supplier, and Worker Interests in Global Production Networks. *Geoforum*, 90, 84-90. <https://doi.org/10.1016/j.geoforum.2018.01.020>

[Link to publication in CBS Research Portal](#)

### General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

### Take down policy

If you believe that this document breaches copyright please contact us ([research.lib@cbs.dk](mailto:research.lib@cbs.dk)) providing details, and we will remove access to the work immediately and investigate your claim.

Download date: 18. Jun. 2025



# Is there a Sweet Spot in Ethical Trade? A Critical Appraisal of the Potential for Aligning Buyer, Supplier, and Worker Interests in Global Production Networks

**Peter Lund-Thomsen and Adam Lindgreen**

Journal article (Accepted manuscript\*)

## **Please cite this article as:**

Lund-Thomsen, P., & Lindgreen, A. (2018). Is there a Sweet Spot in Ethical Trade? A Critical Appraisal of the Potential for Aligning Buyer, Supplier, and Worker Interests in Global Production Networks. *Geoforum*, 90, 84-90. <https://doi.org/10.1016/j.geoforum.2018.01.020>

DOI: <https://doi.org/10.1016/j.geoforum.2018.01.020>

\* This version of the article has been accepted for publication and undergone full peer review but has not been through the copyediting, typesetting, pagination and proofreading process, which may lead to differences between this version and the publisher's final version AKA Version of Record.

Uploaded to [CBS Research Portal](#): September 2019

© 2019. This manuscript version is made available under the CC-BY-NC-ND 4.0 license  
<http://creativecommons.org/licenses/by-nc-nd/4.0/>

# **Is There a Sweet Spot in Ethical Trade? A Critical Appraisal of the Potential for Aligning Buyer, Supplier, and Worker Interests in Global Production Networks**

Peter Lund-Thomsen<sup>a,\*</sup>, Adam Lindgreen<sup>b,c</sup>

<sup>a</sup> Department of Management, Society, and Communication, Copenhagen Business School, Dalgas Have 15, 2000 Frederiksberg, Denmark

<sup>b</sup> Department of Marketing, Copenhagen Business School, Solbjerg Plads 3, 2000 Frederiksberg C, Denmark

<sup>c</sup> University of Pretoria's, Gordon Institute of Business Science, 26 Melville Road, Illovo, Johannesburg, South Africa

\*Corresponding author. E-mail addresses: pl.msc@cbs.dk (P. Lund-Thomsen), adli.marktg@cbs.dk (A. Lindgreen).

## **Highlights**

- We critically appraise the so-called 'sweet spot' in ethical trade.
- We contrast the perspectives of buyers/brands, suppliers, and workers.
- We theorize the circumstances in which their interests intersect.
- The prospects for identifying a sweet spot are highly constrained.

## **Abstract**

We undertake a critical appraisal of the existence of the so-called 'sweet spot' in ethical trade at which the interests of buyers, suppliers, and workers intersect to enable benefits for commercial buyers and suppliers and improvements in the conditions of workers at the base of global production networks. In turn, we take the perspectives of three central actors typically involved in ethical trade: buyers/brands, suppliers in the Global South, and workers at the base of these networks. By applying all three perspectives, we theorize about the circumstances in which the sweet spot in ethical trade might emerge, reflecting an amended

version of Gereffi et al.'s (2005) theory of value chain governance. We conclude that the possibility of identifying a sweet spot in ethical trade improves as we move from market-based transactions toward hierarchical governance in global production networks.

**Keywords:** Ethical trade; Buyer perspectives; Supplier perspectives; Worker perspectives; Global production networks

## 1. Introduction

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

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

---

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

interests of buyers, suppliers, and workers in ethical trade. We define ethical trade in accordance with the U.K. ETI (2017), to mean that

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

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

In our critical appraisal of the potential and limitations for identifying this sweet spot in ethical trade, we also highlight the need to consider three key factors: (1) the type of global production network (GPN) that buyers, suppliers, and workers pursue (i.e., ranging from market-based transactions to hierarchy); (2) the national contexts of work and employment in which GPNs function; and (3) the perspectives expressed by buyers, suppliers, and workers in relation to this optimum point. A resulting matrix contains 12 possible instances in which we can identify this combination of factors (or their absence) in ethical trade. Accordingly, we show that not all circumstances are sufficient to produce this optimum point. However, instead of simply dismissing the possibility altogether, we contend that its identification becomes more feasible as we move from market-based transactions toward hierarchical GPNs, though its establishment is also very context dependent. At the intersection of vertical

relations (interfirm relations) and horizontal relations (national context of work and employment), the joint interests of buyers, suppliers, and workers can be created or undermined within GPNs.

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

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

value chain governance. Finally, we outline our findings and highlight some research and policy implications flowing from our analysis.

## **2. Global Production Networks Approach**

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

They also have strong institutional features, such that GPNs are “quite literally grounded in specific locations. Such grounding is both material (the fixed assets of production), and also less tangible (localized social relationships and distinctive institutions and cultural practices)” (Coe et al., 2008, p. 279). This concept of embeddedness is central, though we must distinguish between territorial embeddedness (i.e., geographical places) and network embeddedness (i.e., connections among network participants, regardless of geographical position). Furthermore, GPNs are embedded in spatial and social arrangements that influence GPN actors’ strategies, including the “values, priorities, and expectations of managers, workers, and communities alike” (Henderson et al., 2002, p. 451).

In turn, participating firms, governments, workers, and other actors all have distinct priorities with regard to profitability, growth, and economic development (Henderson et al., 2002). Debates about which norms and values should guide the governance of GPNs constitute value chain struggles (Neilson and Pritchard, 2009, 2010), which suggests that

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

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

### ***2.1. Buyer Perspectives***

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



2009). The second, *commitment approach* (Locke et al., 2009) entails a collaborative model to social upgrading in GPNs (Locke and Romis, 2010).<sup>2</sup>

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

From the buyer’s perspective, the cooperative approach seems to offer better prospects for finding a sweet spot in ethical trade—at least in theory. The policy options that the IMPACTT report offers, from the perspective of buyers, clearly reflect this strategy. For example, the report suggests that international brands should research workers’ priorities; help suppliers develop better human resource management policies, increase wages, and understand what constitutes a living wage; assist local producers in creating better jobs for

---

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

workers; adopt operational procedures for child labor remediation; and institute guidelines for worker assistance after factory closures. With this approach, buyers help suppliers by redesigning their sourcing practices and rewarding suppliers that abide by their codes of conduct, offering more business or better prices for the products they produce. Furthermore, buyers seek to align their own interests with those of suppliers and workers by maintaining long-term business relationships with first-tier suppliers and engaging in capacity-building programs to improve the work organization, worker productivity, and labor conditions in factory settings (Distelhorst et al., 2016).

Although the cooperative approach thus appears to represent a “genuine” attempt to identify joint buyer, supplier, and worker interests, little hard evidence supports the main assertions underlying its predicted benefits. To the extent that evidence exists, it is anecdotal; for example, Distelhorst et al. (2016), in a study of more than 300 Nike suppliers, find that Nike’s intensive training in lean manufacturing principles led to a 15% reduction in serious labor rights violations, but there were no discernible effects on health, safety, or environmental performance. Hoffman et al. (2014) similarly find that a collaborative approach involving capacity building, employee-controlled worker committees, and a confidential worker’s hotline enabled Chinese workers to voice their concerns, which led to enhanced worker satisfaction and reduced overtime. Yet in their study of Hewlett-Packard’s supplier responsibility program, Distelhorst et al. (2015) argue instead that national contexts—not supply chain power, repeated audits, or capability building—best explain differences in workplace social compliance levels. In their study, factories in China tended to be less compliant than suppliers in other countries that had stronger civil society and regulatory institutions, for example.

In short, there is little to indicate that a compliance-based approach is helpful for finding an optimum point in ethical trade. The cooperative approach may appear more

progressive, but the limited empirical evidence about the effects when buyers adopt such an approach is mixed. If we take the perspective of buyers in isolation, it thus appears uncertain whether there are any real prospects of finding a sweet spot in ethical trade.

## ***2.2. Supplier Perspectives***

Taking the perspective of suppliers in the Global South, the IMPACTT report acknowledges the challenges they face, such as labor skill shortages, wage inflation, increases in raw material costs, labor unrest, and increasing aspirations of new generations of workers for better work conditions. To align buyer, supplier, and worker interests in ethical trade, the report suggests suppliers should acknowledge worker aspirations, develop human resource teams, design and deliver motivational packages that reflect workers' needs, introduce benefits such as production bonuses and financial literacy training, and empower middle managers to drive improvements. However, the report does not reflect the full diversity of suppliers in GPNs, which vary in their size, the products they produce, the industries in which they operate, and their geographical spread. We therefore address how such diversity might affect the prospects of identifying a sweet spot in ethical trade.

Before doing so though, we note some relevant, common, cross-cutting themes in prior literature devoted to supplier perspectives. First, suppliers in different industries—garments, football, and footwear manufacturing for example—often locate in specific but diverse locations (e.g., Pakistan, India, Vietnam, Indonesia, China; Gereffi and Lee, 2016; Nadvi, 2014). Thus, manufacturing sites frequently supply the same kind of products, of similar quality, leading suppliers in different countries to compete with one another, in a downward spiral of price competition (Lund-Thomsen et al., 2012). This situation places some structural limitations on the extent to which suppliers can align their interests with those of buyers and workers in ethical trade. Second, unit prices have tended to decline over time in different industries, even as the cost of raw materials frequently has increased. With

profitability being razor thin, there are fewer financial benefits available for suppliers to share with workers (Hobbes, 2015). Third, seasonal demand for items such as clothing and footballs means that suppliers must adjust their production capacity accordingly, causing instability in the availability of jobs and worker incomes. Fourth, lead times have tended to decrease over time, particularly in the fast fashion segment, so suppliers face simultaneous demands for better quality, lower prices, and ever shorter lead times, which frequently require workers to engage in overtime work. Here again, we observe that the ethical trade interests of suppliers and workers appear pitched against each other (Tokatli et al., 2008).

Turning to how the diversity of suppliers in the Global South affects the prospects for identifying an optimum point in ethical trade, we note that *supplier size* appears to be a key factor. Giant contractors from countries such as Hong Kong, China, South Korea, and Taiwan are widespread in the garment and electronics industries (Knorringer and Nadvi, 2016). For example, the Hong Kong-based Li and Fung and Taiwan-based Foxconn own or source from thousands of factories throughout Asia, Latin America, and Africa.<sup>3</sup> These giant contractors also tend to run modern, well-equipped factories that offer higher wages and more regulated work environments than are available in informal jobs. The workforces in Asian-owned factories tend to consist of young, low-wage, female workers who are housed in dormitories at the production site (Appelbaum, 2008). For these large-scale suppliers, it likely is easier to achieve economies of scale and higher levels of productivity that—at least in theory—could enable them to align their interests with brands' and workers' (Lund-Thomsen et al., 2012).

However, the same cannot be said for the prospects of small to medium-sized enterprises (SMEs). Because SMEs often lack the capital, infrastructure, knowledge, and

---

<sup>3</sup> Giant contractors also take on significant coordination functions in GPNs. Azmeh and Nadvi (2014) consider these giant contractors both strategic and pivotal, in that they perform critical functions, such as the design, manufacturing, and distribution of goods and services. Traditional lead firms also grant some network governance functions to these giants, so they orchestrate the flows of goods, components, capital, labor, and information throughout the network. They even might transform the network by rapidly switching production and sourcing arrangements from one country to another (Merk, 2014).

human resources required to achieve economies of scale and high levels of productivity, it might be more challenging for them to align their interests with those of brands and workers (Jamali et al., 2017). They might take informal steps toward aligning their interests with those of their workers though. Such efforts typically include community donations, providing workers with tea, or paying the bills for their workers' children's weddings (Sachdeva and Panfil, 2008). However, from a buyer perspective, such practices do not resonate with either the compliance or the cooperation approaches, which mainly recognize formal improvements to work conditions (e.g., minimum wages, being paid for overtime, access to social insurance). Therefore, for SMEs, finding the sweet spot in ethical trade is particularly challenging.<sup>4</sup>

In addition to company size, finding this optimum point depends on the end market into which producers sell, from a supplier perspective (Barrientos et al., 2016). Ethical trade literature typically conceives of “vertical” world trade as taking place between buyers in North America or Europe and suppliers in the Global South. However, recent findings indicate the ever-growing importance of horizontal trade between buyers and suppliers throughout the Global South. Part of this trade stems from the growing exchange of intermediary components across countries in the Global South, with the final products still being sold in the Global North (Horner and Nadvi, 2017). However, a fundamental horizontal shift in global trade also has arisen for products that are both manufactured and sold in the growing home markets of countries such as India and China (Horner, 2016). From the

---

<sup>4</sup> To respond to these challenges, some SMEs adopt cluster-based social upgrading initiatives (Giuliani, 2014). Clusters contain many firms, operating in the same or related industries, located together within a defined geographical space. In theory, this co-location enables cluster-based SMEs to adopt joint approaches to dealing with issues such as child labor (Lund-Thomsen et al., 2016). With the help of industry associations, they can pool their shared knowledge and financial resources, such that cluster-based SMEs should be able to facilitate the dissemination of social upgrading practices and improve compliance levels, more so than if they were to engage in social upgrading practices on their own (Puppim de Oliveira and Jabbour, 2017). Local, cluster-based adoption of corporate social responsibility practices by SMEs at the base of GPNs also might produce more locally relevant solutions to pressing labor issues, which may be preferable to the one-size-fits-all approaches of conventional compliance-based efforts (Lund-Thomsen and Nadvi, 2010).

viewpoint of suppliers, shifting trade trends have several pertinent implications for identifying ethical trade areas in which they share interests with buyers and workers.

First, suppliers engaging in horizontal trade might not be as interested in ethical trade. As the importance of local and regional value production networks grows, due to increasing domestic demand in countries such as China, India, and Brazil (Knorringer and Nadvi, 2016), their participation in ethical trade—in a traditional sense, such that suppliers in developing countries seek to sell their products to buyers in Northern markets—may become less attractive for suppliers in the Global South. Second, even if suppliers in the Global South can access more local, regional, and global alternatives for selling their products to end buyers, they still likely face standard social and environmental pressures in their domestic contexts (Pickles et al., 2016). In particular, “Southern standards” have begun to proliferate in developing countries and economies in transition, focused mainly on obtaining producer buy-in and targeting consumer audiences within these countries. To some extent, these standards also seek to address local implementation gaps and distance themselves, in both cognitive and moral terms, from existing Western standards (Schouten and Bitzer, 2015). Whether such emerging standards also translate into the identification of an optimal point that aligns the interests of buyers, suppliers, and workers in the Global South remains an empirical question.

In summary, suppliers in the Global South face a range of structural constraints that may prevent them from identifying common interests with buyers and suppliers in ethical trade. Moreover, the prospects for identifying such joint interests vary, across suppliers of different sizes and among suppliers that serve different end markets.

### ***2.3. Worker Perspectives***

In our analysis of buyer and supplier perspectives, we mainly address their vertical relations. However, many of the factors reflected in the supplier perspective also influence the prospects of workers, in terms of whether they can identify common ethical trade interests

with brands and suppliers. If suppliers earn lower unit rates over time, workers also tend to receive lower wages. If suppliers must reduce lead times, workers will have to engage in overtime work. Thus, the optimum point for suppliers and workers is inherently linked.

To address worker perspectives, we also turn to the importance of horizontal relations though, as reflected in the national and institutional context that surrounds work and employment (Carswell and De Neve, 2013). We posit that worker perspectives on the optimal point in ethical trade are mediated by the specific socio-economic and socio-cultural contexts in which they are embedded (Coe and Jordhus-Lier, 2011; Sportel, 2013; Tran and Jeppesen, 2016). In terms of structure, these contexts may facilitate or undermine the possibilities that workers have for aligning their interests with suppliers' and buyers'. For example, in the Sri Lankan garment industry, the country's active labor movement and proliferation of labor laws, particularly in its pre-independence period, likely provided the initial space for formal labor organizing (Ruwanpura, 2015). However, in the post-liberalization period after 1977, this space shrunk, and unions have had difficulty organizing the labor force, because they fail to take the gendered, cultured, and spatial particularities of working lives in Sri Lanka into account (Ruwanpura, 2016). In a very different setting, Chan (2014) argues that Chinese garment workers have begun to challenge the regulatory framework established by the state. However, the preoccupation of Chinese authorities, particularly at the provincial level, with attracting foreign direct investment appears to promote a capital over a labor policy, and the state's manipulation of trade unions limits workers' ability to organize collectively in an efficient way. In other words, in terms of horizontal relations, national and regional economic and labor legislation, as well as the enforcement agencies of the state, constitute important determinants of the structural space within which workers might align their interests with buyers' and suppliers'. The more progressive economic and labor legislation and enforcement

is, in terms of protecting the interests of workers in ethical trade, the greater the scope for them to reap the potential benefits of taking part in such trade.

Yet workers' options for aligning their interests with buyers' and suppliers' in ethical trade are not determined solely by the structural space. As the IMPACTT report emphasizes, workers must be addressed as equals, with contributions to make and things to say; doing so means leaving some questions open and starting with positive insights before proceeding to discuss more difficult issues. Although not completely clear, the report appears to be referring in this sense to how brands, suppliers, and ethical trade consultants should interact with workers. Yet with this view, the report also ignores workers' potential to exercise agency in GPNs, regardless of how buyers, suppliers, and ethical trade consultants interact with them. Rich literature documents the ways in which workers exercise labor agency to determine their own conditions at work at the base of GPNs (Alford et al., 2017; Coe and Hess, 2013; Coe and Jordhus-Lier, 2011; Lund-Thomsen and Coe, 2015; Ruwanpura, 2015). We define labor agency as workers acting either collectively to defend their interests through trade unions or informally by opting in or out of particular workplaces and work forms, depending on their personal preferences and broader life circumstances (Carswell and De Neve, 2013). In the Sialkot football manufacturing cluster, Lund-Thomsen (2013) observes that the possibilities of workers to exercise labor agency relates to the diversity of livelihood strategies pursued by football stitchers, and the spatial location of these stitchers in relation to more centralized workplaces may constrain their ability to opt in and out of factory-based, stitching center, and home-based work locations. In other words, their ability to insert themselves into GPNs in ways where workers, and not only brands and suppliers, benefit from taking part in ethical trade may be limited.

Moreover, the possibilities for workers to identify a sweet spot in ethical trade can be highly gendered, in the sense that female workers are more pressed to find ways to combine



childcare and household chores with full-time work in centralized factory settings. Even if it would be financially profitable for these workers to engage in formal factory-based work, it may be incompatible with their broader responsibilities in the reproductive economy. Accordingly, De Neve (2014) notes that young, unmarried, female migrant workers appear to prefer working full-time in a formalized factory setting in the Tiruppur garment cluster, where they also have access to housing facilities. However, in the Jalandhar football cluster, Khara and Lund-Thomsen (2012) find that older stitchers, both male and female, work in home-based settings that grant them greater flexibility in terms of the pace with which they hand stitch the products. Finding an optimum point in ethical trade, from the perspective of workers, thus may be a highly gendered process that also depends on factors such as workers' life cycles, broader family relations, and positioning within local communities.

Having outlined the buyer, supplier, and worker perspectives, in the next section we return to a foundational research question: In which circumstances is it possible to identify a sweet spot in ethical trade?

### **3. Toward an Integrated Analytical Model**

To identify circumstances in which buyer, supplier, and worker interests in ethical trade overlap, we refer to three factors: (1) vertical relations, reflecting the nature of the interactions among buyers, first-tier suppliers, and their workers in GPNs; (2) the particular perspectives that each actor (buyer, supplier, and workers) in these relationships have on ethical trade in GPNs; and (3) horizontal relations, reflecting the national contexts of work and employment in which the actors are embedded, at the base of GPNs. To conceptualize vertical relations, we turn to the value chain governance theory proposed by Gereffi et al. (2005), who distinguish five governance types: market-based, modular,<sup>5</sup> relational, captive,

---

<sup>5</sup> We discuss relational chains, not modular chains, reflecting our interest in the points at which we might find overlapping interests among buyers, suppliers, and workers by moving away from market-based conditions toward more explicit coordination in GPNs. In both modular and relational chains, suppliers tend to be highly capable and able to meet customer specifications. However, in modular value chains, due to their codification,

and hierarchical. These five types in turn can be defined according to three determinant variables: the complexity of transactions to be undertaken between buyers and suppliers, the ability to codify the transactions, and the capabilities of the supplier base. Furthermore, Gereffi et al. distinguish the degrees of explicit coordination and power asymmetry that exist in relationships of buyers and suppliers, such that market-based transactions feature the least explicit coordination and the lowest degree of power asymmetry, whereas hierarchical value chains exhibit the highest degrees. We add *workers* to these models, with reference to the three perspectives we have outlined, to acknowledge that each actor has a unique view on the prospects of identifying joint buyer, supplier, and worker interests in ethical trade. Finally, we expand the existing model by adding a consideration of how horizontal relations (national contexts of work and employment) influence the prospects of finding a sweet spot. We propose the analytical model of this optimum point for ethical trade in Table 1.

**Table 1: A Model of the Sweet Spot in Ethical Trade**

|   | Market-Based Transactions | Relational Governance                | Captive Governance                  | Hierarchy                         |
|---|---------------------------|--------------------------------------|-------------------------------------|-----------------------------------|
| Buyer perspective                               | No optimum point          | Optimum point (cooperative approach) | Optimum point (compliance approach) | Optimum point                     |
| <b>National Contexts of Work and Employment</b> |                           |                                      |                                     |                                   |
| Supplier perspective                            | No optimum point          | No optimum point for SMEs            | Optimum point for large suppliers   | Optimum point for large suppliers |
| Worker perspective                              | No optimum point          | No optimum point                     | Optimum point                       | Optimum point                     |

---

information can be exchanged easily, which requires less explicit coordination, and the switching costs for buyers are lower, so buyer–supplier interactions resemble market-based settings. In relational chains, this relationship instead relies to a greater extent on mutual trust and dependence, so they require more explicit forms of coordination in the GPN.

### ***3.1. Market-Based Relations***

With this model, we identify circumstances in which we anticipate convergence or divergence in buyer, supplier, and worker perspectives on the optimum point in ethical trade. In terms of vertical relations, if the interaction between buyers and suppliers is characterized by *market-based relations*, buyers likely cannot identify a point where they have joint interests with suppliers in ethical trade. The short-term nature of these buyer–supplier interactions means that using either compliance or cooperative approaches would make little sense for buyers. Similarly, from the supplier perspective, there are few possibilities for identifying common interests with buyers in ethical trade, because these types of interactions are dominated by powerful price competition. For workers employed in supplier factories, the short-term nature of the work tasks required by market-based relations grants them few prospects for identifying an optimum point. Even if the national context is characterized by relatively strict labor laws and enforcement, the temporary nature of the commercial transactions between buyers and suppliers means that labor agency becomes highly constrained, providing little space for workers to align their interests with those of buyers or suppliers in ethical trade.

### ***3.2. Relational Governance***

For the case of relational governance between international buyers and first-tier suppliers in our analytical model, a different picture emerges. However, the main conclusion remains the same. That is, we still anticipate a likely divergence in the interests of buyers, suppliers, and workers in ethical trade. In detail, SME buyers with relatively few suppliers in the Global South often undertake relational governance, because in theory, they can develop longer-term trade relationships with SME suppliers, establish trust, and achieve mutual dependence. Such a scenario suggests that SME buyers would identify a potential sweet spot, through their use of a cooperative approach. In practice though, SME suppliers still face great difficulties in

this effort, because even under relational governance, they are unlikely to operate according to the compliance-based norms and pressures that larger, more visible brands demand from suppliers. The prices paid may not be higher, even if these factories engage in longer-term transactions with their SME buyers. Production will still be seasonal, requiring the SMEs to hire and fire employees during the year without providing social security benefits to workers.

In horizontal relationships, the national contexts of work and employment seem more likely to influence suppliers' identification of an optimum point in ethical trade when the ties reflect relational governance rather than market-based relationships. For example, in Brazil, the presence of labor inspectorates and extensive public–private cooperation around the implementation of labor standards may reward SME suppliers for aligning their interests with their workers' and buyers'. However, in India, where the central government has linked economic development to a social downgrading strategy (i.e., not investing in worker protection; Knorringa and Nadvi, 2016), the national context of work and employment might prevent SME suppliers from aligning their interests with those of their workers (Khara and Lund-Thomsen, 2012). In relational governance settings, SME buyers may be able to identify an optimum point through a cooperative approach, but the national context of work and employment still might (not) provide incentives for SME suppliers to do so. The mutual dependence between SME buyers and SME suppliers that arises in relational governance contexts implies that horizontal relations should be more influential than vertical relations in terms of determining the prospects for identifying a sweet spot in ethical trade.

### ***3.3. Captive Governance***

In captive governance relations, we perceive greater prospects for establishing this optimum at which the interests of buyers, suppliers, and workers align. In captive chains, buyers from the Global North tend to work with many geographically dispersed suppliers, so buyers might prefer a compliance-based approach, to minimize risks to their reputation (i.e., avoid

allegations or links to child or forced labor) across diverse national institutional contexts. From the perspective of large suppliers, codes of conduct and sustainability certifications may become part of their overall marketing strategies to appeal to international customers in the Global North. Similarly, for workers subject to captive forms of governance in the relations between international buyers and first-tier suppliers, stronger possibilities might arise for identifying an optimum point. Even if horizontal relations limit the scope for labor agency (i.e., by denying workers the right to collective bargaining, as in China as a case in point), vertical relations may overcome these restrictions to some extent, because large buyers tend to operate according to codes of conduct that go beyond the minimum requirements stipulated by national labor laws. That is, even in contexts that prohibit collective bargaining, buyers' power may be sufficient to enable collective forms of labor agency, such as in the form of wildcat strikes. At least in theory, such agency may help workers identify their sweet spot in ethical trade.

### ***3.4. Hierarchy***

Finally, for hierarchical governance relations, we anticipate the best prospects. The buyer retains ownership of the supplier, so it makes sense to adopt a cooperation-based approach, support capacity building, provide price incentives, and engage in joint production planning. Similarly, with their full integration into the parent (buyer) company, supplier factories likely can identify better prospects for aligned interests. Because the buyer retains ownership of the supplier, legal responsibility for the supplier's social performance falls back on the buyer; it is in the interest of both buyers and suppliers to take a cooperative approach to social upgrading that ensures the suppliers are responsive to headquarters' policies for responsible sourcing (vertical relations) and to national labor laws and enforcement agency requirements (horizontal relations). Hierarchical governance relationships also create greater chances for workers to identify their joint interests with buyers and suppliers. Because workers can

directly negotiate the conditions of their work with their real employer (i.e., the buyer), rather than an intermediary supplier, they have substantially more space for effectively engaging in collective labor agency. Here again, vertical relations likely dominate horizontal relations in terms of enabling the identification of joint buyer, supplier, and worker interests in ethical trade, such that the positive or negative impacts of horizontal relations likely have less influence in hierarchical governance settings than is the case for relational governance.

#### **4. Conclusions**

We use the 20th anniversary of the U.K.-based ETI as a spur to examine one of the core assumptions underlying ethical trade, namely, that it is possible to align the incentives of buyers, suppliers, and workers in GPNs, such that they all pull in the same direction and produce benefits for all network participants. With a critical appraisal of buyer, supplier, and worker perspectives on the potential for and limitations to identifying a sweet spot in ethical trade, we seek to establish some basic tenets that must be in place before their interests can align. In particular, we argue that it is necessary to specify the type of governance relationships of which buyers, suppliers, and workers are part (ranging from market-based transactions to hierarchy); the national contexts of work and employment; and the perspectives that buyers, suppliers, and workers likely adopt with regard to an optimum point in ethical trade. In turn, we generate an analytical model of buyer–first-tier supplier relationships, which reveals the potential for and limitations to identifying these joint interests under market-based, relational, captive, and hierarchical forms of governance.

Unsurprisingly, not all combinations make it possible to align the interests of buyers, suppliers, and workers in ethical trade. Instead, the prospects for identifying these joint interests improve significantly when we shift from market-based transactions toward hierarchical governance, as a function of the influence of vertical relations, though horizontal relations always mediate these prospects, in positive or negative directions. Whereas

horizontal relations tend to be more important than vertical relations for influencing the alignment prospects under market-based and relational governance forms, vertical relations generally become more influential than horizontal relations under the captive and hierarchical forms.

This theoretical model is well-suited to analyze the interactions of international buyers and their first-tier suppliers in labor-intensive, export industries (e.g., garments, footwear, leather manufacturing), but it also has some limitations. First, it is not directly applicable to agricultural production networks. In agricultural networks, farmers rarely have any direct interaction with lead firms. Instead, the commodity (e.g., cotton) moves through several production tiers (ginning, trading, spinning, fabric mills, and sewing/stitching factories), before it winds up as part of the final product (e.g., a t-shirt) sold by international buyers (Alexander, 2016). In this sense, our model's applicability is limited to interactions of international buyers, their first-tier suppliers, and the workers who labor for the first-tier suppliers.

Second, it is possible to critique the underlying notion of a “sweet spot in ethical trade.” This optimum point could appear unrealistic or even a misleading idea, in that it ignores the underlying, unequal battles between capital and labor in the highly dynamic, neo-liberal, capitalist global economy. This challenge is particularly acute considering the criticisms of ethical trade for being Eurocentric, imposing a kind of North–South dichotomy on local producers and workers in developing countries (Khan and Lund-Thomsen, 2011; Ruwanpura, 2016). Admittedly, our theoretical model is somewhat static, whereas GPNs tend to be highly dynamic. The optimal points we identify thus may change constantly. In this light, the prospects for ensuring long-term trade relations, as envisaged in the cooperation paradigm, and the sweet spots within such trading relationships are likely limited.

Despite these limitations, three main policy implications flow from this analysis. First, for *multistakeholder initiatives* such as the U.K. ETI and *buyers* in the Global North, there is no single blueprint for identifying a point at which buyers, suppliers, and workers all benefit in ethical trade. They must grant careful consideration to the changing nature of their GPN linkages (from market-based to hierarchical), the institutional context in which their GPNs function, and the different perspectives that buyers, suppliers, and workers likely adopt toward the optimum point in ethical trade, in that particular context. Before initiating any new interventions, a map of how these factors interact in given contexts would be useful, to maximize the prospects for identifying the common interests. Such mapping efforts already apply to assess human rights risks in particular countries; we suggest a similar method, with a view to establishing the prospects for identifying shifting sweet spots in particular industry and country contexts. Noting the highly dynamic nature of GPNs, we suggest that such maps should be updated every six to twelve months.

Second, for *suppliers* in the Global South, our article highlights that their size and end markets matter in terms of whether they can identify joint interests in ethical trade. For large-scale suppliers that work with retailers and brands in the Global North, the prospects for aligning their interests with those of their buyers and suppliers are greater than they might be for SMEs. At the risk of oversimplifying the influence of GPN governance relationships, we argue that large-scale suppliers engaged in captive and hierarchical forms of governance with their buyers can meaningfully seek to identify their own sweet spot in ethical trade.

Third, for *workers*, the prospects for identifying joint interests are very complex; they depend, among other things, on factors such as the gender, age, livelihood strategies, reproductive concerns, and broader social networks of these workers. Regarding the influence of governance relationships, the prospects for labor agency tend to increase as we move from market-based relationships toward hierarchical governance. In other words, workers are more



likely to identify joint interests with buyers and suppliers in captive and hierarchical governance conditions than in market-based or relational governance settings. However, with this prediction, we refer specifically to their prospects for collective labor agency.

Our analytical model could be applied by both academics and policymakers to conduct further empirical research to identify optimum points in ethical trade in a variety of industry and country contexts. We hope that this article also provides foundations for a wider toolkit for practitioners, including retailers, suppliers, and trade unions, that seek a better understanding of the GPNs of which they are part, the labor rights risks contained therein, and the possibilities for workers to exercise labor agency within these networks.

## References

- Alford, M., Barrientos, S., and Visser, M. (2017). Multi-scalar labor agency in global production networks: contestation and crisis in the South African fruit sector. *Development and Change*, 48(4), 721–745.
- Alexander, R. (2016). *Sustainability in global production networks: Rethinking buyer-driven governance*, doctoral thesis, Faculty of Humanities, School of Environment, Education, and Development, University of Manchester, Manchester.
- Appelbaum, R. (2008) Giant transnational contractors in East Asia: Emergent trends in global supply chains. *Competition and Change* 12 (1): 69–87.
- Azmeh, S. and Nadvi, K. (2014) Asian firms and the restructuring of global value chains. *International Business Review* 23 (4): 708–717.
- Barrientos, S., Knorringa, P., Evers, B., Visser, M., and Opondo, M. (2016). Shifting regional dynamics of global value chains: implications for economic and social upgrading in African agriculture. *Environment and Planning A*, 48(7), 1266–1283.
- Barrientos, S. and Smith, S. (2007) Do workers benefit from ethical trade? Assessing codes of labor practice in global production systems. *Third World Quarterly* 28(4): 713–729.

- Blowfield, M. (1999). Ethical trade: A review of developments and issues. *Third World Quarterly*, 20(4), 757–770.
- Carswell, G. and De Neve, G. (2013) Labouring for global markets: conceptualizing labor agency in global production networks. *Geoforum* 44(1): 62–70.
- Chan, C.K. (2014) Constrained labour agency and the changing regulatory regime in China. *Development and Change* 45(4): 685–709.
- Coe, N., Dicken, P., and Hess, M. (2008) Global production networks: debates and challenges. *Journal of Economic Geography* 8(3): 267–269.
- Coe, N. and Hess, M. (2013) Global production networks, labour, and development. *Geoforum* 44(1): 4–9.
- Coe, N.M. and Jordhus-Lier, D.C. (2011) Constrained agency – re-evaluating the geographies of labor. *Progress in Human Geography* 35(2): 211–233.
- Coe, N. and Yeung, H. (2015) *Global production networks: theorizing economic development in an interconnected world*. Oxford University Press, Oxford.
- De Neve, G. (2014) Fordism, flexible specialization, and CSR: How Indian garment workers critique neoliberal labour regimes. *Ethnography* 15(2): 184–207.
- Distelhorst, G., Hainmuller, J., and Locke, R.M. (2016) Does lean improve labor standards? Capability building and social performance in the Nike supply chain. *Management Science*, 63(3), 707–728.
- Distelhorst, G., Locke, R., Pal, T., and Samel, H. (2015) Production goes global, compliance stays local – Private regulation in the global electronics industry. *Regulation and Governance* 9(3) 224–242.
- Egels-Zanden, N. and Lindholm, H. (2015) Do codes of conduct improve workers’ rights in supply chains? A study of the fairwear foundation. *Journal of Cleaner Production* 107: 31–40.

- Gereffi, G., Humphrey, J., and Sturgeon, T. (2005) The governance of global value chains. *Review of International Political Economy*, 12(1), 78–104.
- Gereffi, G. and Lee, J. (2016) Economic and social upgrading in global value chains and industrial clusters: why governance matters? *Journal of Business Ethics* 133(1): 25–38.
- Guiliani, E. (2016). Human rights and corporate social responsibility in developing countries' industrial clusters, *Journal of Business Ethics*, 133(1), 39–54.
- Henderson, J., Dicken, P., Hess, M., Coe, NM., Yeung, HWC. (2002). Global production networks and the analysis of economic development, *Review of International Political Economy*, 9(3), 436–464.
- Hobbes, M. (2015) Myth of the ethical shopper, *The Huffington Post*, July. (Available at <http://highline.huffingtonpost.com/articles/en/the-myth-of-the-ethical-shopper/>; accessed 13 October 2015).
- Hoffman, P.S., Wu, B., and Liu, K. (2014) Collaborative socially responsible practices for improving the position of Chinese workers in global supply chains. *Journal of Current Chinese Affairs* 43(3): 111–143.
- Horner, R. (2016) A new economic geography of trade and development? Governing South-South trade, value chains, and production networks. *Territory, Politics, and Governance* 4(4), 400–420.
- Horner, R. and Nadvi, K. (2017). Global production and the rise of the Global South: Unpacking 21<sup>st</sup> Century polycentric trade, *Global Networks*, Online First.
- IMPACTT (2011) *Finding the sweet spot: Smarter ethical trade that delivers more for all*. London: IMPACTT.
- Jamali, D., Lund-Thomsen, P., and Jeppesen, S. (2017) SMEs and CSR in developing countries. *Business and Society* 56(1), 11–22.

- Khara, N. and Lund-Thomsen, P. (2012) Value chain restructuring, work organization, and labor outcomes in football manufacturing in India. *Competition and Change* 16(4): 261–280.
- Knorringa, P. and Nadvi, K. (2016) Rising power clusters and the challenges of local and global standards. *Journal of Business Ethics* 133(1): 55–72.
- Levy, D. (2008) Political contestation in global production networks. *Academy of Management Review* 33(4): 943–963.
- Locke, R. (2013) *The promise and limits of private power – promoting labor standards in a global economy*. Cambridge University Press, Cambridge.
- Locke, R.M., Amengual, M., and Mangla, A. (2009). Virtue out of necessity: Compliance, commitment, and the improvement of labor standards. *Politics & Society* 37(3): 319–351.
- Locke, R. and Romis, M. (2010) The promise and perils of private voluntary regulation – Labor standards and work organization in two Mexican factories. *Review of International Political Economy* 17(1): 45–74.
- Lund-Thomsen, P. (2008) The global sourcing and codes of conduct debate: Five myths and five recommendations. *Development and Change* 39(6): 1005–1018.
- Lund-Thomsen, P. (2013) Labor agency in the football manufacturing industry of Sialkot. Pakistan. *Geoforum* 44(1): 71–81.
- Lund-Thomsen, P. and Coe, N. (2015) Corporate social responsibility and labor agency: The case of Nike in Pakistan. *Journal of Economic Geography* 15(2): 275–296.
- Lund-Thomsen, P. and Lindgreen, A. (2014) CSR in global value chains. Where are we now? Where are we going? *Journal of Business Ethics* 123(1): 11–22.

- Lund-Thomsen, P., Lindgreen, A., and Vanhamme, J. (2016) Industrial clusters and corporate social responsibility in developing countries. What we know, what we don't, and what we need to know. *Journal of Business Ethics* 133(1): 9–24.
- Lund-Thomsen, P. and Nadvi, K. (2010) Clusters, chains, and compliance: Corporate social responsibility and governance in football manufacturing in South Asia. *Journal of Business Ethics* 93 (Suppl. 2): 201–222.
- Lund-Thomsen, P. Nadvi, K., Chan, A., Khara, N., and Xue, H. (2012) Labor in global value chains: Work conditions in football manufacturing in China, India, and Pakistan. *Development and Change* 43(6): 1211–1237.
- Merk, J. (2014) The rise of tier 1 firms in the global garment industry – Challenges for labor rights advocates. *Oxford Development Studies*: 42(2), 259–277.
- Nadvi, K. (2014) Rising powers and labour and environmental standards. *Oxford Development Studies* 42(2): 137–150.
- Neilson, J., & Pritchard, B. (2009). Value chain struggles: Institutions and governance in the plantations of south India. Gloucester: Wiley-Blackwell.
- Neilson, J., & Pritchard, B. (2010). Fairness and ethicality in their place—The regional dynamics of fair trade and ethical sourcing agendas in the plantation districts of south India. *Environment and Planning A*, 42(8), 1833–1851.
- Pickles, J., Barrientos, S., Knorringa, P. (2016). New end markets, supermarket expansion and shifting social standards, *Environment and Planning A*, 48(7), 1284–1301.
- Puppim de Oliveira, J. and Jabbour, C. (2017) Environmental management, climate change, CSR and governance of clusters of small firms from developing countries – towards an analytical framework. *Business and Society*, 56(1), 130–151.
- Ruwanpura, K. (2015) Garments without guilt: Uneven labor geographies and ethical trading – Sri Lankan perspectives. *Journal of Economic Geography*, 16(2), 423–446.

- Ruwanpura, K. (2016) Scripted performances? Local readings of global health and safety standards (the apparel sector in Sri Lanka). In Nathan, D., Tewari, M., Sarkar, S. *Labor in Global Value Chains in Asia*, Cambridge University Press, Cambridge, p. 265–288.
- Sachdeva, A. and Panfil, O. (2008) *CSR perceptions and activities of small and medium enterprises (SMEs) in seven geographical clusters—Survey report*. Vienna: United Nations Industrial Development Organization.
- Schouten, G., Bitzer, V. (2015). The emergence of Southern standards in agricultural value chains: a new trend in sustainability governance?, *Ecological Economics*, 120, 175–184.
- Sportel, T. (2013) Agency within a socially regulated labour market – a study of unorganized agricultural labour in Kerala. *Geoforum* 47: 42–52.
- Tighe, E. (2016). Voluntary governance in clothing production networks: management perspectives on multi-stakeholder initiatives in Dhaka. *Environment and Planning A*, 48(12), 2504–2524.
- Tokatli, N., Wrigley, N., and Kizilgun, O. (2008) Shifting global supply networks and fast fashion: Made in Turkey for Marks & Spencer. *Global Networks* 8(3): 261–280.
- Tran, A. and Jeppesen, S. (2016) SMEs in their own right: the views of managers and workers in Vietnamese textile, garments, and footwear companies. *Journal of Business Ethics*, 137(3), 589–608.
- UK-ETI (2017), About ETI (Accessed at <http://www.ethicaltrade.org/about-eti>, 13 July 2017).
- Zanden, N. and Merk, J. (2014). Private regulation and trade union rights – Why codes of conduct have limited impacts on trade union rights? *Journal of Business Ethics* 123(3): 461–473.